A Member of

SUNRIGHT

ANNUAL 2020 REPORT

KESM INDUSTRIES BERHAD

REG. NO. 197201001376 (13022-A)

THE WORLD'S LARGEST **INDEPENDENT 'BURN-IN AND TEST'** SERVICE PROVIDER

AUTOMOTIVE

CONSUMER

DATA PROCESSING

COMMUNICATIONS

WE ENSURE THE RELIABILITY OF DEVICES MANUFACTURED BY OUR CUSTOMERS FOR A WIDE RANGE OF PRODUCTS

COMPUTING

INDUSTRIAL

CLOUD COMPUTING

INTERNET OF THINGS

CONTENTS

REMAINING INNOVATIVE
BUILDING CAPABILITIES

Stay focused in quality with a trained disciplined workforce

Invest on the latest state-of-the-art equipment

Execute with speed

DEAR FELLOW SHAREHOLDERS

I commented in last year's letter that the drop in China's car sales following the dispute in the U.S. and China trade war had weakened our revenues. We had not expected a significant drop in U.S. car sales and the impact of the pandemic to hit us even harder in fiscal year 2020. Several U.S. automotive factories and car dealerships were being forced to close. Supply chains have been disrupted. Our production volumes plunged further in KESM that serves 5 of the 10 automotive semiconductor manufacturers in the world.

The global economy continues to struggle. Our business has never been more difficult. Fortunately, KESM has a strong balance sheet and the financial resources to withstand a prolonged downturn. Thankfully, the car market in the U.S. has begun to stabilize, and we expect the demand, particularly for electric vehicles "EV" to progressively improve as we enter January 2021.

A CHALLENGING YEAR

In FY2020, the Group recorded revenue of RM241.0 million, which was a 22 percent decrease over FY2019's revenue of RM307.4 million. Net Profit declined steeply, to a marginal profit of RM96,000, from RM6.3 million a year ago. Earnings per share stood at 0.2 sen as compared to 14.6 sen in FY2019.

Despite difficult business conditions, KESM maintained a strong balance sheet. Our cash grew to RM230 million, 15% increase from RM200 million. An interim dividend of 1.5 sen per ordinary share, totalling RM0.6 million, was distributed to shareholders on 25th August 2020. Additionally, the Board is proposing a final tax-exempt dividend of 6.0 sen to be approved at the Annual General Meeting on 7 January 2021.

CHAIRMAN'S STATEMENT

It was a tough year transitioning to a further reduced level of production volumes from the high point of 2018. We re-aligned our resources to manage the challenge of COVID-19. Our special thanks go to our amazing highly spirited staff in Tianjin, Kuala Lumpur and Penang. They were quick to form teams in making contingency plans, tackling work safety, re-scheduling production demand changes and shifting labour support in various operations to help our customers meet the volatility of their production flow.

REMAINING INNOVATIVE

We introduced sensor test services. We are encouraged by the interest of new customers and the growing market opportunities. We are getting ready to expand our customer base and increase our services.

We implemented our prototype automated handling on the production floor for burn-in at the Kuala Lumpur facility. We are in the mid-stage of development towards our Smart Factory strategy to further enhance our service quality. Our sustainable growth is highly dependent on quality performance, which we have systematically built up over the past years. This is a necessary requirement to be the world #1 in semiconductor reliability service business.

We phased off older generation of test equipment and added new ones. Whilst the production volume may be low, we continue to be heavily engaged in the evaluation of new devices or New Product Introduction "NPI", particularly for advanced chips used in electric vehicles or EV. Such NPI activities range from device improvements, customer specific changes leading to re-design or a totally new design of a device. Every of these developments require to undergo the cycle for test, evaluation and adoption by the end customers before the start of production which may take a period of 6 to 36 months' period.

The trend towards EV is picking up at a tremendous speed. Traditionally, conventional cars contain an average of US$330 value of semiconductor content while hybrid electric cars can contain up to US$1,000 to US$3,500. This increase of semiconductor content by the automotive industry is driven by the evolution toward autonomous, connected and electric mobility. Our customers are making new chips to better track and detect multiple objects (e.g., a vehicle and/or pedestrian), making cars safer. These products are connected to the surrounding environment and communicate between cars. All these involve the new 5G technology.

A POSITION OF STRENGTH

We work with the world's most successful automotive semiconductor manufacturers. Over a billion devices leave our factories each year, going to a variety of cars made in the U.S., Europe, China and Japan. Our customers are fiercely competitive, aggressively bringing new innovative chips to market. KESM's strategy is simple: stay focused in quality with a trained disciplined workforce, invest on the latest state-of-the-art equipment and execute with speed. With these growing market opportunities, our optimism come with preparedness to invest in smart factory, more new testers and advanced burn-in and test systems.

OUTLOOK

We are confident that the automotive semiconductor industry will recover. There is massive opportunity for this segment which could see strong growth from US$40 billion in 2019 to as much as US$200 billion by 2040 as more and more vehicles will adopt electronics and the optimal integration of hardware and software across the car-to-cloud system.

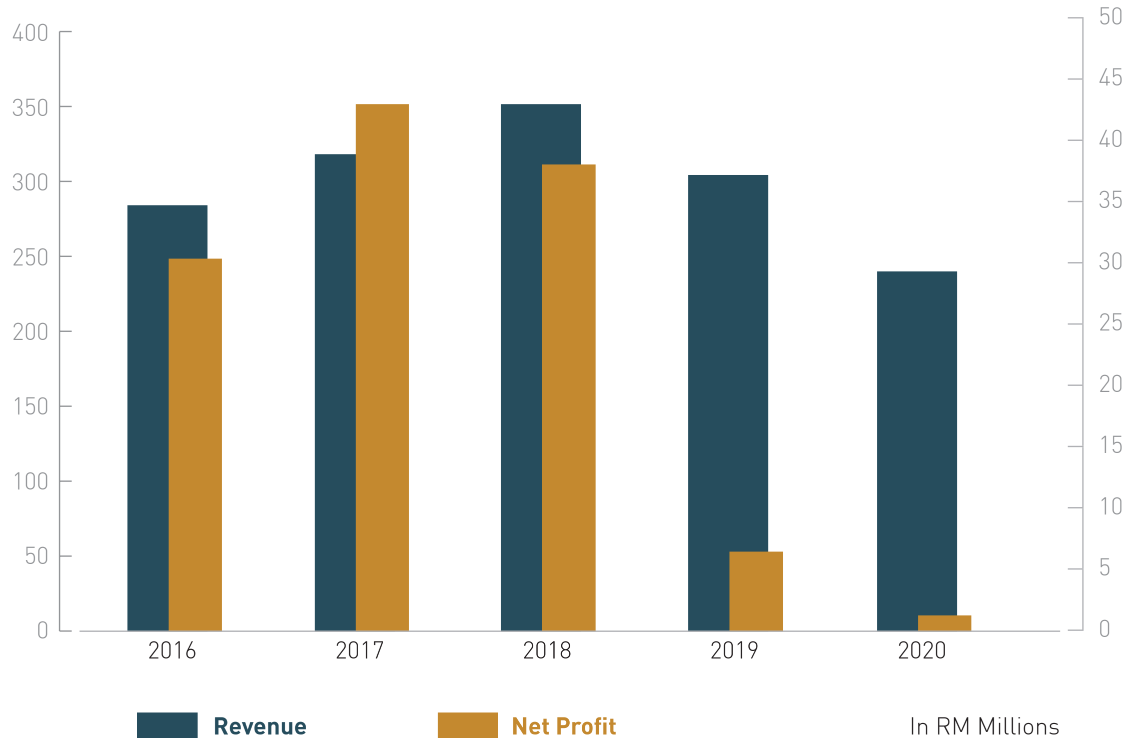
APPRECIATION

We would like to record our thanks to our loyal shareholders for your continued support and belief in our management. Our appreciation also goes to our bankers, business associates for their commitment and most importantly, to our dedicated employees for their immeasurable contributions in this tumultuous period.

Mr Samuel Lim Syn Soo
Executive Chairman & Chief Executive Officer
22 September 2020

5-YEAR FINANCIAL HIGHLIGHTS

FY Ended 31 July (RM '000)	2016	2017	2018	2019	2020
Revenue	285,734	337,988	349,777	307,375	240,976
Profit Before Tax	36,239	47,843	43,686	9,508	5,679
Net Profit Attributable To Owners of the Company	30,683	43,994	39,338	6,276	96
Total Equity Attributable To Owners of the Company	286,718	329,139	356,507	359,145	356,274
Basic Earnings Per Share (sen)	71.3	102.3	91.5	14.6	0.2
Dividend Per Share (sen)	7.5	12.5	18.5	9.0	7.5



OVERVIEW OF THE GROUP

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

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

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

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

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

The Group also provides electronic manufacturing services ("EMS") primarily to original equipment manufacturers, original design manufacturers in the industrial and consumer markets.

Today, the Group serves 5 of the top 10 automotive semiconductor manufacturers. We have a workforce of close to 2,000 in these 3 locations.

OUR BUSINESS

KESM provides burn-in, testing and EMS for the semiconductor industry.

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

The quality of semiconductor devices has significant impact on the reliability of electronics used in cars, personal computers, etc. Semiconductor manufacturers use burn-in process to eliminate potential defects in the manufacturing of their devices.

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 more than 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 was lower by 22% or RM66.4 million, from RM307.4 million in the preceding year to RM241.0 million for the current financial year, as a result of lower volume for burn-in, testing and EMS.

Other income was higher by RM8.9 million, mainly due to higher gain on disposal of machinery and test equipment by RM7.2 million, as well as social insurance subsidy, rental relief and wage subsidies totalling RM1.9 million as part of COVID-19 relief measures.

Raw materials and consumables used and changes in inventories of finished goods and work-in-progress reduced by 44% or RM18.7 million, attributed to lower EMS sales.

Employee benefits expense decreased by 10% or RM10.8 million, following lower headcount and alignment of staff costs to operational requirements.

Depreciation of property, plant and equipment was lower by 16% or RM12.2 million as certain machinery and test equipment were fully depreciated.

Finance costs reduced by 42% or RM1.7 million, following repayments of bank loans.

Other expenses were lower by 12% or RM10.0 million, mainly attributable to (i) lower repairs and maintenance and utilities costs by RM3.3 million and RM2.3 million respectively, following lower production; (ii) lower management fees by RM1.7 million; (iii) lower rental expense by RM2.4 million, the effect of adoption of MFRS 16 Leases; and (iv) absence of settlement of litigation expenses of RM1.7 million. These decreases were partially offset by higher fair value loss on quoted equity shares by RM0.7 million and higher write-down of inventories of RM1.3 million.

Consequently, the Group's profit before tax reduced by 40% or RM3.8 million, from RM9.5 million to RM5.7 million in the current financial year.

REVIEW OF FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Property, plant and equipment ("PPE") was lower by 23% or RM37.4 million, from RM164.8 million as at 31 July 2019 to RM127.5 million as at 31 July 2020. The decrease in PPE was primarily due to depreciation charge of RM62.7 million, partially offset by additions of RM20.1 million, and an increase of RM5.9 million resulting from the effect of adoption of MFRS 16 Leases.

Inventories were lower by 18% or RM1.4 million, from RM7.4 million to RM6.1 million, following write-down of inventories of RM1.4 million.

Total trade and other receivables were lower by 47% or RM30.9 million, from RM65.9 million to RM35.0 million, following a reduction in trade receivables due to lower sales.

Investment securities increased by 33% or RM2.2 million, from RM6.7 million to RM8.9 million, with additional net purchases of quoted equity shares of RM4.2 million, partially offset by the fair value loss of RM2.0 million.

Cash and short-term deposits improved by 15% or RM30.1 million, from RM200.0 million to RM230.1 million, which represented the net surplus cash generated from operations.

The Group's loans and borrowings reduced by 58% or RM35.7 million, from RM61.3 million to RM25.6 million, primarily due to net repayments of bank loans of RM40.2 million, partially offset by an increase of RM5.9 million resulting from the effect of adoption of MFRS 16 Leases.

Deferred tax liabilities reduced by 67% or RM2.2 million, from RM3.3 million to RM1.1 million, primarily due to lower deductible temporary differences, arising from differences in depreciation for tax purposes.

Income tax payable was higher by RM2.8 million, primarily due to absence of reinvestment allowances which had been fully utilised in prior financial year.

OPERATIONS REVIEW

KESM provides burn-in and test services that require 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 FY2020, more than 1.4 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 global COVID-19 outbreak and the resulting lock-down measures placed on the world's population led to a disruption in demand and supply in the semiconductor industry.

Vaccine trials are proceeding at a rapid pace and a safe and effective vaccine could lift the business outcomes. Also, with governments now progressively easing the restrictions that have been imposed to contain the pandemic, together with the enormous financial and fiscal stimulus packages that have been announced, prospects for a rebalancing of the market are beginning to take shape.

We have the financial and operational flexibility to react swiftly to the situation and to positively position the Group to navigate through this period of extreme uncertainty. The Group will invest on advanced equipment to build capacities and capabilities to support our key customers' growth plan, whilst discretionary expenditures will be carefully managed.

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 USA and China and the effects of the COVID-19 pandemic may affect our loading plans.

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 automotive 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 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 AND 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 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 2020 points to slower growth. The International Monetary Fund ("IMF") forecasts the world GDP growth to slow to -4.9% in 2020 from 2.9% in 2019 (Source: IMF, June 2020). Coupled with the increasing protectionist tendencies by some countries and the simmering on-going trade dispute between USA and China have affected the market which KESM operates in. The outlook for the worldwide semiconductor industry remains sluggish. According to a leading industry analyst firm, revenue is expected to contract 2.4% in 2020.

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 return positively. 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 66, 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 8 January 2020. 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)

MR KENNETH TAN TEOH KHOON

Aged 63, 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.

* also key senior management

MS LIM MEE ING

Aged 69, Singaporean
Non-Independent Non-Executive Director

Ms Lim was first appointed to the Board on 19 February 1990 and was last re-elected on 8 January 2020. 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 65, 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 63, 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.

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 2020.

4. DETAILS OF ATTENDANCE AT BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 JULY 2020

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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PLACE OF INCORPORATION
Malaysia

COMPANY REGISTRATION NO.
197201001376 (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 2020 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 2020 ("FY2020").

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 at www.kesmi.com.

MEETINGS AND ATTENDANCE

The Committee met five (5) times in FY2020. Other Board members, corporate office 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 FY2020, the Committee: -

Financial Reporting

1. reviewed with the external auditors their audit for the financial year ended 31 July 2019 ("FY2019") 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 FY2019 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 FY2019 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 FY2020 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 FY2020 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.

Others

1. prepared the Committee's report in respect of FY2019 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:-

   - Corporate Liability Review
   - Human Resources Management
   - RRPT
   - Occupational Health, Safety and Environment
   - Production Operation

   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 RM70,000.

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 2020 ("FY2020"). 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://kesmi.com/investor-relations/general-meetings/, to obtain a comprehensive view of the adherence of the Company to the MCCG during FY2020.

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 Constitution, 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 35 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 FY2020, 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; (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 Whistle-Blower 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. In the FY2020, the Board had adopted revisions to the Code. 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 and external parties to report, and raise in good faith and in confidence, any concern about possible improprieties in matters of financial reporting or other matters. In the FY2020, the Board had approved revisions to the whistle-blower policy. The whistle-blower policy may be referred to on the Company's website at www.kesmi.com.

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 FY2020, 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, who has served on the Board for more than 15 years as an Independent Non-Executive Director. The Board concluded that he has met the independence criteria set out in the MMLR, his independence has not been affected by his long tenure as he has demonstrated his ability to exercise independent judgement, provide objective views and act in the best interests of the Company. In this connection, the Board successfully sought shareholders' approval at the 48th AGM via one-tier voting, in line with the objectives of the MCCG, to allow him to continue as an Independent Director.

