

**SUMMARY OF KEY MATTERS DISCUSSED AT THE  
49<sup>TH</sup> ANNUAL GENERAL MEETING HELD ON 7 JANUARY 2021**

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**PART A. RESPONSES TO QUESTIONS FROM MINORITY SHAREHOLDERS WATCH GROUP**

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**QUESTIONS**

**RESPONSES**

**Strategy & Financial Matters**

1. The Group recorded revenue of RM241.0 million, which was a 22% 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 (page 2 of Annual Report 2020 ("AR2020")).

Given that the Company had been impacted by the COVID-19 pandemic, has the current production volumes recovered to pre-COVID-19 normal? If not, when does the Company expect production volumes to recover to pre-COVID-19 normal?

2. The car market in the U.S. has begun to stabilize, and the Company expects demand, particularly for electric vehicles "EV", to progressively improve as it enters January 2021 (page 2 of AR2020).

To what extent will it contribute to the Company's revenue growth for financial year ending 2021?

*Sales and profitability in Q1FY2021 have begun to turn around from the last sequential quarter. We are seeing a progressive recovery of production loadings. If the pandemic situation does not worsen, we look forward to a healthy recovery in 2021.*

*Whether they are Internal Combustion Engine "ICE", Hybrid Electric Vehicle "HEV" or Battery Electric Vehicles "BEV", most standard cars produced today are installed with Advanced Driver Assistance System "ADAS". Through a safe human-machine interface, ADAS increases road safety. ADAS uses automated technology, such as sensors and cameras to detect nearby obstacles or driver errors, and react accordingly.*

*ADAS relies on inputs from multiple data sources, including automotive imaging, LiDAR, radar, image processing, computer vision, and in-vehicle networking. Light Imaging, Detection and Ranging or LiDAR sensors emit invisible lights to scan and detect objects.*

*The 4 major systems used in EVs are ADAS, LiDAR, TPMS and Power Management. KESM is engaged in burn-in and testing components for all these systems for various customers. The Company serves 5 out of the top 10 automotive semiconductor manufacturers.*

*The global EV production presently represents about 2%-3% of the total 7-8 million cars manufactured each month. As long as KESM continues to provide the quality service, invests on training of its people and upgrade with new technological equipment, we can be assured of our dominant position in providing services supporting the EV car market.*

3. 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 (page 6 of AR2020).

(a) What were the reasons for acquiring the additional quoted equity shares of RM4.2 million?

(b) To which quoted shares do the fair value loss relate to?

*(a) The portfolio of investment securities is outsourced to external fund managers adopting a "value investing strategy".*

*(b) Fair value accounting is applied to the entire portfolio of quoted shares.*

4. Cash and short-term deposits increased by 15% or RM30.1 million, from RM200.0 million to RM230.1 million, due to net surplus cash generated from operations (page 6 of AR2020).

*The Group will invest in Plant, Machinery & Test Equipment (e.g. Burn-in systems, testers and related equipment and tools) to support its core burn-in and test business.*

What are the Group's major capital expenditure items planned in the next 12-18 months?

5. 'Write-down of inventories' increased to RM1.4 million (2019: RM0.2 million) (page 69 of AR2020).

(a) What were the reasons for the huge increase in write-down of inventories?

(b) Are the inventories written down still salable? Are there any foreseeable write-downs for the financial year ending 2021?

(a) *The write-down of inventories was mainly applied to customised inventories related to one of our EMS customers who had defaulted on payments, as well as consumables that were written down in accordance with our Group's policy.*

(b) *These written down inventories will be sold as scraps where appropriate. Assessment is performed on a regular basis and allowance will be provided for damaged, obsolete and slow moving items where necessary.*

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## **PART B. RESPONSES TO PRE-SUBMITTED QUESTIONS FROM SHAREHOLDER**

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| <b>QUESTIONS</b>   | <b>RESPONSES</b>   |
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| 1. To what extent is KESM involved in the testing of chips used for EVs, especially EVs built by TESLA in China? | <i>We are not able to disclose customers' information.</i>                           |
| 2. Is KESM exploring or is already involved in the testing of chips used in the healthcare industry?             | <i>Some of the chips we burn-in and tested are used for the healthcare industry.</i> |