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 delegated to the Executive Directors who determines 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 Constitution, 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 Kenneth Tan Teoh Khoon and Tuan Haji Zakariah Bin Yet 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. Notwithstanding, the Company has diversity initiatives and strategies that are designed to attract, develop and advance the most talented individuals in the organisation regardless of their race, religion, age, gender or any other dimension of diversity.

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	60%	Above 65 Years	40%
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 FY2020, the Board met a total of five (5) occasions. The commitment of 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 FY2020, all the Board members have attended trainings that were organised in-house or by professional organisation:

Director	Course Title/Date	Organiser
Mr Samuel Lim Syn Soo	Session on Corporate Governance and Anti-Corruption by Securities Commission 31 October 2019	Securities Commission Malaysia
	Key Observations by Securities Commission on Corporate Governance Overview Statements of Listed Issuers 20 November 2019	In-House
	Financial Reporting developments on amended Malaysian Financial Reporting Standards ("MFRS") covering MFRS 3, MFRS 101 and MFRS 108 and the Revised Conceptual Framework for Financial Reporting as at 31 December 2019 10 March 2020	In-House
Mr Kenneth Tan Teoh Khoon	Key Observations by Securities Commission on Corporate Governance Overview Statements of Listed Issuers 20 November 2019	In-House
	Ethical and Legal Considerations in Protecting Your Company Secrets and Customer Databases 16 December 2019	Institute of Singapore Chartered Accountants
	Financial Reporting developments on amended Malaysian Financial Reporting Standards ("MFRS") covering MFRS 3, MFRS 101 and MFRS 108 and the Revised Conceptual Framework for Financial Reporting as at 31 December 2019 10 March 2020	In-House
Ms Lim Mee Ing	Session on Corporate Governance and Anti-Corruption by Securities Commission 31 October 2019	Securities Commission Malaysia
	Key Observations by Securities Commission on Corporate Governance Overview Statements of Listed Issuers 20 November 2019	In-House
	Financial Reporting developments on amended Malaysian Financial Reporting Standards ("MFRS") covering MFRS 3, MFRS 101 and MFRS 108 and the Revised Conceptual Framework for Financial Reporting as at 31 December 2019 10 March 2020	In-House

Director	Course Title/Date	Organiser
Tuan Haji Zakariah Bin Yet	2019 Forum on Corporate Governance in the Capital Market – Building and Sustaining a Robust Malaysian Capital Market 5 November 2019	Federation of Public Listed Companies Berhad & Malaysian Institute of Corporate Governance
	Key Observations by Securities Commission on Corporate Governance Overview Statements of Listed Issuers 20 November 2019	In-House
	Financial Reporting developments on amended Malaysian Financial Reporting Standards ("MFRS") covering MFRS 3, MFRS 101 and MFRS 108 and the Revised Conceptual Framework for Financial Reporting as at 31 December 2019 10 March 2020	In-House
	Corporate Liability Provision under Section 17A of the Malaysian Anti-Corruption Act 2009 1 June 2020	MahWengKwai & Associates
Mr Yong Chee Hou	Key Observations by Securities Commission on Corporate Governance Overview Statements of Listed Issuers 20 November 2019	In-House
	Financial Reporting developments on amended Malaysian Financial Reporting Standards ("MFRS") covering MFRS 3, MFRS 101 and MFRS 108 and the Revised Conceptual Framework for Financial Reporting as at 31 December 2019 10 March 2020	In-House
	Corporate Liability Provision under Section 17A of the Malaysian Anti-Corruption Act 2009 1 June 2020	MahWengKwai & Associates

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 at www.kesmi.com.

The Nominating Committee met once in the FY2020, 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 FY2020, 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 ensuring 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 FY2020 are as follows:

RM'000

COMPANY

DIRECTORS	FEES	MEETING ALLOWANCE	SALARIES & BONUSES	TOTAL
Samuel Lim Syn Soo	54	–	693	747
Kenneth Tan Teoh Khoon	49	–	693	742
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	64	–	693	757
Kenneth Tan Teoh Khoon	59	–	693	752
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 RM2.7 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 FY2020 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 auditors 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 auditors, Ernst & Young PLT ("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 2021. The Board, having considered the AC's recommendation, is satisfied with the competency, performance and independence of EY, and had recommended 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 Risk Advisory 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 9 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 FY2020 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 http://kesmi.com/investor-relations/general-meetings/.

Notwithstanding the above, in line with the MCCG, the notice of this 49th AGM was issued on 27 October 2020 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 Constitution 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 22 September 2020.

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 2020 ("FY 2020").

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.

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 risks 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.

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 22 September 2020.

SUSTAINABILITY REPORT

ABOUT KESM INDUSTRIES BERHAD

[GRI 102-1, 102-2, 102-3, 102-4, 102-5, 102-6]

Headquartered in Malaysia with operating facilities within Asia, KESM Industries Berhad and its subsidiaries ("KESMI") offer top-notch burn-in, testing and electronic manufacturing services to the semiconductor industry. Listed on the Main Market of Bursa Malaysia Securities Berhad, KESMI has been able to retain the confidence of our customers with our high quality of services.

Principally involved in assuring the reliability and functionality of integrated circuits ("IC") by eliminating defects that occur during semiconductor manufacturing process, KESMI offers seamless and complete burn-in and test solutions for semiconductor manufacturers. By combining our expertise in software and hardware solutions with 40 years of experience, our customers can focus on their core competencies in bringing their new product developments to the market in an efficient and cost-effective manner. KESMI is pleased to be the first company of its kind to be awarded the ISO 9001 certification and will continue striving to deliver quality services to our customers.

ABOUT THE REPORT

[GRI 102-50, 102-51, 102-52, 102-53, 102-54, 102-56]

Our third annual Sustainability Report covers the sustainability policies and practices of KESMI entities in Malaysia[1] and China[2], from the period of 1 August 2019 to 31 July 2020 ("FY2020"). Where applicable, historical performance data is also included for comparative purposes.

This report complies with the Global Reporting Initiative ("GRI") Standards: Core option, a globally recognised standard for sustainability reporting. 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.

External assurance has not been sought for this report. KESMI may consider seeking external assurance for the sustainability report as our sustainability reporting process matures over time.

SUSTAINABILITY: THE RIGHT WAY FORWARD

[GRI 102-18]

Sustainability remains as one of KESMI's key priorities. We believe integrating sustainability into our business strategy and operational practices will put us in good stead to respond to changing risks and opportunities in the industry and endure overtime.

At KESMI, our approach to sustainability is monitored and managed through our established sustainability governance structure, beginning at the top management level. Directives for sustainability programmes are reviewed and approved by the Board and Executive Directors. 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.

[1] KESM Industries Berhad, KESP Sdn. Bhd. and KESM Test (M) Sdn. Bhd.

[2] KESM Industries (Tianjin) Co., Ltd

STAKEHOLDER ENGAGEMENT

[GRI 102-40, 102-42, 102-43, 102-44]

We value our relationships with our stakeholders and seek to establish strong rapport with them to uphold their confidence in us. We engage with each stakeholder on a regular basis through various platforms to understand the issues that concern them. These stakeholders have been identified as those who have significant impact on and are significantly impacted by KESMI's operations.

Table 1: KESMI's Approach towards Stakeholder Engagement

Stakeholders' expectations	Stakeholder management	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	• ISO 9001 certification	• Industry forums	• Once every 1-2 years
• Timely delivery	• ISO/TS 16949 certification	• Customer satisfaction surveys • Customer visits to our plants	• Periodic • As necessary
EMPLOYEES AND OUTSOURCED WORKERS			
• Fair employment and well-being	• Implement non-discriminatory Human Resources ("HR") policies	• Electronic updates and newsletters	• Periodic
• Training and development	• Provide relevant trainings (safety and job specific)	• Trainings	• Periodic
• Occupational health and safety	• Provide deserving remuneration, welfare and benefits	• Annual performance appraisals • Company events and staff get-togethers	• Annual • Periodic
CONTRACTORS AND SUPPLIERS			
• Business opportunities	• Conduct fair suppliers' screening process	• Project tenders	• As necessary
• Feedback on performance	• Conduct regular supplier's evaluation process	• Supplier evaluation meetings	• Periodic

Stakeholders'expectations	Stakeholder management	Engagement platforms	Frequency of engagement
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	• Participate in CSR activities	• CSR programmes	• Periodic
• Employment opportunities	• Provide employment opportunities through our business	• Teaming with local technical institutions for job training	• Annual

MATERIALITY ASSESSMENT

[GRI 102-46, 102-47]

Given competing resources and varying stakeholders' expectations, KESMI focuses on Economic, Environmental, Social, Governance ("EESG") matters that significantly impact us and are of interest to both internal and external stakeholders. Following our first formal materiality assessment exercise, the Board has reviewed the results of the materiality assessment and determined the five material matters to still be relevant in FY2020. As we strive to continually improve our sustainability disclosures and progress in our sustainability journey, we have also enhanced our reporting by including an additional reporting matter this year on Occupational Health and Safety ("OHS"). While the safety and well-being of employees has always been a priority for KESMI, we recognise the increase in stakeholder demand for reporting and collaborating on this topic. This has become even more critical this year, with the COVID-19 pandemic.

Figure 1: KESMI's Materiality Assessment Process

IDENTIFICATION	***PRIORITISATION***	***VALIDATION***	***REVIEW***
A preliminary list of potential sustainability matters was identified through review of KESMI's business strategy, environment, concerns, market landscape and leading reporters' practices.	These sustainability matters were prioritised through an unbiased and anonymous voting exercise, accounting for: i. Importance to KESMI's business, ii. Significance and influence on external stakeholders	The results of the exercise were mapped into a materiality matrix, which is approved by the Board.	In FY2020, a review of the material matters was conducted. It was concluded that the five material matters remained relevant for reporting, with an additional reporting matter on Occupational Health and Safety.

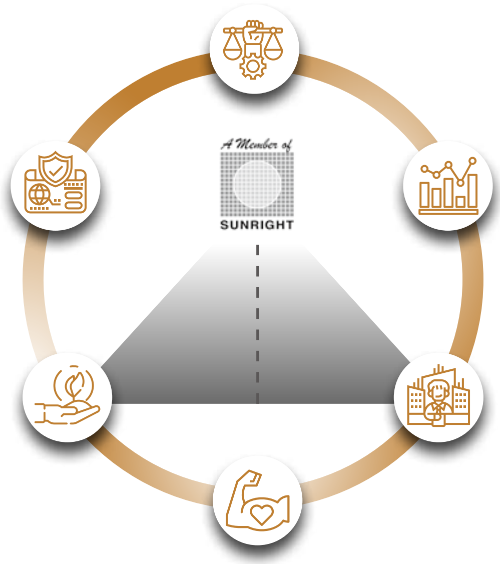
Figure 2: KESMI's Sustainability Matters and Corresponding GRI Topics

Ethical Business Conduct
Adherence to responsible business policies in terms of anti-corruption and corporate governance

GRI 205: Anti-Corruption

Regulatory Compliance
Compliance with all regulatory requirements including environmental, labour, health and safety regulations

GRI 307: Environmental Compliance
GRI 419: Socioeconomic Compliance



Economic Performance
Sustaining economic growth through responsible supply chain management and contribution of economic value

GRI 201: Economic Performance

Energy and Carbon Footprint
Efficient use of energy to minimise carbon footprint from our operations

GRI 302: Energy
GRI 305: Emissions

Fair Employment Practices
Equal opportunities and treatment for all employees and workers

GRI 401: Employment
GRI 406: Non-Discrimination

Occupational Health and Safety (additional reporting matter)
Protecting the physical and mental well-being of all employees and workers

GRI 403 (2018): Occupational Health and Safety

Managing the impacts of COVID-19

The major health and economic crisis caused by COVID-19 has crippled countries and industries and threatened countless of lives and livelihoods around the world. Physical lockdowns have accelerated the shift towards greater digitalisation and forced businesses to rethink traditional business strategies. Supply chains, route to markets and customer demands have also been affected and will remain under pressure in this period of uncertainty. During the lockdowns imposed in Malaysia and China, our factory in Penang were forced to shut temporarily, whilst factories in Kuala Lumpur and China were exempted from suspension of activities. Nevertheless, our productions were limited due to workforce constraints.

Responding to this crisis has been a key priority for the Group this year. To minimise disruptions and safeguard the health and safety of our stakeholders, we implemented our business continuity and crisis management plans across the business immediately, adhering strictly to local health ministry advisories and embarked on cost-control measures. For example, our business continuity plan implemented at our facilities included establishing response teams, procuring medical equipment for our staff including masks, sanitisers and thermometers as well as ensuring Standard Operating Procedures ("SOPs") related to regular disinfection and temperature-taking were duly followed, among others. We also remained close to our stakeholders through regular and timely communication and updates.

Employees

Health, safety and well-being: Implement 'work from home' and telecommuting arrangements, Regular communication with employees via advisories, Institute safe distancing measures at the workplace, Enhanced cleaning and disinfection;

Job security: Cost-control measures including forced leave arrangements

Customers

Meeting service obligations through delivery of critical products and minimising operational disruptions within government restrictions, Ongoing discussions on negotiations, Regular communication and updates

Shareholders

Address key queries in timely manner, Build financial resilience to maintain payouts, Implement cost-control measures such as leasing out excess factory space

Suppliers and business partners

Ongoing discussions on negotiations and contracts, Intensify communication and updates with local sources

BUILDING AN ETHICAL CULTURE

[GRI 102-12, 102-16, 205-2, 205-3]

Maintaining fairness and integrity in our business is essential in preserving the trust of our stakeholders. KESMI has adopted the Responsible Business Alliance[3] Code of Conduct (the "Code") that specifies the values, principles, standards and norms of behavior to guide in our operations and business relationships.

We ensure that all our business interactions are conducted with honesty, ethics and integrity and hold our vendors to the same standard. Where an entity does not have an explicit policy covering ethical business conduct, we send letters to remind them of our practices.

KESMI has a strict zero-tolerance approach towards any form of fraud, bribery and corruption. We communicate our anti-corruption policies to our employees through annual briefings, emails and letters and regularly disseminate updates and training on our anti-corruption policies and procedures to the Board and business partners.

RBA Code of Conduct

KESMI has voluntarily adopted the Code to uphold safe, ethical and sustainable business operations within its supply chains. This ensures that fair employment practices and treatment are given to workers, alongside environmentally responsible and ethical business practices in place.

As the Code is extended to the entire supply chain, its next tier suppliers are also required to implement the Code.

The Code is reviewed and revised by Management on a regular basis to ensure its continued relevance.

In FY2020, KESMI has communicated our anti-corruption policies to 842 employees (100%) and provided training to 393 employees (47%).

Figure 3: KESMI's Policies relating to Business Ethics and Anti-Corruption

Name of Policy	Policy Description
Whistleblower Policy	The policy applies across all our Plants and is 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
Grievance Handling Policy	The Grievance Handling Policy was established to solve grievances 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 human treatment such as prohibition of sexual harassment, abuse (mental, physical or verbal), coercion, corporal punishment etc. *Refer to Fair Employment Practices for more details*

[3] Responsible Business Alliance ("RBA") is a nonprofit coalition 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.

Name of Policy	Policy Description
Business Ethics Policy 	Our anti-corruption and anti-bribery policies are encapsulated within our Business Ethics Policy. • Employees are prohibited to be involved with illegal cartel activities, illicit price-fixing, deception and undesirable social behaviour, as well as prohibited from dealing with customers or vendors that offer rebates, commissions, and other forms of illegal remuneration. • Employees are required to fully disclose any circumstances likely to give rise to conflicts of interest, and 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 impress upon business partners on the high business ethics, and refrain from providing or accepting bribe and kickbacks. We will enforce strict disciplinary action against any violation of the Business Ethics Policy, to the extent of employment termination.
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.

Table 2: Number of employees and business partners who received communication and training on anti-corruption policies in FY2020 by employee category

Category	Staff	Manager	Business partners: Customers, Suppliers, Agents
Communicated to	*787*	*55*	*1,232*
Received training	*373*	*20*	*454*

In FY2020, 0 cases of corruption within KESMI were reported, a record we strive to maintain.

Focus Area	Perpetual Target	FY2020 Performance
Ethical Business Conduct	0 confirmed cases of corruption within KESMI	Achieved

ENSURING STRICT COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

[GRI 307-1, 419-1]

KESMI ensures the compliance of our operations to all applicable laws and regulations with guidance from our Code of Conduct, including both environmental and socioeconomic laws and regulations. We remain closely informed about the latest regulatory requirements through regular policy reviews and internal checks. We also keep our employees updated on any changes and ensure that expectations are clearly communicated to them.

COVID-19 Spotlight

We adhered strictly to the Movement Control Order issued by the Malaysian government, that required closure of all businesses except those providing essential services and items. In Tianjin, we also followed all pandemic control recommendations such as twice-a-day temperature taking and wearing of face masks as well as cooperated fully with daily audits from the local authorities.

Focus Area	Perpetual Target	FY2020 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

SUSTAINING ECONOMIC PERFORMANCE

Managing Supply Chains Responsibly

[GRI 102-9, 204-1]

At KESMI, we recognise that our economic performance is underpinned by the sustainable management of our supply chain. Robust supply chain management helps upholds our product quality, efficiency and cost-effectiveness, in line with our commitment to our customers to ensure their specifications and expectations are always met. As a business in the semiconductor industry, KESMI is subject to various supply chain risks, which we strive to manage by incorporating sustainability into our supply chain processes. This includes the responsible sourcing of 3TG metals (tungsten, tantalum, tin and gold) as well as Printed Circuit Board ("PCB") manufacturing.

The Purchasing Policy and Procedures govern the screening, selection and management of our suppliers. It sets basic purchasing guidelines of purchasing activities, including sourcing and selection of new items, delivery follow-up, receiving and inspection of goods, payments to vendors etc. Our robust Three-Step Supply Chain Management Process outlines the procedures in supplier management in detail.

Figure 4: Purchasing Policy and Procedures

Purchasing Policy

Vendor Qualification Procedure

KESMI adheres to stringent criteria in selecting environmentally and economically accountable suppliers, as clearly laid out in our Vendor Qualification Procedure. This comprehensive procedure is an integral component of the Three-Step Supply Chain Management Process.

Purchasing Procedure

KESMI's Purchasing Procedure acts as an overall check-and-balance on all purchasing activities associated with our supply chain. The provisions of this policy encompass guidelines, procedures and the scope of all purchases.

Figure 5: KESMI's Supply Chain Management Process

1 Internal Requisition ("IR")

The IR process is facilitated by an online tool 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.

Suppliers need to acknowledge and accept KESMI's Supplier Code of Conduct before engagement. The 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 to achieve 100% conflict-free mineral sourcing. They are also responsible for performing due diligence on their supply chain as appropriate to ensure the compliance.

All suppliers are required to conform with the ISO 9001:2015 standard for quality management systems, 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.

Key to this approach is the priority placed on sourcing our products and services locally. Local sourcing ensures a shorter lead time and lower carbon footprint, while also supporting local economies and job creation. KESMI has set a target of ensuring that at least 50% of our purchases are locally sourced. In FY2020, 82% of our procurement budget was allocated to local suppliers in Malaysia and China, 13% more than the previous year.

COVID-19 Spotlight

In the face of the COVID-19 pandemic, our existing policy to sourcing locally has also helped mitigate the pressures on our supply chain as a result of the lockdown measures and shutdown of manufacturing operations of business partners that support our business. While there has been no major impact on our operations and supply chain thus far, KESMI continues to experience challenges from a slowdown in recovery of customer demand. KESMI will continue to work closely with our suppliers and relevant stakeholders to ensure the flexibility of our supply chain.

Focus Area	Perpetual Target	FY2020 Performance
Responsible Supply Chain Management	At least 50% of all purchases are sourced locally[4]	Achieved

Contributing Direct Economic Value

[GRI 102-7, 201-1]

In FY2020, KESMI saw a decline in total revenue to RM241 million which led to a corresponding decrease in economic value retained. The decline may be attributed to various macroeconomic factors which adversely affected the semiconductor and electronics manufacturing industry. Key factors include ongoing tensions in the US-China trade war, as well as the crippling effects of the COVID-19 pandemic on the global economy.

KESMI maintains a cautious outlook on global economic recovery and our economic performance. Our business continuity plans are in the process of being strengthened as we work towards improving business resilience to maintain our position in the market and navigate the uncertainties ahead.

Table 3: Economic Value Generated, Distributed and Retained from FY2018 to FY2020

Economic Value Generated (RM'million)	**FY2018**	**FY2019**	**FY2020**
Revenue	350	307	241
Economic Value Distributed (RM'million)			
Operating costs	(118)	(124)	(95)
Employee wages and benefits	(113)	(104)	(93)
Payments to providers of capital	(9)	(12)	(6)
Payments to governments	(5)	(4)	(5)
Economic Value Retained (RM'million)	**105**	**63**	**42**

For further details on our economic performance, please refer to the following sections in our Annual Report: Financial Statements, Chairman's Statement and Management Discussion and Analysis.

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

SUSTAINABILITY
REPORT

DEVELOP AN ENGAGED WORKFORCE & FAIR WORKPLACE

KESMI's Employee and Worker Profile

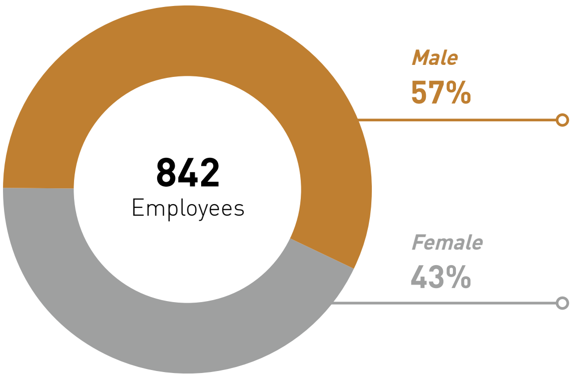
[GRI 102-7, 102-8, 401-1]

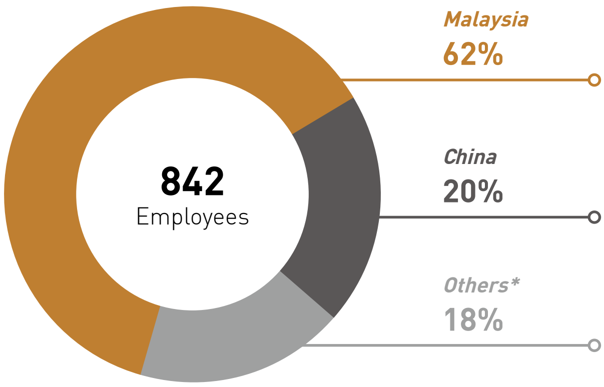
As at 31 July 2020, KESMI employed a total of 842 employees and 1,137 workers, a slight decline from FY2019 due to changing operational needs on the backdrop of a COVID-19 pandemic. These workers include mostly outsourced operators directly involved in production activities and suppliers.

We want to empower our employees to grow and excel with us. As such, all our employees are hired under a permanent contract and on full-time basis. In addition, more than 80% of our workforce are People's Republic of China ("PRC") nationals and Malaysians as we believe in investing in and developing local economies. A fair gender representation in KESMI is also ensured, with a well-balanced ratio of male and female employees.

The following charts show our employee demographics by gender and region, as well as our employee and worker demographics by employment category[5] supporting KESMI's business activities.

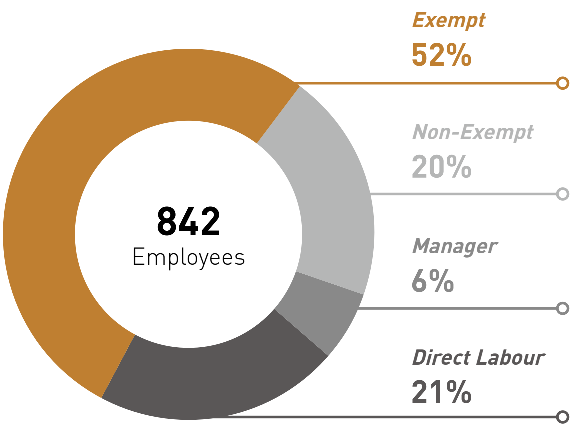
Figure 6: KESMI's Employee Demographics by Gender and Region in FY2020

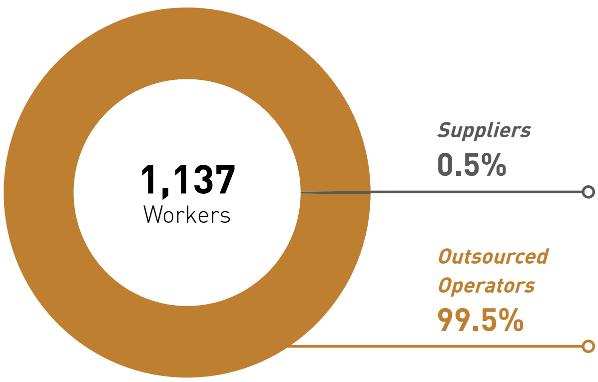




* *Others include Indonesia, Philippines, Myanmar, Nepal, Sri Lanka and Vietnam.*

Figure 7: KESMI's Employee and Worker Demographics in FY2020





[5] 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.

In FY2020, we welcomed 152 new employees, a 24% decline from FY2019. KESMI saw an improvement rate of 6% in our turnover of 277 employees, reflecting our commitment to fair employment practices and employee satisfaction. It is of utmost importance for KESMI to secure the job security of our employees especially in the current economic situation resulting from the COVID-19 crisis by carrying out strategic cost reductions where necessary.

Figure 8: KESMI's New Hires by Gender, Age Group in FY2020

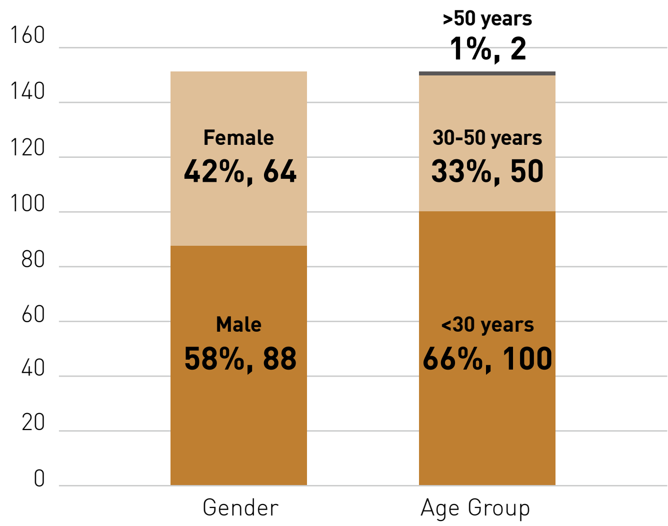
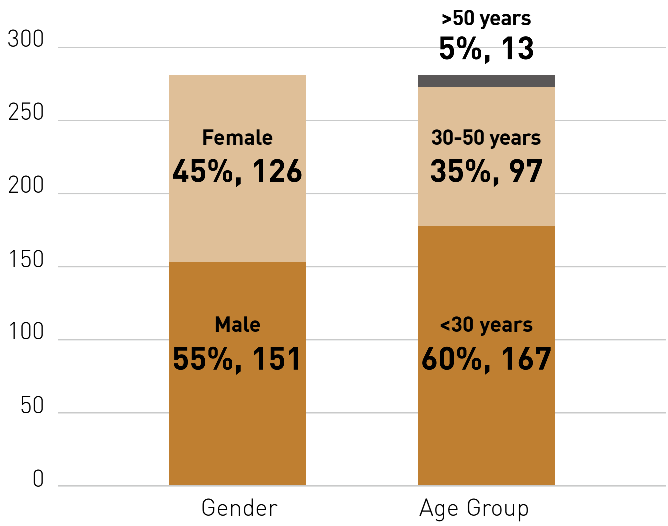


Figure 9: KESMI's Turnover by Gender, Age Group in FY2020



COVID-19 Spotlight

In these weak global economic conditions as a result of the crisis, we are committed to ensuring the job security of our employees. We have embarked on cost control measures including forced leave arrangements and will exercise prudence as necessary to protect jobs and livelihoods.

Fair Employment Practices

[GRI 406-1]

Human capital is essential to KESMI's success and continued growth. Our human resource policies seek to protect the rights of our employees and workers and create a safe and healthy work environment. We maintain a strong relationship between KESMI and our employees and workers, allowing them to expand their fullest potential in their roles.

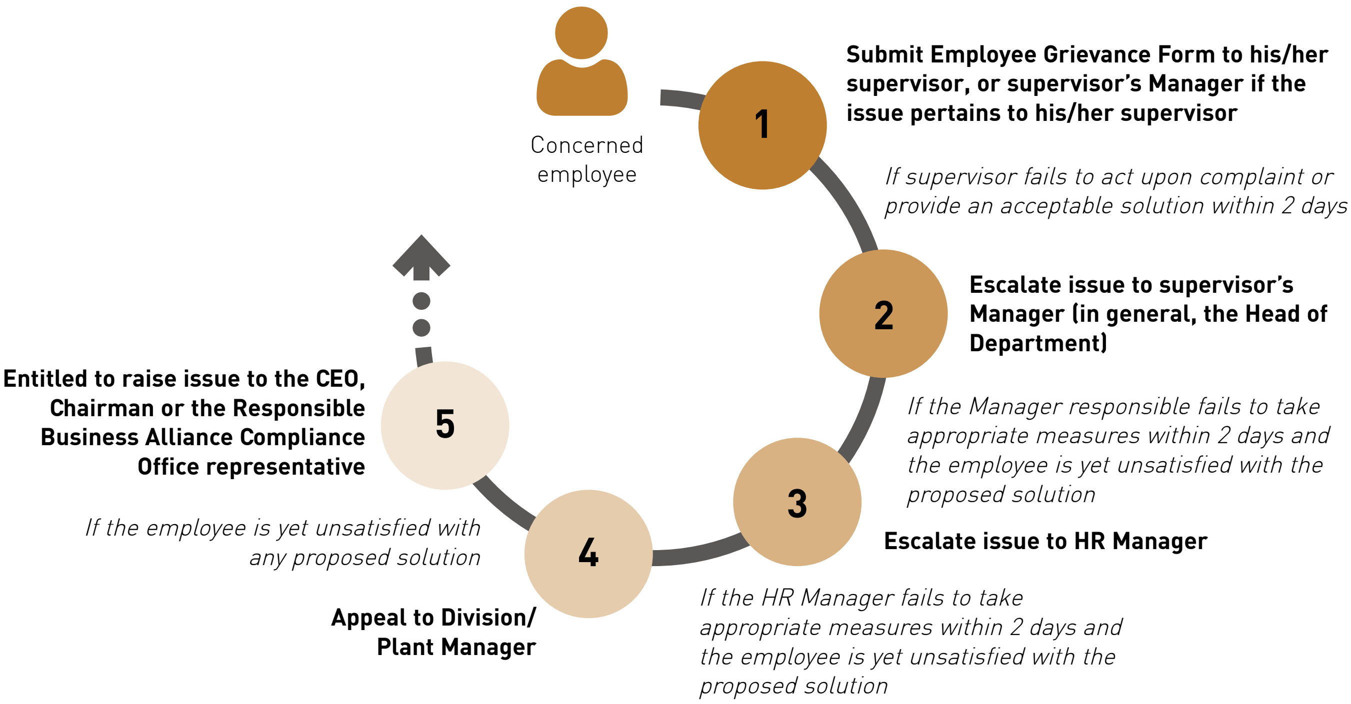
Figure 10: KESMI's Policies on Fair Employment Practices

Name of Policy	Policy Description
Recruitment and Selection Policy 	Provision of equal opportunities for all terms and conditions of employment. In the process of recruitment, selection and placement of all qualified applicants and employees, we do not condone any form of discrimination – regardless of 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 various channels such as telephone, text, fax, suggestion boxes and e-mail. Our foreign workers can submit their grievances 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 	This is line with 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 	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.