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## **PART C. RESPONSES TO LIVE QUESTIONS FROM SHAREHOLDERS**

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| <b>QUESTIONS</b>   | <b>RESPONSES</b>  |
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| 1. What is the current utilisation rate of the plant?  | <i>Presently around 30% and is growing.</i>   |
| 2. What is the impact of the recent global automotive chip shortage on KESM? Will it benefit KESM in terms of order volumes or even ASP? | <i>We are seeing very encouraging forecast and we have continued to mention this very concern about the COVID-19 situation. The CMO restrictions are not helping us very much now and the sooner we can get over this hump, the sooner we get into a stronger recovery mode and this is what we are hoping for. The volumes are picking up and so is the forecast looking good.</i> |

3. Who is the direct competitor to KESM? *Those who are in the burn-in business claimed they are KESM's competitors and they span different geographic locations.*
4. With burn-in and chip testing getting more complicated, and require chip manufacturers to reveal more IP to KESM, do you see a trend manufacturers taking back test functions to be done in-house? *KESM has been performing burn-in/testing for many customers for years and it is governed by NDAs to protect their confidential information, thereby building trust and confidence with customers.*
5. How can KESM stem the decline in gross profit and net profit margins? There's been a steady decline of the both margins over the past 10 years. *As matured products increase in volumes, their margins are reduced. Whereas newer products generate better margins, depending on the type of devices.*
6. A compliment to Mr Samuel, Mr Kenneth Tan and the KESM team on reduction of the cash conversion cycle ("CCC") from 118 days to about 51 days for the TTM Oct 2020 and asked to share the strategies the KESM executed to reduce the CCC. *The strategies consist of (i) servicing premium customers who have very good credit risks and pay on time; and (ii) cash holding enables the Group to reduce payables despite the decrease in business volumes.*
7. (a) Do KESM has the capabilities to burn-in & testing other kinds of automotive chips other than MCUs? (such as IGBT, MOSFET etc...) *KESM being a leader in burn-in and test of automotive devices and serving 5 of the top 10 leading semiconductor manufacturers have been performing burn-in and test for these devices.*
- (b) Do you think GPU, FGPA, ASIC chips are considered as a threat to the usage of MCUs in EV? *For these specialised devices, they are not the key focus for the Group at the moment.*
- (c) Can you explain more about the manufacturing capability of KESM group in Tianjin, China (and also the current utilization rate)? *Although KESM Tianjin was affected at the early stage of the COVID-19 pandemic, it has since resumed operations and showing improvement in its utilisation rate.*

8. What is the foreseeable downside risk to the Group? *Whilst the roll out of the vaccine offers hope, the COVID-19 pandemic is still a risk due to the high level of uncertainty of different strains of outbreaks emerging in various countries. This will impact supply chains, as well as the global economy and the Group.*
9. When will the Malacca plant start operation? Will it be serving new customers based in Malacca or have chips shipped in for testing there? *Barring any COVID-19 disruptions, the Malacca facility is expected to be ready in mid-2021 and prospective customers would be invited to tour the facility and place their orders with the Company.*
10. To consider providing voucher/e-voucher as a token of appreciation/ to reward shareholders who participate in the virtual meeting. *We reward shareholders through sustainable dividends.*
11. How much does the Company spend on this virtual AGM? *We are unable to disclose due to confidentiality obligations with the providers for the virtual general meetings.*
12. In view of the Chairman's outlook in the EV market, any corporate preparation to anticipate this opportunity? *The 4 major systems used in EVs are ADAS, LiDAR, TPMS and Power Management. KESM is engaged in burn-in and testing components for all these systems for various customers. The Company serves 5 out of the top 10 automotive semiconductor manufacturers.*
- The global EV production presently represents about 2%-3% of the total 7-8 million cars manufactured each month. As long as KESM continues to provide the quality service, invests on training of its people and upgrade with new technological equipment, we can be assured of our dominant position in providing services supporting the EV car market.*