The welfare of our outsourced workers is also included in our policies towards building a fair working environment. On a quarterly basis, KESMI also audits approximately 3% of pay slips addressed to outsourced workers employed at each of our suppliers' or contractors' companies to ensure that our workers are paid fairly and timely. To date, there has been no significant findings raised from these audits.

Our process is reviewed regularly, with regular dialogue sessions conducted by the HR department to provide our employees with an appropriate channel to relay their grievances, concerns, feedback and suggestions without the fear of repercussions. Figure 11 describes KESMI's grievance mechanism in a step-by-step manner.

Figure 11: KESMI's Employee Grievance Mechanism



In FY2020, KESMI received no substantiated complaints regarding unfair or discriminatory employment practices from our employees.

Focus Area	Perpetual Target	FY2020 Performance
Fair employment practices and well-being	0 complaints from employees to regulatory authorities pertaining to unfair or discriminatory employment practices	Achieved

FOSTERING A SAFETY CULTURE

[GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-7, 403-9]

KESMI views any potential risk to the health and safety of our stakeholders seriously and we actively promote the health, safety and well-being of our people as well as strive to provide a safe workplace, especially in view of the COVID-19 outbreak.

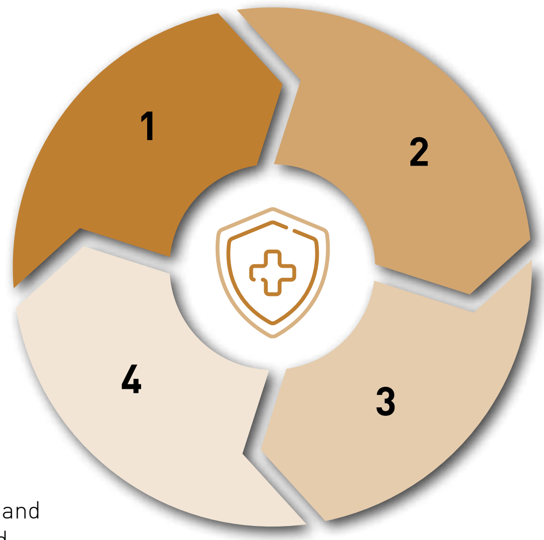
To safeguard the physical and emotional well-being of our employees, KESMI has established the Safety and Health Policy. This policy is guided by an effective OHS Management System ("OHSMS"), which has been created with reference to local safety regulations and covers all workers in our operating locations. Procedures and guidelines for our Health and Safety performance are outlined in the Safety and Health Policy, allowing us to pinpoint and eliminate factors that are perceived to be dangerous to our employees' well-being.

Hazard Identification and Risk Assessment

In order to establish a safe working environment, we aim to detect and minimise any substandard practices and work-related hazards. Types of hazards include cuts from handling sharp blade edges, trip or fall due to electrical appliances and other energy sources, fire, vehicles, slippery floors etc. Our efforts include regular safety walks and equipment inspection, and the use of Hierarchy of Controls to remove risks.

Other identified occupational health hazard includes exposure to airborne tin from soldering activities. To ensure exposure to any chemicals is kept to a minimum, KESMI undertakes strict control measures such as annual exposure monitoring. Alongside timely audits, risks are continually assessed and controlled to improve the effectiveness of OHSMS. Figure 12 describes this process in greater detail.

Figure 12: Process of hazard identification, risk assessment and improvement of OHSMS



Hazard Identification and Risk Assessment

- Regular safety walks/ meetings
- Inspection of equipment, tools, materials and members
- Plant-wide safety audit
- Feedback to management on effectiveness of plans
- Use of Hazard Identification, Risk Assessment & Risk Control ("HIRARC")

Elimination of Hazards and Minimisation of Risk

- Use of Hierarchy of Controls consisting of Personal Protective Equipment ("PPE"), source control, safety system and an audit by the Safety and Health Committee

Worker Training

- Training of personnel involved in OHS activities
    - e.g. KESMI's Safety officer to be registered with Department of Safety and Health ("DOSH"), KESP's OHS officer to undergo mandatory training and exams in OHS management and legislation

Continual Improvement of OHSMS

- Methodical and timely audits
- Review of programme regularly
- Allocation of resources to the appropriate personnel to perform remedial action and risk control
- Regular safety meetings to review and propose improvements to Standard Operating Procedure
- The continual improvement of OHSMS has ensured that no major accidents have occurred in FY2020.

Incident Investigation

Such a process is necessary to ensure that investigations for work-related incidents can be quickly performed to remove any potential risk. Once a potentially dangerous situation is detected, workers should alert their supervisor or head of department immediately. Following the chain of command, the OHS committee will then officially launch an investigation on the incident and record all details in an investigation report. Those who report such incidents are protected from backlash by the Code of Conduct. After the situation is reported, workers should remove themselves as soon as possible from that situation perceived to pose a danger to their safety and health.

All work-related incidents and accidents are regarded with the utmost importance. When an incident occurs, the root cause is immediately identified and corrective actions determined. These findings are documented in an accident investigation report, and immediate actions are enforced by the relevant stakeholders.

Occupational Health Services and Promotion of Worker Health

In addition, to safeguard the health of workers, our Occupational Health Services system is also designed to be accessible, reliable and effective. We ensure that the service providers we engage are certified and comply with international and national OHS standards and regulations, and that OHS information is readily available in languages understood by all. Service effectiveness is regularly reviewed to identify areas of improvement using surveys and self-rating measures.

KESMI also has in place medical and healthcare services for all our employees. Such services include health screenings and consultations at company-approved clinics. In addition, voluntary blood tests as well as indoor and outdoor activities are organised for our workers, which they can participate in during working hours. External service providers are roped in as well to facilitate our workers' access to these programmes.

Worker Participation and Training

Active involvement of our workers on OHS matters is a crucial factor in fostering a safety culture. Hence, we have provided OHS training to our employees which comprise training for management, First Aid and CPR training for specific workers, and safety training for all operations staff annually. For the workers who are exposed to specific hazards (e.g. chemicals), they are trained to respond to the specific hazard appropriately. A formal joint management-worker OHS committee has also been put in place to consult different corporate hierarchies such that OHS matters are covered holistically. The following figure details how KESMI involves our workers in OHS consultation and communication.

Figure 13: Worker participation, consultation and communication on OHS

Formal joint management-worker OHS committee
- Subcommittees include accident & fire prevention, First Aid, publicity and safety audit
- Roles include chairman, consultant, supervisors, department heads, plant manager and members

Workers' involvement in OHSMS
Committee and subcommittees (if any) made up of representatives from various departments and members drawn from all levels

Workers' access to OHS information
- OHS requirements discussed during Safety Training
- Incident reports are updated regularly and published to all employees

COVID-19 Spotlight

In these times, the health and safety of our employees and all stakeholders remain our highest priority. In adhering to requirements set in place by the local governments, we immediately implemented health and safety measures such as work-split and telecommuting arrangements for non-manufacturing employees, temperature screening, enhanced cleaning and disinfection, safe distancing measures etc. We also kept our employee informed on the latest health developments and work arrangement plans through regular staff communications and advisories.

Focus Area	Perpetual Target	FY2020 Performance
Occupational Health and Safety	0 work-related fatalities and injuries	Achieved

SUSTAINABILITY
REPORT

PROTECTING THE ENVIRONMENT

[GRI 302-1, 302-3, 302-4]

Energy usage is a material issue in all our operating facilities, given the energy-intensive nature of our manufacturing and burn-in and test activities. As a responsible corporate citizen, we are committed to engage in energy-efficient manufacturing and testing practices and reduce our carbon footprint. Over the years, we have sought to minimise our electricity consumption by implementing multiple energy-saving projects and raising awareness among staff. Our operations are covered under an Environmental Management System guided by a manual (certified to ISO 14001), among other local Energy Policies. In addition, our Code of Conduct also contains standards relating to environment, such as resource conservation, dealing with hazardous substances, wastewater and solid waste, air emissions etc.

One of the local policies implemented includes the Energy Policy for our Tianjin plant, which focuses on efficient management of electrical energy consumption. While the Tianjin pilot Emission Trading System ("ETS") that is currently effective is not yet applicable to the semiconductor and electronics manufacturing industry, we are committed to contribute to national reduction targets in line with the aims of our Policy.

In FY2020, we consumed 81.5 GWh of electricity. This translates to a drop in our electricity consumption of 4.8 GWh, or 5.5%, from FY2019. We have also reduced our indirect emissions by about 3.4% to 57.6 Kilo tonnes CO_2.

Figure 14: KESMI's Electrical Energy Consumption

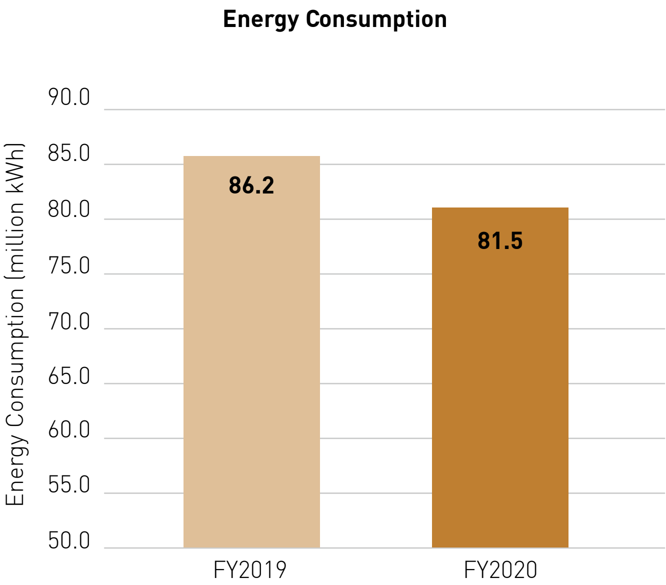
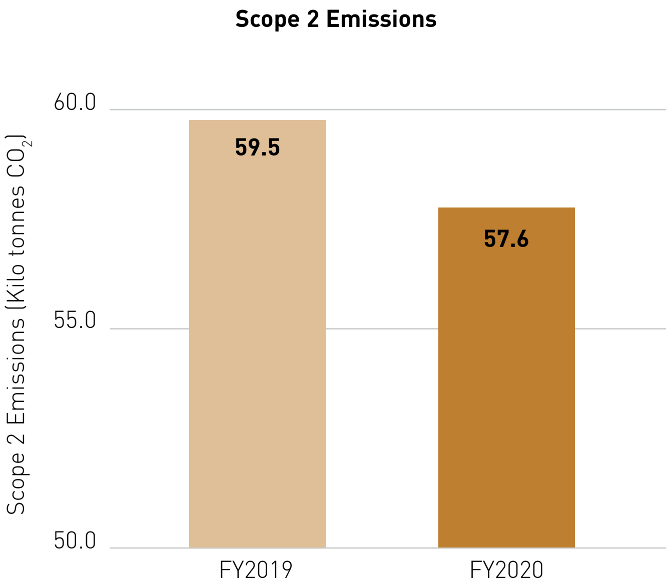


Figure 15: KESMI's Scope 2 (Indirect) Emissions[6]



Focus Area	Perpetual Target	FY2020 Performance
Energy Consumption	2% reduction in year-on-year energy consumption	Achieved 5.5% reduction

Improving the quality and efficiency of our compressors is a constant task for KESMI. In a bid to decrease energy wastage, we have identified operational redundancies to optimise our systems. The following details the initiatives taken to reduce energy usage in FY2020.

[6] The Electricity Grid Emissions Factors ("GEF") used in the calculation of Scope 2 Emissions have been obtained from the Institute for Global Environmental Strategies ("IGES") 2020 database. The Scope 2 Emissions figure for FY2019 has been revised due to updates in the North China GEF (0.968 $kgCO_2/kWh$) and Malaysia GEF (0.6448 $kgCO_2/kWh$).

Key Energy-Saving Projects

Investigation of Sudden Increase in Plant 2 TNB Max Demand

Description: The electricity meter recorded an anomalous increase in the maximum power demand in August and September 2019. Investigations found that the surge was caused by the monthly restart of the IHI-Compressor during servicing. Instead of shutting off and subsequently restarting the compressors during the monthly servicing, the compressors can be kept operating through temporary cooling from a chilled water supply.

Estimated Savings: Upon modification, energy savings of 118 kWh per month was observed, translating to RM4,366 for each month.

Optimisation of Air-Conditioning System

Description: Upon testing the machine power load and number of operators, it was found that the current 300,000 Btu/hr cooling capacity is oversized. The power consumption for the remaining compressors can be stabilised and maximised by switching off one of three compressors.

Estimated Savings: Monthly savings of 5,400 kWh is expected with the corresponding monthly cost savings of RM2,025.

GRI CONTENT INDEX

Disclosure		Reference(s) or Reasons for Omission
Material Topic: General Disclosures		
Organisational Profile		
102-1	Name of the organisation	About KESM Industries Berhad (page 32)
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 71)
102-6	Markets served	About the Report (page 32)
102-7	Scale of the organisation	Management Discussion and Analysis (page 5)
102-8	Information on employee and other workers	Develop an Engaged Workforce & Fair Workplace (pages 42-47)
102-9	Supply chain	Sustaining Economic Performance (pages 39-41)
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	KESMI does not specifically address the principles of the precautionary approach. However, our management is risk-based. Refer to Annual Report (pages 29-31)
102-12	External initiatives	We take reference from Responsible Business Alliance's Code of Conduct
102-13	Membership of associations	Malaysian Employers Federation; The Free Trade Zone, Penang Companies' Association

Disclosure		Reference(s) or Reasons for Omission
Strategy		
102-14	Statement from senior decision-maker	Chairman's Statement (pages 2-3)
Ethics and Integrity		
102-16	Values, principles, standards, and norms of behaviour	Building an Ethical Culture (pages 37-38)
Governance		
102-18	Governance structure	Sustainability: The Right Way Forward (page 32)
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 104)
102-46	Defining report content and topic boundaries	Materiality Assessment (pages 34-36)
102-47	List of material topics	Materiality Assessment (pages 34-36)
102-48	Restatements of information	Scope 2 Emissions for FY2019 has been restated due to updates in national Grid Emission Factors.
102-49	Changes in reporting	Inclusion of additional reporting matter
102-50	Reporting period	FY2020
102-51	Date of most recent report (if any)	FY2019
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 32)
102-55	GRI content index	GRI Content Index (pages 49-52)
102-56	External assurance	About the Report (page 32)
Material Topic: Ethical Business Conduct		
Management Approach		
103-1	Explanation of the material topic and its boundary	Building an Ethical Culture (pages 37-38)
103-2	The management approach and its components	Building an Ethical Culture (pages 37-38)
103-3	Evaluation of the management approach	Building an Ethical Culture (pages 37-38)
Anti-Corruption		
205-2	Communication and training about anti-corruption policies and procedures	Building an Ethical Culture (pages 37-38)
205-3	Confirmed incidents of corruption and actions taken	Building an Ethical Culture (pages 37-38)

Disclosure		Reference(s) or Reasons for Omission
Material Topic: Regulatory Compliance		
Management Approach		
103-1	Explanation of the material topic and its boundary	Ensuring Strict Compliance with Applicable Laws and Regulations (page 39)
103-2	The management approach and its components	Ensuring Strict Compliance with Applicable Laws and Regulations (page 39)
103-3	Evaluation of the management approach	Ensuring Strict Compliance with Applicable Laws and Regulations (page 39)
Environmental Compliance		
307-1	Non-compliance with environmental laws and regulations	Ensuring Strict Compliance with Applicable Laws and Regulations (page 39)
419-1	Non-compliance with laws and regulations in the social and economic area	Ensuring Strict Compliance with Applicable Laws and Regulations (page 39)
Material Topic: Economic Performance		
Management Approach		
103-1	Explanation of the material topic and its boundary	Sustaining Economic Performance (pages 39-41)
103-2	The management approach and its components	Sustaining Economic Performance (pages 39-41)
103-3	Evaluation of the management approach	Sustaining Economic Performance (pages 39-41)
Economic Performance and Procurement Practices		
201-1	Direct economic value generated and distributed	Contributing Direct Economic Value (page 41)
204-1	Proportion of spending on local suppliers	Managing Supply Chains Responsibly (pages 39-41)
Material Topic: Fair Employment Practices		
Management Approach		
103-1	Explanation of the material topic and its boundary	Develop an Engaged Workforce and Fair Workplace (pages 42-45)
103-2	The management approach and its components	Develop an Engaged Workforce and Fair Workplace (pages 42-45)
103-3	Evaluation of the management approach	Develop an Engaged Workforce and Fair Workplace (pages 42-45)
Employment and Non-Discrimination		
401-1	New employee hire and employee turnover	KESMI's Employee and Worker Profile (pages 42-43)
406-1	Incidents of discrimination and corrective actions taken	Fair Employment Practices (pages 43-45)
Material Topic: Energy and Carbon Footprint		
Management Approach		
103-1	Explanation of the material topic and its boundary	Protecting the Environment (pages 48-49)
103-2	The management approach and its components	Protecting the Environment (pages 48-49)
103-3	Evaluation of the management approach	Protecting the Environment (pages 48-49)
Energy Consumption and Emissions		
302-1	Energy consumption within the organisation	Protecting the Environment (pages 48-49)
305-2	Energy indirect (Scope 2) GHG Emissions	Protecting the Environment (pages 48-49)

Disclosure		Reference(s) or Reasons for Omission
Additional Reporting Matter: Occupational Health and Safety		
Management Approach (2018)		
103-1	Explanation of the material topic and its boundary	Fostering a Safety Culture (pages 45-47)
103-2	The management approach and its components	Fostering a Safety Culture (pages 45-47)
103-3	Evaluation of the management approach	Fostering a Safety Culture (pages 45-47)
403-1	Occupational health and safety management system	Fostering a Safety Culture (pages 45-47)
403-2	Hazard identification, risk assessment, and incident investigation	Fostering a Safety Culture (pages 45-47)
403-3	Occupational health services	Fostering a Safety Culture (pages 45-47)
403-4	Worker participation, consultation, and communication on occupational health and safety	Fostering a Safety Culture (pages 45-47)
403-5	Worker training on occupational health and safety	Fostering a Safety Culture (pages 45-47)
403-6	Promotion of worker health	Fostering a Safety Culture (pages 45-47)
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Fostering a Safety Culture (pages 45-47)
Occupational Health and Safety (2018)		
403-9	Work-related injuries	Fostering a Safety Culture (pages 45-47)

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The directors hereby present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 July 2020.

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 13 to the financial statements.

Results

	Group RM'000	Company RM'000
Profit/(loss) net of tax	96	(2,000)

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 2019 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 8 January 2020 and paid on 10 February 2020	2,581
In respect of the financial year ended 31 July 2020:	
Interim tax exempt dividend of 1.5 sen per ordinary share, on 43,014,500 ordinary shares, approved on 16 July 2020 and paid on 25 August 2020	645
	3,226

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the financial year ended 31 July 2020, 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 2021.

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 1.8.2019	Acquired	Sold	At 31.7.2020
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 22 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 23 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.

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 adequate allowance for impairment of receivables had been made; 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.

Other statutory information (cont'd)

(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 the amount of the allowance for impairment of receivables in the financial statements of the Group and of the Company inadequate to any substantial extent;

(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.

Significant event

Details of significant event is disclosed in Note 30 to the financial statements.

Auditors

The auditors, Ernst & Young PLT, 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 PLT, 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 PLT during or since the end of the financial year.

Signed on behalf of the Board in accordance with a resolution of the directors dated 22 September 2020.

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 65 to 129 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 2020 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 22 September 2020.

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 65 to 129 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 Republic of Singapore on 22 September 2020

Kenneth Tan Teoh Khoon

Before me,
Lim Chee Kiang

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 2020 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 65 to 129.

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 2020, 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 (cont'd)

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

Impairment assessment of property, plant and equipment

As at 31 July 2020, the Group's property, plant and equipment amounted to RM127,461,000, representing 31% of its total assets.

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. In determining the value in use, management is required to apply judgments and make assumptions on estimates supporting underlying projected cash flows, taking into account its operations and current market conditions which has also been impacted by COVID-19 pandemic.

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

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 VIU calculations, with the support of our valuation experts;

c) We performed sensitivity analysis on the key inputs of the cash flow in terms of timing of the Group's operation return to normalcy using different possible scenarios, after taking into consideration current business environment; 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 2020, the Group recognised deferred tax assets of RM3,513,000, 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 the 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 (cont'd)

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

Impairment assessment of investment in subsidiaries

As at 31 July 2020, 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 rates, long term growth rates and the methodology used in deriving the VIU calculations, with the support of our valuation experts; 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 and will 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.

Responsibilities of the directors for the financial statements (cont'd)

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

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

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

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

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

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

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

Auditors' responsibilities for the audit of the financial statements (cont'd)

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 13 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 PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

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

Kuala Lumpur, Malaysia
22 September 2020

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 July 2020

		Group		Company	
	Note	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Revenue	4	240,976	307,375	59,367	68,151
Other items of income					
Interest income	5	6,158	5,926	2,192	2,691
Dividend income		169	172	169	172
Other income		11,460	2,599	3,274	3,643
Items of expenses					
Raw materials and consumables used		(22,558)	(41,496)	(1,596)	(1,817)
Changes in inventories of finished goods and work-in-progress		(1,226)	(1,014)	–	–
Employee benefits expense	6	(92,762)	(103,587)	(31,192)	(35,709)
Depreciation of property, plant and equipment	11	(62,727)	(74,894)	(8,877)	(7,369)
Finance costs	7	(2,371)	(4,089)	(253)	(292)
Other expenses		(71,440)	(81,484)	(24,984)	(27,357)
Profit/(loss) before tax	8	5,679	9,508	(1,900)	2,113
Income tax expense	9	(5,583)	(3,232)	(100)	(708)
Profit/(loss), net of tax		96	6,276	(2,000)	1,405
Other comprehensive income:					
Item that will not be reclassified to profit or loss					
Remeasurement loss arising from net defined benefit liabilities, net of tax	22	(116)	(236)	–	–
Item to be reclassified subsequently to profit or loss					
Foreign currency translation gain		375	469	–	–
Other comprehensive income for the year, net of tax		259	233	–	–
Total comprehensive income/(loss) for the year, net of tax		355	6,509	(2,000)	1,405
Earnings per share attributable to owners of the Company					
- Basic	10	0.2 sen	14.6 sen		

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

STATEMENTS OF FINANCIAL POSITION

As at 31 July 2020

		Group		Company	
	Note	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	11	127,461	164,848	23,577	26,119
Investment in subsidiaries	13	–	–	79,250	79,250
Deferred tax assets	20	3,513	3,692	804	355
Other receivables	15	667	–	302	–
		131,641	168,540	103,933	105,724
Current assets					
Inventories	14	6,055	7,407	187	154
Trade and other receivables	15	34,351	65,925	12,614	22,632
Prepayments		2,419	2,714	1,595	1,114
Investment securities		8,872	6,688	8,872	6,688
Tax recoverable		1,053	1,267	978	832
Cash and short-term deposits	16	230,103	200,005	74,556	71,166
		282,853	284,006	98,802	102,586
Total assets		414,494	452,546	202,735	208,310
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company					
Share capital	17	43,678	43,678	43,678	43,678
Reserves	18	312,596	315,467	144,952	150,178
Total equity		356,274	359,145	188,630	193,856
Non-current liabilities					
Loans and borrowings	19	4,487	15,451	1,660	100
Defined benefit liabilities	22	4,402	3,939	–	–
Deferred tax liabilities	20	1,088	3,324	–	–
		9,977	22,714	1,660	100
Current liabilities					
Trade and other payables	21	24,345	24,318	10,227	11,503
Contract liabilities	4	41	525	–	–
Loans and borrowings	19	21,078	45,844	2,218	2,851
Income tax payable		2,779	–	–	–
		48,243	70,687	12,445	14,354
Total liabilities		58,220	93,401	14,105	14,454
Total equity and liabilities		414,494	452,546	202,735	208,310

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

			Attributable to owners of the Company						
				Non-distributable	Distributable	Non-distributable			
	Note	Equity, total RM'000	Equity attributable to owners of the Company, total RM'000	Share capital (Note 17) RM'000	Retained earnings (Note 18) RM'000	Other reserves, total RM'000	Foreign currency translation reserve (Note 18) RM'000	Capital reserve (Note 18) RM'000	Statutory reserve fund (Note 18) RM'000
Group									
As at 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	29	(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
As at 1 August 2019		359,145	359,145	43,678	299,063	16,404	9,535	2,240	4,629
Profit for the year		96	96	–	96	–	–	–	–
Other comprehensive income for the year, net of tax		259	259	–	(116)	375	375	–	–
Total comprehensive income for the year		355	355	–	(20)	375	375	–	–
Transactions with owners									
Dividends on ordinary shares	29	(3,226)	(3,226)	–	(3,226)	–	–	–	–
As at 31 July 2020		356,274	356,274	43,678	295,817	16,779	9,910	2,240	4,629

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 2020

	Note	Equity, total RM'000	Non-distributable: Share capital (Note 17) RM'000	Distributable: Retained earnings (Note 18) RM'000	Non-distributable: Other reserves, total RM'000	Non-distributable: Merger relief reserve (Note 18) RM'000
Company						
As at 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	29	(3,871)	–	(3,871)	–	–
As at 31 July 2019		193,856	43,678	148,963	1,215	1,215
As at 1 August 2019		193,856	43,678	148,963	1,215	1,215
Total comprehensive loss for the year		(2,000)	–	(2,000)	–	–
Transaction with owners						
Dividends on ordinary shares	29	(3,226)	–	(3,226)	–	–
As at 31 July 2020		188,630	43,678	143,737	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 2020

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Operating activities					
Profit/(loss) before tax		5,679	9,508	(1,900)	2,113
Adjustments for:					
Depreciation of property, plant and equipment	11	62,727	74,894	8,877	7,369
Net gain on disposal of property, plant and equipment	8	(9,063)	(1,860)	–	–
Property, plant and equipment written off		1	2	1	1
Net fair value loss on investment securities	8	1,842	1,165	1,842	1,165
Unrealised exchange loss/(gain)		20	(57)	29	(9)
Write-down of inventories	8	1,462	174	–	–
Impairment of trade receivables	8	144	–	–	–
Dividend income		(169)	(172)	(169)	(172)
Interest income	5	(6,158)	(5,926)	(2,192)	(2,691)
Finance costs	7	2,371	4,089	253	292
Operating cash flows before changes in working capital		58,856	81,817	6,741	8,068
Changes in working capital:					
(Increase)/decrease in inventories		(110)	1,682	(33)	(83)
Decrease in prepayments and receivables		30,931	14,648	9,179	1,341
Decrease in payables and contract liabilities		(2,312)	(8,098)	(1,033)	(2,475)
Cash flows from operations		87,365	90,049	14,854	6,851
Income taxes paid, net		(4,627)	(3,533)	(695)	(1,145)
Interest paid		(2,425)	(4,135)	(253)	(292)
Interest received		6,206	5,716	2,219	2,715
Net cash flows from operating activities		86,519	88,097	16,125	8,129

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 2020

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Investing activities					
(Increase)/decrease in short-term deposits with maturity more than three months		(21,783)	(20,769)	3,500	(4,959)
Purchase of investment securities		(5,152)	(2,091)	(5,152)	(2,091)
Proceeds from disposal of investment securities		1,126	3,885	1,126	3,885
Dividend income		169	172	169	172
Purchase of property, plant and equipment	11	(12,415)	(25,835)	(603)	(5,273)
Proceeds from disposal of property, plant and equipment		9,888	2,518	–	–
Net cash flows used in investing activities		(28,167)	(42,120)	(960)	(8,266)
Financing activities					
Repayment of obligations under finance leases		–	(5,364)	–	(4,040)
Repayment of principal portion of lease liabilities		(6,184)	–	(4,404)	–
Repayment of bank loans		(48,180)	(76,910)	–	–
Proceeds from bank loans		8,026	45,822	–	–
Dividends paid on ordinary shares		(3,871)	(7,958)	(3,871)	(7,958)
Net cash flows used in financing activities		(50,209)	(44,410)	(8,275)	(11,998)
Net increase/(decrease) in cash and cash equivalents		8,143	1,567	6,890	(12,135)
Effect of exchange rate changes on cash and cash equivalents		172	96	–	–
Cash and cash equivalents at beginning of the year		76,379	74,716	21,666	33,801
Cash and cash equivalents at end of the year	16	84,694	76,379	28,556	21,666

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 13 to the financial statements.

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

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

2. Summary of significant accounting policies

2.1 Basis of preparation

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

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

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

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that on 1 August 2019, 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 2019.

Description	**Effective for annual periods beginning on or after**
MFRS 16: Leases	1 January 2019
Annual improvements to MFRSs 2015 - 2017 Cycle :	
- Amendments to MFRS 11: Joint Arrangements	1 January 2019
- Amendments to MFRS 112: Income Taxes	1 January 2019
- Amendments to MFRS 123: Borrowing Costs	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
Amendments to MFRS 16: Covid-19 Related Rent Concessions	1 June 2020

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

2.2 Changes in accounting policies (cont'd)

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:

(i) MFRS 16 Leases

MFRS 16 supersedes MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Leases - Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Lessor accounting under MFRS 16 is substantially unchanged from MFRS 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in MFRS 117. Therefore, MFRS 16 does not have an impact for leases where the Group and the Company are the lessor.

(a) As a lessee

The Group and the Company adopted MFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 August 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial application which measures asset at an amount equal to liability (adjusted for accruals and prepayments) and no adjustment to the opening balance of retained profits at 1 August 2019.

Upon the adoption of MFRS 16, for all leases for which the Group and the Company as a lessee:

(i) Recognise right-of-use ("ROU") assets and lease liabilities in the statements of financial position, initially measured at the present value of future lease payments;

(ii) Recognise depreciation of ROU assets and interest on lease liabilities in the statements of profit or loss and other comprehensive income; and

(iii) Classification of the total amount of cash paid as financing activities in the statements of cash flows.

The Group and the Company elected to apply the following practical expedients when applying MFRS 16 to leases previously classified as operating lease under MFRS 117:

(i) Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;

(ii) Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;

(iii) Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease; and

(iv) Leases for low-value assets, largely office equipment, are exempted from recognition.

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

2.2 Changes in accounting policies (cont'd)

(i) MFRS 16 Leases (cont'd)

(b) As a lessor

The adoption of MFRS 16 does not have any impact to the financial statements of the Group and the Company as a lessor. There are no contracts that are or contain a lease in which the Group and the Company expect to reclassify as a finance lease.

The effect of adopting MFRS 16 as at 1 August 2019 is, as follows:

	Group RM'000	Company RM'000
Non-current assets		
Increase in property, plant and equipment	5,857	761
Non-current liabilities		
Increase in loans and borrowings	4,345	364
Current liabilities		
Increase in loans and borrowings	1,512	397

The lease liabilities as at 1 August 2019 can be reconciled to the operating lease commitments as of 31 July 2019, as follows:

	Group RM'000	Company RM'000
Operating lease commitments as at 31 July 2019	82	16
Add: Commitments relating to cancellable leases	6,535	797
Weighted average incremental borrowing rate as at 1 August 2019	5.3%	4.8%
Discounted operating lease commitments as at 1 August 2019	5,939	777
Less:		
Commitments relating to leases of low-value assets	(82)	(16)
Add:		
Commitments relating to leases previously classified as finance leases	3,927	2,951
Lease liabilities as at 1 August 2019	9,784	3,712

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

2.2 Changes in accounting policies (cont'd)

(ii) Early adoption of amendment to MFRS 16 Covid-19-Related Rent Concessions

The amendment to MFRS 16 provides relief for lessees in accounting for rent concessions granted as a direct consequence of Covid-19. By utilising the practical expedient, the lessee does not account for a rent concession as a lease modification. The practical expedient in MFRS paragraph 46A applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met:

(a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(c) There is no substantive change to other terms and conditions of the lease.

The Group and the Company have chosen to early adopt the amendment to MFRS 16 and have applied the practical expedient to all rent concessions that meet the condition in MFRS 16 paragraph 46B. The Group and the Company have recognised the rent concessions as miscellaneous income in "other income" line in the statements of profit or loss and other comprehensive income.

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
Amendments to MFRS 3: Business Combinations	1 January 2020
Amendments to MFRS 7: Financial Instruments: Disclosures	1 January 2020
Amendments to MFRS 101: Presentation of Financial Statements	1 January 2020
Amendments to MFRS 108: Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020
Amendments to MFRS 139: Financial Instruments: Recognition and Measurement	1 January 2020
Interpretation to MFRS 123: Borrowing cost relating to over time transfer of constructed good	1 July 2020
Annual improvements to MFRS Standards 2018 - 2020	
- Amendments to MFRS 1: Adoption of Malaysian Financial Reporting Standards	1 January 2022
- Amendments to MFRS 9: Financial Instruments	1 January 2022
- Amendments to MFRS 141: Agriculture	1 January 2022
Amendments to MFRS 3: Reference to the Conceptual Framework	1 January 2022
Amendments to MFRS 116: Property, Plant and Equipment - Proceeds before Intended Use	1 January 2022
Amendments to MFRS 137: Onerous Contracts - Cost of Fulfilling a Contract	1 January 2022
MFRS 17: Insurance Contracts	1 January 2023
Amendments to MFRS 17: Insurance contracts	1 January 2023
Amendments to MFRS 101: Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to MFRS 10 and 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

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

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

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.

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 13.

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.

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

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.

(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. Right-of-use assets are included within the same line item as that within corresponding underlying assets would be presented if they were owned and are accounted for in accordance with Note 2.17. 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, except for right-of-use assets which is depreciated in accordance with Note 2.17, is computed on a straight-line basis over the estimated useful lives of the assets as follows:

-	Buildings	2 - 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.

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

2.6 Property, plant and equipment (cont'd)

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.

2.7 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:

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

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

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

In the Company's separate financial statements, 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 (cont'd)

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, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("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 solely payments of principle and interest ("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.

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.

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

2.9 Financial instruments (cont'd)

(i) Financial assets (cont'd)

Subsequent measurement (cont'd)

(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.

(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 fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing them in the near term. This category includes derivative financial instruments entered into by the Group 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.

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

2.9 Financial instruments (cont'd)

(ii) Financial liabilities (cont'd)

Subsequent measurement (cont'd)

(b) Financial liabilities at amortised cost

After initial recognition, other financial liabilities, including loans and borrowings are subsequently measured at amortised cost using the effective interest 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.

2.10 Impairment of financial assets

The Group and the Company recognise an allowance for expected credit losses ("ECL") 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. Summary of significant accounting policies (cont'd)

2.11 Offsetting of financial instruments

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

2.12 Cash and cash equivalents

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

2.13 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:

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

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

(iii) 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 (cont'd)

2.16 Employee benefits

(i) Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group 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

Current financial year

The Group and the Company assess at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) As a lessee

The Group and the Company apply a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group and the Company recognise lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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

2.17 Leases (cont'd)

Current financial year (cont'd)

(i) As a lessee (cont'd)

Right-of-use assets

The Group and the Company recognise right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

-	Buildings	2 - 5 years
-	Leasehold land	60 - 99 years
-	Plant, machinery and test equipment	5 years
-	Motor vehicles	5 years

If ownership of the leased asset transfers to the Group and the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. The accounting policy for impairment is disclosed in Note 2.7. The Group's and the Company's right-of-use assets are disclosed in Note 12.

Lease liabilities

At the commencement date of the lease, the Group and the Company recognise lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and the Company and payments of penalties for terminating the lease, if the lease term reflects the Group and the Company exercising the option to terminate.

In calculating the present value of lease payments, the Group and the Company use its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group and the Company apply the short-term lease recognition exemption to its short-term leases of assets (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of assets that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

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

2.17 Leases (cont'd)

Current financial year (cont'd)

(ii) As a lessor

Leases in which the Group and the Company do not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. The accounting policy for rental income is set out in Note 2.18.

Previous financial year

(i) Finance lease - as a 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.

(ii) Operating lease - as a 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 a 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.

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

2.18 Revenue (cont'd)

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:

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

(ii) 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

(iii) 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.

(ii) Rendering of services

Revenue is recognised when the performance obligation is satisfied at a point of 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 uses the expected value method to predict the volume, and 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.

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

2.18 Revenue (cont'd)

(iv) Contract liability

A contract liability is recognised when the Group has not yet performed under the contract but has received advanced payments from the customers. Contract liabilities are recognised as revenue when the Group performs 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 arising is accounted for on a straight-line basis over the lease terms and is included in other income in the statements of profit or loss and other comprehensive income due to its operating nature.

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.

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

2.19 Taxes (cont'd)

(ii) Deferred tax (cont'd)

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.

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 and service tax ("SST")

Revenues, expenses and assets are recognised net of the amount of sales tax except:

(a) where the SST 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 SST included.

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

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

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.

2.21 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 28.

2.22 Contingencies

A contingent liability is:

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

(ii) 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:

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

(ii) held primarily for the purpose of trading;

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

(iv) 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 (cont'd)

2.23 Current versus non-current classification (cont'd)

A liability is current when:

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

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

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

(iv) 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 amounts of the Group's and the Company's deferred tax assets at reporting date were RM3,513,000 (2019: RM3,692,000) and RM804,000 (2019: RM355,000) respectively. Further details are disclosed in Note 20.

(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 fair value less costs to sell and value in use) of the assets is estimated to determine the amount of impairment loss.

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

3.2 Key sources of estimation uncertainty (cont'd)

(ii) Impairment of property, plant and equipment (cont'd)

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 amounts are 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 (2019: RM79,250,000).

(iv) Leases - Estimating the incremental borrowing rate

The Group and the Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group and the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group and the Company would have to pay, which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

4. Revenue

(i) Disaggregation of revenue

	Group		Company	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Types of goods and services				
Sale of goods	18,207	41,727	–	–
Rendering of services	222,769	265,648	59,367	68,151
	240,976	307,375	59,367	68,151
Geographical markets				
Malaysia	179,715	234,473	57,077	67,574
China	46,602	52,970	–	–
Others	14,659	19,932	2,290	577
	240,976	307,375	59,367	68,151

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

4. Revenue (cont'd)

(ii) Contract liabilities

	Group	
	2020	2019
	RM'000	RM'000
Contract liabilities	41	525

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

Significant changes in contract liabilities are explained as follows:

	Group	
	2020	2019
	RM'000	RM'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	525	766

5. Interest income

	Group		Company	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Interest income from:				
- Deposits with licensed banks	6,158	5,926	2,175	2,658
- Loan to a subsidiary	–	–	17	33
	6,158	5,926	2,192	2,691

6. Employee benefits expense

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Employee benefits expense (including directors):					
- Wages, salaries and bonuses		81,258	87,493	28,917	32,547
- Contributions to defined contribution plan		2,913	3,086	1,054	1,062
- Social security contributions		3,811	6,561	157	147
- Defined benefit obligations	22	264	266	–	–
- Other benefits		4,516	6,181	1,064	1,953
		92,762	103,587	31,192	35,709

7. Finance costs

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Interest expense on:					
- Bank loans		1,729	3,675	–	–
- Lease liabilities	12	559	–	253	–
- Obligations under finance leases		–	335	–	292
- Defined benefit obligations	22	83	79	–	–
		2,371	4,089	253	292

8. Profit/(loss) before tax

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Profit/(loss) before tax is arrived at:				
<u>After charging:</u>				
Auditors' remunerations				
- statutory audit	408	365	131	130
- non-audit services	91	134	91	134
Directors' remuneration	1,719	1,757	1,679	1,637
Rental of factory	–	2,928	–	1,495
Rental expenses	544	–	454	–
Utilities	31,657	33,971	11,298	12,164
Repairs and maintenance	17,649	20,947	3,578	4,261
Impairment of trade receivables	144	–	–	–
Net fair value loss on investment securities	1,842	1,165	1,842	1,165
Write-down of inventories	1,462	174	–	–
Settlement of litigation	–	1,660	–	–
Net foreign exchange loss	–	–	53	–
<u>and crediting:</u>				
Net gain on disposal of property, plant and equipment	9,063	1,860	–	–
Rental income from a subsidiary	–	–	1,382	1,502
Net foreign exchange gain	13	6	–	62
Covid-19 related government reliefs	1,927	–	124	–

Information on directors' remuneration is as follows:

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Directors' remuneration				
In respect of the Company's directors:				
Executive:				
- Fees	123	203	103	103
- Salaries and other emoluments	1,386	1,344	1,386	1,344
	1,509	1,547	1,489	1,447
Non-executive:				
- Fees	183	183	163	163
- Allowances	27	27	27	27
	210	210	190	190
Total directors' remuneration	1,719	1,757	1,679	1,637

9. Income tax expense

(i) Major components of income tax expense

The major components of income tax expense for the years ended 31 July 2020 and 2019 are:

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Current income tax:				
- Malaysian income tax	7,578	3,397	526	742
- Under/(over) provision in prior years	42	(27)	23	10
	7,620	3,370	549	752
Deferred tax (Note 20):				
- Origination and reversal of temporary differences	(1,960)	788	(392)	174
- Over provision in prior years	(77)	(926)	(57)	(218)
	(2,037)	(138)	(449)	(44)
Income tax expense recognised in profit or loss	5,583	3,232	100	708

The reconciliation between tax expense and product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 July 2020 and 2019 is as follows:

	Group	
	2020 RM'000	2019 RM'000
Profit before tax	5,679	9,508
Tax at Malaysian statutory tax rate of 24% (2019: 24%)	1,363	2,282
Adjustments:		
Effect of different tax rate on foreign expense	(83)	(60)
Income not subject to tax	(597)	(34)
Non-deductible expenses	1,028	925
Utilisation of previously unrecognised tax benefits	(528)	(1,466)
Deferred tax asset not recognised on unutilised business losses and other deductible temporary differences	4,435	2,538
Under/(over) provision of income tax expense in prior years	42	(27)
Over provision of deferred tax in prior years	(77)	(926)
Income tax expense recognised in profit or loss	5,583	3,232

9. Income tax expense (cont'd)

(i) Major components of income tax expense (cont'd)

	Company	
	2020	2019
	RM'000	RM'000
(Loss)/profit before tax	(1,900)	2,113
Tax at Malaysian statutory tax rate of 24% (2019: 24%)	(456)	507
Adjustments:		
Income not subject to tax	(40)	(49)
Non-deductible expenses	630	458
Under provision of income tax expense in prior years	23	10
Over provision of deferred tax in prior years	(57)	(218)
Income tax expense recognised in profit or loss	100	708

Domestic current income tax is calculated at the Malaysian statutory tax rate of 24% (2019: 24%) of the estimated assessable profit for the year.

(ii) Relationship between tax expense and accounting profit

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.

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.

	Number of shares	
	2020	2019
	'000	'000
Weighted average number of ordinary shares for basic earnings per share calculation	43,015	43,015
Basic earnings per share	0.2 sen	14.6 sen

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

There has been no other transaction involving ordinary shares 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 2020								
At Cost								
At 1 August 2019	21,525	1,111	5,089	34,382	821,599	1,714	10,972	896,392
Effect of MFRS 16 adoption (Note 12)	5,857	–	–	–	–	–	–	5,857
Opening balance at 1 August 2019	27,382	1,111	5,089	34,382	821,599	1,714	10,972	902,249
Additions	3,073	–	–	506	15,955	–	570	20,104
Disposals	(990)	–	–	–	(14,907)	(126)	–	(16,023)
Write off	–	–	–	(380)	(4,127)	–	(606)	(5,113)
Exchange differences	50	–	–	273	1,652	1	37	2,013
At 31 July 2020	29,515	1,111	5,089	34,781	820,172	1,589	10,973	903,230
Accumulated depreciation								
At 1 August 2019	20,811	–	1,756	27,801	671,037	1,027	9,112	731,544
Depreciation charge for the year	2,583	–	84	2,390	56,696	262	712	62,727
Disposals	(969)	–	–	–	(14,133)	(96)	–	(15,198)
Write off	–	–	–	(380)	(4,126)	–	(606)	(5,112)
Exchange differences	16	–	–	249	1,511	2	30	1,808
At 31 July 2020	22,441	–	1,840	30,060	710,985	1,195	9,248	775,769
Net carrying amount	7,074	1,111	3,249	4,721	109,187	394	1,725	127,461

* Included in the net carrying amounts of the Group's plant, machinery and test equipment and office equipment, furniture and fittings and computers of RM5,121,000 and RM385,000 respectively, were assets which are not depreciated as they were not available for use. Plant, machinery and test equipment were not available for use as they were under testing phase.

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

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 which are not depreciated as they were not available for use. Plant, machinery and test equipment were not available for use as they were under testing phase.

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

Company	Buildings RM'000	Freehold land RM'000	Leasehold land RM'000	Renovation RM'000	Plant, machinery and test equipment* RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers RM'000	Total RM'000
At 31 July 2020								
At Cost								
At 1 August 2019	10,035	1,111	2,389	2,656	130,653	975	4,072	151,891
Effect of MFRS 16 adoption (Note 12)	761	–	–	–	–	–	–	761
Opening balance at 1 August 2019	10,796	1,111	2,389	2,656	130,653	975	4,072	152,652
Additions	3,073	–	–	124	2,339	–	39	5,575
Write off	–	–	–	–	(1)	–	(20)	(21)
At 31 July 2020	13,869	1,111	2,389	2,780	132,991	975	4,091	158,206
Accumulated depreciation								
At 1 August 2019	9,339	–	793	1,770	110,071	507	3,292	125,772
Depreciation charge for the year	1,366	–	20	323	6,730	177	261	8,877
Write off	–	–	–	–	–	–	(20)	(20)
At 31 July 2020	10,705	–	813	2,093	116,801	684	3,533	134,629
Net carrying amount	3,164	1,111	1,576	687	16,190	291	558	23,577

* Included in the net carrying amounts of the Company's plant, machinery and test equipment of RM735,000 were assets which are not depreciated as they were not available for use. Plant, machinery and test equipment were not available for use as they were under testing phase.

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

Company	Buildings RM'000	Freehold land RM'000	Leasehold land RM'000	Renovation RM'000	Plant, machinery and test equipment* RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers RM'000	Total RM'000
At 31 July 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 which are not depreciated as they were not available for use. Plant, machinery and test equipment were not available for use as they were under testing phase.

(i) Assets held under finance leases

The carrying amount of assets held under finance leases:

	Group 2019 RM'000	Company 2019 RM'000
Plant, machinery and test equipment	5,736	4,284
Motor vehicles	537	452
	6,273	4,736

Leased assets are pledged as security for the related finance lease liabilities, as disclosed in Note 19.

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

(ii) Additions

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

		Group		Company	
	Note	**2020 RM'000**	**2019 RM'000**	**2020 RM'000**	**2019 RM'000**
Cash payments		12,415	25,835	603	5,273
Lease liabilities	12	4,570	–	4,570	–
Obligations under finance lease		–	2,740	–	1,604
Other payables	21	3,119	513	402	499
		20,104	29,088	5,575	7,376

(iii) Right-of-use of assets acquired under leasing arrangements are presented together with the owned assets of the same class. Details of such leased assets are disclosed in Note 12.

12. Leases

As a lessee

Buildings

The Group and the Company have lease contracts for offices and factories used in its operations, and accommodations for workers. These leases have contract terms of 2 to 5 years, and do not contain variable lease payments. The Group's and the Company's obligation under its leases are secured by the lessor's title to the leased assets.

Leasehold land

The Group and the Company have made upfront payments to secure the right-of-use assets of 60-99 years leasehold land, which are used for production purposes. There are no externally imposed covenant on these lease arrangements.

Plant, machinery and test equipment and motor vehicles

These leases have contract terms of 5 years, and do not contain variable lease payments. The lease arrangements prohibit the Group and the Company from subleasing to third parties.

Short-term leases and leases of low-value assets

The Group and the Company also have certain leases of accommodations for workers with lease terms of 12 months or less, and leases of office equipment with low value. The Group and the Company apply the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

12. Leases (cont'd)

As a lessee (cont'd)

(a) Right-of-use assets

Set out below are the carrying amounts of right-of-use assets (classified within property, plant and equipment) and the movements during the year:

	Buildings RM'000	Leasehold land RM'000	Plant, machinery and test equipment RM'000	Motor vehicles RM'000	Total RM'000
Group					
As at 1 August 2019	5,857	3,333	5,190	452	14,832
Additions during the year	3,073	–	1,404	–	4,477
Depreciation	(2,223)	(84)	(1,474)	(111)	(3,892)
Transfer out upon lease expiry	–	–	(2,353)	(208)	(2,561)
Exchange differences	35	–	–	–	35
As at 31 July 2020	6,742	3,249	2,767	133	12,891

	Buildings RM'000	Leasehold land RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Total RM'000
Company					
As at 1 August 2019	761	1,596	4,284	452	7,093
Additions during the year	3,073	–	1,404	–	4,477
Depreciation	(1,003)	(20)	(1,274)	(111)	(2,408)
Transfer out upon lease expiry	–	–	(2,353)	(208)	(2,561)
As at 31 July 2020	2,831	1,576	2,061	133	6,601

12. Leases (cont'd)

As a lessee (cont'd)

(b) Lease liabilities

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the year:

	Note	Group 2020 RM'000	Company 2020 RM'000
As at 1 August		9,784	3,712
Additions		4,570	4,570
Accretion of interest		559	253
Payments		(6,743)	(4,657)
Exchange differences		53	–
As at 31 July		8,223	3,878
Current	19	3,736	2,218
Non-current	19	4,487	1,660

(c) Depreciation expenses, interest expenses and lease expense not capitalised in lease liabilities

The following are the amounts recognised in profit or loss:

	Note	Group 2020 RM'000	Company 2020 RM'000
Depreciation expense of right-of-use assets		3,892	2,408
Interest expense on lease liabilities	7	559	253
Lease expense relating to short-term lease		576	576
Lease expense relating to low value assets		123	20
Total amount recognised in profit or loss		5,150	3,257

The Group and the Company had total cash outflows for leases of RM7,442,000 and RM5,253,000, respectively, in the current financial year.

The Group and the Company have several lease contracts that include extension options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's and the Company's business needs. Management exercises judgement in determining whether these extension options are reasonably certain to be exercised.

12. Leases (cont'd)

As a lessee (cont'd)

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension options that are not included in the lease term:

	Within five years RM'000	More than five years RM'000	Total RM'000
Extension option expected not to be exercised	4,181	470	4,651

As a lessor

(a) An immediate lessor

The Company has leased out its owned buildings to one of its subsidiaries for monthly lease payments. This lease is classified as an operating lease because the risk and rewards incidental to ownership of the assets are not substantially transferred.

(b) An intermediate lessor

The Company acts as an intermediate lessor under arrangement in which it subleases out the factory and accommodations for worker to one of its subsidiaries for monthly lease payments. The sublease periods do not form a major part of the remaining lease terms under the head leases and accordingly, the sub-leases are classified as an operating leases.

Income from subleasing the factory and accommodations for workers recognised during the financial year was RM1,381,000 (2019: RM1,502,000).

13. Investment in subsidiaries

	Company 2020 RM'000	Company 2019 RM'000
Unquoted shares, at cost	79,250	79,250

13. Investment in subsidiaries (cont'd)

Composition of the Group

The Company has the following investments in subsidiaries:

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest 2020 %	2019 %
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 PLT, Malaysia.
^ Audited by Ernst & Young, China, for the purpose of Group consolidation.

14. Inventories

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
At cost				
Raw materials	3,945	3,607	–	–
Consumables	648	1,572	187	154
Work-in-progress	323	207	–	–
Finished goods	1,139	2,021	–	–
	6,055	7,407	187	154

During the financial year, the Group wrote down RM1,462,000 (2019: RM174,000) of inventories which were recognised in 'Other expenses' line item in the statements of profit or loss and other comprehensive income.

15. Trade and other receivables

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Non-current					
Other receivable					
Refundable deposits		667	–	302	–
Current					
Trade receivables					
Third parties		32,956	60,428	10,786	15,714
Amount due from a related company		87	12	–	–
		33,043	60,440	10,786	15,714
Less: Allowance for impairment		(144)	–	–	–
		32,899	60,440	10,786	15,714
Current					
Other receivables					
Refundable deposits		204	1,104	179	524
Sundry receivables		1,233	2,388	443	700
Loan to a subsidiary		–	–	–	2,100
Amounts due from subsidiaries		–	–	1,193	1,602
Amounts due from related companies		15	1,993	13	1,992
		1,452	5,485	1,828	6,918
Total current trade and other receivables		34,351	65,925	12,614	22,632
Total trade and other receivables		35,018	65,925	12,916	22,632
Add: Cash and short-term deposits	16	230,103	200,005	74,556	71,166
Total financial assets carried at amortised cost		265,121	265,930	87,472	93,798

15. Trade and other receivables (cont'd)

(i) Trade receivables

Trade receivables, including amounts due from related companies, are non-interest bearing and are generally on 30 to 90 days' (2019: 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:

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Neither past due nor impaired	31,165	58,042	10,592	15,462
Past due not impaired				
- 1 to 60 days	1,734	2,304	194	252
- 61 to 120 days	–	86	–	–
- More than 120 days	–	8	–	–
	1,734	2,398	194	252
Impaired	144	–	–	–
	33,043	60,440	10,786	15,714

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 RM1,734,000 (2019: RM2,398,000) and RM194,000 (2019: RM252,000) 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.

Receivables that are impaired

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to a debtor who has defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

The movement in allowance for impairment of trade receivables, are as follows:

	Group	
	2020 RM'000	2019 RM'000
At beginning of the year	–	–
Charge to profit or loss	144	–
At end of the year	144	–

During the financial year, impairment loss of RM144,000 (2019: Nil) was recognised in profit or loss of the Group.

15. Trade and other receivables (cont'd)

(ii) Related company receivables

Loan to a subsidiary bore interest rates between 4.78% and 4.79% (2019: 4.78% and 5.03%) per annum, was unsecured and has been repaid during the current financial year.

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 ultimate holding company, Sunright Limited and its subsidiaries.

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

	Group		Company	
	2020 RM'000	**2019 RM'000**	**2020 RM'000**	**2019 RM'000**
United States Dollar	1,986	7,313	897	2,213
Ringgit Malaysia	24,007	44,395	12,019	20,419
Renminbi	8,715	14,217	–	–
Others	310	–	–	–
	35,018	65,925	12,916	22,632

16. Cash and short-term deposits

	Group		Company	
	2020 RM'000	**2019 RM'000**	**2020 RM'000**	**2019 RM'000**
Cash at banks and on hand	29,510	29,247	5,216	6,084
Deposits with licensed banks	200,593	170,758	69,340	65,082
Cash and short-term deposits	230,103	200,005	74,556	71,166
Less: Bank deposits with maturity more than three months	(145,409)	(123,626)	(46,000)	(49,500)
Cash and cash equivalents	84,694	76,379	28,556	21,666

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

	Group		Company	
	2020 RM'000	**2019 RM'000**	**2020 RM'000**	**2019 RM'000**
United States Dollar	3,190	1,532	612	462
Ringgit Malaysia	208,909	175,402	73,944	70,704
Renminbi	18,004	23,071	–	–
	230,103	200,005	74,556	71,166

16. Cash and short-term deposits (cont'd)

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 six days and three months (2019: between seven days and three months), depending on the immediate cash requirements of the Group and of the Company, and earn interests at the respective short-term deposit rates. The weighted average effective interest rates of short-term deposits as at 31 July 2020 for the Group and the Company were 2.5% (2019: 3.6%) and 2.5% (2019: 3.7%) per annum respectively.

Cash and short-term deposits of RM18,004,000 (2019: RM23,691,000) 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.

17. Share capital

	Group/Company			
	Number of ordinary shares		Amount	
	2020 '000	2019 '000	2020 RM'000	2019 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.

18. Reserves

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Distributable:				
Retained earnings	295,817	299,063	143,737	148,963
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	9,910	9,535	–	–
	312,596	315,467	144,952	150,178

18. Reserves (cont'd)

(i) Retained earnings

The Company may distribute dividends out of its entire retained earnings as at 31 July 2020 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.

(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.

19. Loans and borrowings

		Group		Company	
	Maturity year	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Current					
Lease liabilities (Note 12)		3,736	–	2,218	–
Obligations under finance leases (Note 24 (iii)) - secured	2021	–	3,411	–	2,851
Bank loans	2021	17,342	42,433	–	–
		21,078	45,844	2,218	2,851
Non-current					
Lease liabilities (Note 12)		4,487	–	1,660	–
Obligations under finance leases (Note 24 (iii)) - secured	2022	–	516	–	100
Bank loans	2022	–	14,935	–	–
		4,487	15,451	1,660	100
Total loans and borrowings		25,565	61,295	3,878	2,951

19. Loans and borrowings (cont'd)

(i) Obligations under finance leases - secured

In the previous financial year, the Group and the Company had finance leases for certain assets (Note 11). Obligations under finance leases of RM3,927,000 and RM2,951,000 of the Group and of the Company respectively, were secured by a charge over the leased assets.

In the previous financial year, the finance leases of the Group and of the Company bore effective interests between 3.80% and 6.87%, and 3.80% and 6.59% per annum respectively.

(ii) Bank loans

Term loans of RM6,618,000 (2019: RM13,256,000) for the Group are secured by corporate guarantee provided by the Company.

The bank loans bore interests between 3.49% and 5.46% (2019: between 4.61% and 5.94%) per annum during the current financial year.

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

			Non-cash items		
	1 August 2019 RM'000	Cash flows RM'000	Acquisitions RM'000	Other RM'000	31 July 2020 RM'000
Group					
Bank loans					
- Current	42,433	(48,180)	–	23,089	17,342
- Non-current	14,935	8,026	–	(22,961)	–
Lease liabilities					
- Current	4,923	(6,184)	–	4,997	3,736
- Non-current	4,861	–	4,570	(4,944)	4,487
Total	67,152	(46,338)	4,570	181	25,565
Company					
Lease liabilities					
- Current	3,248	(4,404)	–	3,374	2,218
- Non-current	464	–	4,570	(3,374)	1,660
Total	3,712	(4,404)	4,570	–	3,878

19. Loans and borrowings (cont'd)

A reconciliation of movement of liabilities to cash flows arising from financing activities is as follows: (cont'd)

	2018	Cash flows	Non-cash items: Acquisitions	Non-cash items: Other	2019
	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

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.

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

	Group 2020	Group 2019	Company 2020	Company 2019
	RM'000	RM'000	RM'000	RM'000
Renminbi	10,546	13,256	–	–
Ringgit Malaysia	15,019	48,039	3,878	2,951
	25,565	61,295	3,878	2,951

20. Deferred tax (assets)/liabilities

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
At beginning of the year		(368)	(210)	(355)	(311)
Recognised in profit or loss	9	(2,037)	(138)	(449)	(44)
Exchange differences		(20)	(20)	–	–
At end of the year		(2,425)	(368)	(804)	(355)
Presented after appropriate offsetting as follows:					
Deferred tax assets		(3,513)	(3,692)	(804)	(355)
Deferred tax liabilities		1,088	3,324	–	–
		(2,425)	(368)	(804)	(355)

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 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
Recognised in profit or loss	(2,350)	(5)	(2,355)
At 31 July 2020	2,437	–	2,437

Deferred tax assets of the Group

	Property, plant and equipment RM'000	Unutilised reinvestment allowances RM'000	Others* RM'000	Total RM'000
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)
Recognised in profit or loss	(297)	–	615	318
Exchange differences	–	–	(20)	(20)
At 31 July 2020	(752)	–	(4,110)	(4,862)
Net				(2,425)

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

Deferred tax liabilities of the Company

	Property, plant and equipment RM'000
At 31 July 2018	184
Recognised in profit or loss	(102)
At 31 July 2019	82
Recognised in profit or loss	(82)
At 31 July 2020	–

Deferred tax assets of the Company

	Property, plant and equipment RM'000	Others* RM'000	Total RM'000
At 31 July 2018	–	(495)	(495)
Recognised in profit or loss	–	58	58
At 31 July 2019	–	(437)	(437)
Recognised in profit or loss	(297)	(70)	(367)
At 31 July 2020	(297)	(507)	(804)
Deferred tax assets, net	(297)	(507)	(804)

* Others comprise other deductible temporary differences and provision.

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

	Group	
	2020 RM'000	2019 RM'000
Unutilised business losses	37,519	23,151
Other deductible temporary differences	29,540	27,629
	67,059	50,780
Deferred tax benefit at 24%, if recognised	16,094	12,187

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. The unutilised business losses of entities in China and Malaysia are allowed to be carried forward for a maximum period of five and seven years respectively. Upon expiry of the relevant periods, the unutilised business losses will be disregarded.

21. Trade and other payables

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Trade payables					
Third parties		4,017	2,255	–	–
Amounts due to related companies		–	15	–	15
Amounts due to a subsidiary		–	–	2,519	1,164
Other payables					
Accrued operating expenses		8,491	9,029	4,147	4,814
Sundry payables		6,489	9,650	1,785	2,941
Dividend payable		645	1,290	645	1,290
Balance due for acquisitions of property, plant and equipment	11	3,119	513	402	499
Amounts due to ultimate holding company		1,583	1,556	728	770
Amount due to a related company		1	10	1	10
Total trade and other payables		24,345	24,318	10,227	11,503
Add: Loans and borrowings	19	25,565	61,295	3,878	2,951
Total financial liabilities carried at amortised cost		49,910	85,613	14,105	14,454

(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' (2019: 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 total trade and other payables are denominated in the following currencies:

	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
United States Dollar	3,785	1,915	220	404
Ringgit Malaysia	13,674	16,318	9,307	10,326
Renminbi	5,108	4,442	–	–
Others	1,778	1,643	700	773
	24,345	24,318	10,227	11,503

22. 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	
	2020	2019
	RM'000	RM'000
Present value of defined benefit obligations, representing defined benefit liabilities	4,402	3,939

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

	Group	
	2020	2019
	RM'000	RM'000
Balance at beginning of the year	3,939	3,358
Current service costs	264	266
Interest costs	83	79
Remeasurement loss on defined benefit liabilities		
- Actuarial loss arising from changes in financial assumptions	116	236
Balance at end of the year	4,402	3,939

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	2020	2019
		RM'000	RM'000
Current service costs	6	264	266
Interest costs	7	83	79
		347	345

Reported in other comprehensive income

	Group	
	2020	2019
	RM'000	RM'000
Actuarial loss arising from changes in financial assumptions	116	236

22. Defined benefit liabilities (cont'd)

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

	Group	
	2020 %	2019 %
Discount rates	2.85 - 3.09	3.78 - 3.85
Expected rate of future salary increases	5.00	5.00

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

	Increase/ (decrease)	Group	
		2020 RM'000	2019 RM'000
Discount rates	0.25%	(59)	(61)
	(0.25%)	60	62
Expected rate of future salary increases	0.25%	58	49
	(0.25%)	(58)	(73)

The duration of the defined benefit liabilities at the reporting date is 4 to 7 years (2019: 5 to 8 years).

23. 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	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Transactions with Sunright Limited, ultimate holding company of the Company, and its subsidiaries				
Management fees charged by Sunright Limited	7,252	8,949	3,263	3,662
Dividend paid/payable to Sunright Limited	1,562	1,874	1,562	1,874
Sales to:				
- KES Systems, Inc.	30	2,636	–	–
Purchases from:				
- KES Systems & Service (1993) Pte Ltd	1,271	140	1,271	132
- KES Systems, Inc.	621	–	–	–
- KES Systems & Service (Shanghai) Co., Ltd	124	62	–	–
- KEST Systems & Service Ltd	335	49	332	37

23. Related party transactions (cont'd)

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

	Company	
	2020	2019
	RM'000	RM'000
Transactions with subsidiaries		
Rental income from a subsidiary	1,381	1,502
Commission income from a subsidiary	1,603	1,832
Interest income on loan to a subsidiary	17	33
Purchase of equipment from a subsidiary	–	620
Sale of equipment to a subsidiary	–	103
Loan to a subsidiary	–	2,100

Information regarding outstanding balances arising from related party transactions as at reporting date is disclosed in Notes 15 and 21.

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

(ii) Compensation of key management personnel

The 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.

24. Commitments

(i) Capital commitments

Capital expenditure as at the reporting date is as follows:

	Group		Company	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment				
Authorised and contracted for	4,847	5,418	509	1,161

In the previous financial year, included in authorised and contracted for commitment was an amount of RM1,461,000 and RM1,048,000 relating to purchases from related companies by the Group and the Company respectively.

24. Commitments (cont'd)

(ii) Operating lease commitments - as lessee

In the previous financial year, the Group and the Company entered into operating leases on office equipment. These leases had lease terms between three and five years, with no renewal option.

Future minimum rentals payable under non-cancellable operating leases as at 31 July 2019 were as follows:

	Group 2019 RM'000	Company 2019 RM'000
Within one year	27	9
After one year but not more than five years	55	7
	82	16

As disclosed in Note 2.2 (i), the Group and the Company have adopted MFRS 16 on 1 August 2019. These lease payments have been recognised as right-of-use assets and lease liabilities on the balance sheet as at 31 July 2020, except for short-term and low value leases.

(iii) Finance lease commitments

In the previous financial year, the Group and the Company had 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 were as follows:

	Group 2019 RM'000	Company 2019 RM'000
Minimum lease payments		
Within one year	3,539	2,932
After one year but not more than five years	529	101
Total minimum lease payments	4,068	3,033
Less: Amounts representing finance charges	(141)	(82)
Present value of minimum lease payments	3,927	2,951

24. Commitments (cont'd)

(iii) Finance lease commitments (cont'd)

	Note	Group 2019 RM'000	Company 2019 RM'000
Present value of payments			
Within one year	19	3,411	2,851
After one year but not more than five years	19	516	100
Present value of minimum lease payments		3,927	2,951

Finance lease liabilities were reclassified to lease liabilities on 1 August 2019 arising from the adoption of MFRS 16. The impact of adoption is disclosed in Note 2.2 (i).

25. 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 entirely 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 2020 and 2019.

25. Fair value of assets and liabilities (cont'd)

(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
2020	
Group/Company	
Financial assets	
Investment securities (quoted)	8,872
2019	
Group/Company	
Financial assets	
Investment securities (quoted)	6,688

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

Trade and other receivables (Note 15), cash and short-term deposits (Note 16), loans and borrowings (Note 19) and trade and other payables (Note 21).

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are 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

In prior year, 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
Financial liabilities			
Obligations under finance leases (non-current)	19	516	504

25. Fair value of assets and liabilities (cont'd)

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

In prior year, 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 (cont'd):

		Company	
	Note	Carrying amount 2019 RM'000	Fair value 2019 RM'000
Financial liabilities			
Obligations under finance leases (non-current)	19	100	90

26. 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 RM93,000 (2019: RM182,000) higher/lower, arising mainly as a result of lower/higher interest expenses on floating rate loans and borrowings.

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

(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").

The Group and the Company also hold cash and short-term deposits denominated in foreign currencies (Note 16) 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	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
USD/RM				
- strengthened 1% (2019: 1%)	15	65	13	23
- weakened 1% (2019: 1%)	(15)	(65)	(13)	(23)

(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.

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

(iii) Liquidity risk (cont'd)

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 2020 RM'000	One to five years 2020 RM'000	Total 2020 RM'000
Group				
Financial assets				
Investment securities		8,872	–	8,872
Trade and other receivables	15	34,351	667	35,018
Cash and short-term deposits	16	230,103	–	230,103
Total undiscounted financial assets		273,326	667	273,993
Financial liabilities				
Trade and other payables	21	(24,345)	–	(24,345)
Loans and borrowings (exclude lease liabilities)		(17,609)	–	(17,609)
Lease liabilities		(4,087)	(4,727)	(8,814)
Total undiscounted financial liabilities		(46,041)	(4,727)	(50,768)
Total net undiscounted financial assets/(liabilities)		227,285	(4,060)	223,225
Company				
Financial assets				
Investment securities		8,872	–	8,872
Trade and other receivables	15	12,614	302	12,916
Cash and short-term deposits	16	74,556	–	74,556
Total undiscounted financial assets		96,042	302	96,344
Financial liabilities				
Trade and other payables	21	(10,227)	–	(10,227)
Lease liabilities		(2,360)	(1,715)	(4,075)
Total undiscounted financial liabilities		(12,587)	(1,715)	(14,302)
Total net undiscounted financial assets/(liabilities)		83,455	(1,413)	82,042

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

(iii) Liquidity risk (cont'd)

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

	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	15	65,925	–	65,925
Cash and short-term deposits	16	200,005	–	200,005
Total undiscounted financial assets		272,618	–	272,618
Financial liabilities				
Trade and other payables	21	(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	15	22,632	–	22,632
Cash and short-term deposits	16	71,166	–	71,166
Total undiscounted financial assets		100,486	–	100,486
Financial liabilities				
Trade and other payables	21	(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

The contractual expiry of the Company's corporate guarantee matures within 1 year (2019: 2 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 19 (ii).

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

(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.

During the financial year, impairment loss of RM144,000 (2019: nil) was recognised in profit or loss of the Group.

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 RM6,618,000 (2019: RM13,256,000) relating to a corporate guarantees provided by the Company to a financial institution for a subsidiary's bank loan.

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:

	2020		2019	
	RM'000	**% of total**	**RM'000**	**% of total**
Group				
By country				
Malaysia	22,612	69	42,614	71
Others*	10,287	31	17,826	29
	32,899	100	60,440	100

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

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

(iv) Credit risk (cont'd)

Credit risk concentration profile (cont'd)

	2020		2019	
	RM'000	% of total	RM'000	% of total
By industry sectors				
Burn-in, testing and electronic manufacturing services	32,899	100	60,440	100

At the reporting date, approximately:

(a) 80% (2019: 85%) of the Group's trade receivables were due from 5 (2019: 5) major customers who are in the automotive semiconductor industry; and

(b) less than 1% (2019: 3%) of the Group's trade and other receivables were due from related parties.

Company

92% (2019: 99%) 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 15.

(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% (2019: 5%) higher/lower, with all other variables held constant, the Group's and the Company's profit before tax would have been RM444,000 (2019: RM334,000) higher/lower, arising as a result of higher/lower fair value gain on investment securities.

27. 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 2020 and 31 July 2019.

As disclosed in Note 18, 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 2020 and 31 July 2019.

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.

		Group		Company	
	Note	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Loans and borrowings	19	25,565	61,295	3,878	2,951
Less: Cash and short-term deposits	16	(230,103)	(200,005)	(74,556)	(71,166)
Net cash		(204,538)	(138,710)	(70,678)	(68,215)
Equity attributable to owners of the Company		356,274	359,145	188,630	193,856
Less: Statutory reserve fund	18	(4,629)	(4,629)	–	–
		351,645	354,516	188,630	193,856

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

28. 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.

28. Segment information (cont'd)

Geographical information

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

	Revenue		Non-current assets	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Malaysia	179,715	234,473	98,768	137,372
PRC	46,602	52,970	28,693	27,476
Others	14,659	19,932	–	–
	240,976	307,375	127,461	164,848

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

Information about major customers

The Group's customer base includes two (2019: 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 RM164,442,000 (2019: RM203,596,000).

29. Dividends

	Company	
	2020	2019
	RM'000	RM'000
Recognised during the financial year		
Final tax exempt dividend for 2019 at 6 sen (2018: 6 sen) per ordinary share	2,581	2,581
Interim tax exempt dividend for 2020 at 1.5 sen (2019: 3 sen) per ordinary share	645	1,290
	3,226	3,871
Proposed but not recognised as a liability as at 31 July		
Final tax exempt dividend for 2020 at 6 sen (2019: 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 2020, 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 2021.

30. Significant event

Covid-19 Pandemic

Covid-19 outbreak was declared a pandemic by the World Health Organisation in March 2020. A nationwide Movement Control Order ("MCO") was declared on 18 March 2020 to contain the spread of the Covid-19 pandemic. Except for specific services which includes semiconductors, all other business activities had to cease their operations.

The Group and the Company were exempted from the suspension of activities (except for a temporary suspension in one of its subsidiaries) and continued its operations under strict conditions to support its customers during MCO. Nonetheless, the lockdown in China and the prolonged MCO have impacted the results of the Group and the Company as well as on the judgements and assumptions used in the preparation of financial reporting such as expected credit losses of financial assets, recoverability of deferred tax assets assessments, impairment of property, plant and equipment and impairment of investment in subsidiaries for the current financial year.

31. Authorisation of financial statements for issue

The financial statements for the year ended 31 July 2020 were authorised for issue in accordance with a resolution of the directors on 22 September 2020.

SHAREHOLDERS' INFORMATION

As at 22 September 2020

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	%
54	Less than 100	510	0.01
1,025	100 to 1,000 shares	629,900	1.46
938	1,001 to 10,000 shares	3,379,840	7.86
163	10,001 to 100,000 shares	4,795,550	11.15
31	100,001 to less than 5% of issued shares	13,383,700	31.11
1	5% and above of issued shares	20,825,000	48.41
2,212	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)	1,482,900	3.45	1,334,000	3.10

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 2020.

THIRTY LARGEST SHAREHOLDERS

	Name of Shareholders	Number of Shares Held	Percentage of Shareholdings
1.	Sunright Limited	20,825,000	48.41
2.	Tan Kong Hong Alex	2,057,500	4.78
3.	Wong Tee Kim @ Wong Tee Fatt	1,550,000	3.60
4.	Kumpulan Wang Persaraan (Diperbadankan)	1,482,900	3.45
5.	Amanahraya Trustees Berhad Public Islamic Opportunities Fund	931,600	2.17
6.	Citigroup Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (LEEF)	826,100	1.92
7.	Amanahraya Trustees Berhad PB Islamic Smallcap Fund	538,600	1.25
8.	Tan Jin Tuan	486,000	1.13
9.	Maybank Nominees (Tempatan) Sdn Bhd Maybank Trustees Berhad for Public Industry Growth Fund (N14011930270)	411,500	0.96
10.	Tan Kim Hin	400,000	0.93
11.	Maybank Nominees (Tempatan) Sdn Bhd MTrustees Berhad for Tenaga Nasional Berhad Retirement Benefit Trust Fund (RB-TNB-NOMUR)(419513)	360,600	0.84
12.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (Nomura)	322,700	0.75
13.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (MIDF ABSR EQ)	322,500	0.75
14.	Lim Khuan Eng	300,000	0.70
15.	AllianceGroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Yong Loy Huat (7000875)	285,000	0.66
16.	Citigroup Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (LBF)	279,900	0.65
17.	Citigroup Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (LPF)	262,600	0.61
18.	Tan Jin Tuan	252,000	0.59
19.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lee Khoon Beng (E-KLG)	223,000	0.52
20.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (PHEIM)	219,400	0.51
21.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lim Kong Hwee (E-KPG/SGK)	203,400	0.47
22.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (UOB AM SC EQ)	185,100	0.43
23.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (AHAM Equity Fund)	175,000	0.41
24.	Tan Ai Leng	173,000	0.40
25.	Maybank Nominees (Tempatan) Sdn Bhd Medical Fund (IFM NOMURA) (410223)	168,900	0.39
26.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (MIDF AM IS EQ)	167,100	0.39
27.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (ABDN EQ ABSR FD)	161,600	0.38
28.	Maybank Nominees (Tempatan) Sdn Bhd MTrustee Berhad for Tenaga Nasional Berhad Retirement Benefit Trust Fund (FM-ABERDEEN)(419500)	158,800	0.37
29.	Citigroup Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (LSF)	150,700	0.35
30.	Citigroup Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (LGF)	114,200	0.27
	TOTAL	33,994,700	79.04

NOTICE OF
ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Forty-Ninth Annual General Meeting ("49th AGM") 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 Thursday, 7 January 2021 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 2020 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 2020. **Resolution 1**

3. To approve payment of Directors' fees and allowances of RM293,000 in respect of the financial year ended 31 July 2020. **Resolution 2** *(Please see Explanatory Note)*

4. To re-elect the following Directors who are retiring pursuant to Article 100 of the Company's Constitution and being eligible, have offered themselves for re-election: -

   (a) Mr Kenneth Tan Teoh Khoon **Resolution 3**

   (b) Tuan Haji Zakariah Bin Yet **Resolution 4**

5. To re-appoint Ernst & Young PLT 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 Resolutions:

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."

7. Continuation in office as Independent Non-Executive Director **Resolution 7**

   "THAT Tuan Haji Zakariah Bin Yet 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."

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 Constitution.

BY ORDER OF THE BOARD
LEONG OI WAH (MAICSA 7023802)
SSM PRACTISING CERTIFICATE NO. 201908000717
Company Secretary

Petaling Jaya
27 October 2020

Notes: -

1. A member entitled to attend and vote at the 49th AGM 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 49th AGM or any adjournment thereof.

5. Depositors whose name appear in the Record of Depositors on 31 December 2020 shall be regarded as member of the Company entitled to attend the 49th AGM or appoint proxy/proxies to attend and vote on his/her/its behalf.

Explanatory Note To Ordinary Business: -

Resolution 2

Payment of Directors' fees and allowances in respect of the financial year ended 31 July 2020 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: -

Resolutions 6 & 7

Mr Yong Chee Hou and Tuan Haji Zakariah Bin Yet have served as Independent Non-Executive Directors of the Company since 11 January 2002 and 8 March 2011 respectively.

The Nominating Committee and the Board having assessed their independence, recommend that they continue to act as Independent Non-Executive Directors of the Company based on the following justifications:

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

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

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 2020, if approved at the forthcoming Annual General Meeting, will be paid on 9 February 2021 to Depositors registered in the Record of Depositors on 14 January 2021. 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 14 January 2021, 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
27 October 2020

PROXY FORM

KESM INDUSTRIES BERHAD (Registration No. 197201001376 (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 Forty-Ninth Annual General Meeting ("49^{th} AGM") 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 Thursday, 7 January 2021 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 Mr Kenneth Tan Teoh Khoon as Director		
4.	Re-election of Tuan Haji Zakariah Bin Yet as Director		
5.	Re-appointment of Auditors		
Special Business			
6.	Approval for continuation in office of Mr Yong Chee Hou as Independent Non-Executive Director		
7.	Approval for continuation in office of Tuan Haji Zakariah Bin Yet as Independent Non-Executive Director		

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

Total Number of Shares Held	
CDS Account Number	

Signed this __________ day of ________________ 2020/2021

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

Notes: -

1. A member entitled to attend and vote at the 49^{th} AGM 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 2020 shall be regarded as a member of the Company entitled to attend the 49^{th} AGM 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
Registration No. 197201001376 (13022-A)
c/o Boardroom 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
REG. NO. 197201001376 (13022-A)

Lot 4, SS 8/4
Sungei Way Free Industrial Zone
47300 Petaling Jaya
Selangor Darul Ehsan Malaysia
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