

**SUMMARY OF KEY MATTERS DISCUSSED AT THE
51ST ANNUAL GENERAL MEETING HELD ON 12 JANUARY 2023**

PART A. RESPONSES TO QUESTIONS FROM MINORITY SHAREHOLDERS WATCH GROUP

QUESTIONS

RESPONSES

Operational & Financial Matters

1. KESMI is making heavy investments on new opportunities to ride along the road to a higher level of growth. (page 3 of AR2022)
 - (a) Please briefly update shareholders on the heavy investments that the Group has made on new opportunities.

Major capital expenditures were incurred to purchase burn-in and test equipment to serve the automotive, computational and general purpose segments of the semiconductor industry.
 - (b) How soon can the Group's heavy investments on new opportunities turn into revenue and profits for the Group?

Generally, equipment qualification ranges from 3 to 6 months, depending on whether similar tool sets or new equipment designs are adopted.

2. In 2021, a factory was set up in Malacca to support future growth in burn-in and test of automotive chips. (page 5 of AR2022)
 - (a) With the addition of a new factory in Malacca, what is the Group's total capacity as of 31 July 2022?

The strategic objective of the Malacca Plant is to improve cycle time to support existing and potentially new customers. We collaborate closely with our customers in aligning our investment plans with their business directions via our two factory locations. Presently, the operation in Malacca contributes additionally 6% of the total factory space.
 - (b) What was the Group's average utilisation rate for FYE2022 versus to-date?

Average capacity utilisation between 50% to 60%. The current Covid-19 wave in China has not helped to improve the situation.

3. Write-down of inventories increased to RM1.4 million (2021: RM0.1 million). (page 70 of AR2022)

What comprises the inventories that have been written down? How much of the written down inventories are still saleable/usable?

The write-down of inventories for FY2022 was mainly applied to inventories related to our EMS customers as the Group scaled down its operation. These written down inventories (including inventories written down in prior years) were then negotiated with the EMS customers for material buys or sold as scraps where appropriate.

4. Management fees charged by Sunright Limited increased to RM9.0 million (2021: RM7.5 million) (Note 23 (i), page 113 of AR2022).

(a) What were the reasons for the huge increase in management fees charged by Sunright Limited to the Group?

The management fee is based on a cost plus formula, and reflects the level of benefits received by the recipients, i.e. KESM companies versus Sunright companies.

(b) What were the services provided by Sunright Limited that attributed to the higher management fees charged?

KESM obtains management services from Sunright Limited in the areas of administrative support and human resource management, business development, corporate finance, treasury services and accounting, financial planning and controls, and legal matters. This aims to eliminate duplication of supporting management services in addition to saving cost by sharing out such expenses.

5. The Group have also begun putting in place “green efforts” in its building such as environmentally friendly solar panel installations for energy saving (page 6 of AR2022). In FY2022, KESMI has finalised plans for the installation of a rooftop solar panel system (page 34 of AR2022).

(a) What will be the total estimated expenditure for the solar panel installations? What is the status of the rooftop solar panel installations?

The on-going big-ticket “green efforts” would be the solar project with an estimated expenditure of RM1.7 million. This installation is currently in progress and is expected to be completed by this year.

(b) What is the Group’s budgeted expenditure for “green efforts” for financial year ending 2023?

PART B. RESPONSES TO QUESTIONS FROM SHAREHOLDERS AT THE AGM

QUESTIONS / COMMENTS

RESPONSES

1. What is the prospect of the Company?

With the return of a healthy business environment, the Group is preparing for a ramp up in the business, especially with the expected pick-up in electric vehicle (“EV”) market. Notwithstanding this may not have an immediate effect on performance as the capital equipment would take a year to be delivered but the Group is prepared with the additional space in Malacca. There are also potentially new products which the Group is looking at, particularly the power management devices for EV. With the scaling down of the EMS business, the Group is hopeful to see improvement in the performance of the Group.

2. Will the Inflation Reduction Act of 2022 (“IRA”) initiated by US have an effect on KESM’s business?

There is an aggressive move by the US Government to bring the wafer fabrication business for advanced products back to the US with the introduction of the IRA and allocation of tax incentives but this will take some time to implement. As such, it is not a concern to the KESM Group which serves global customers from US, Europe and Japan.

3. Will the China-US trade war affect the business at KESM Tianjin? *KESM Tianjin is serving customers whose products are mainly for the local market.*

4. Given the innovations of technology on chips such as silicon carbide and Gallium Nitride semiconductors, will the different stages of testing affect the burn-in business? *As with all silicon innovations, the new chips will involve extensive testing and validation. KESM is able to do testing for both types of materials.*

5. Has there been a change in the depreciation policy as the depreciation charges in the first quarter has reduced substantially? *There have been no changes made to the depreciation policy and the lower depreciation charges in the first quarter of financial year ending 31 July 2023 ("FY2023") was because certain machinery and test equipment were already fully depreciated in the earlier quarters.*

6. What is the breakdown of the contribution of each of the burn-in, test and EMS segments? *The EMS business contributed about 5% of the total revenue and the balance were from the burn-in and test businesses.*

7. What was the shutdown cost for the scaling down of the EMS business? *The shutdown cost incurred in FY2022 was about RM2.5 million, mainly in severance compensation and inventory write down provisions.*

8. What is the total investment cost for the Malacca plant? *The Malacca plant was to support growth in burn-in and test of automotive chips to better support our customers' focus to improve their "time to market". Consequently, we moved equipment to Malacca. The investment was mainly on the facilitation of the factory. The investment in Malacca is a Group strategy and not as an independent and separate unit of KESM.*

9. With the US expected to go into a recession and the supply of chips would be affected, how is KESM going to navigate over this? *There is still the push for energy saving products in the US, especially for EV now that every automakers have announced expansion plans in EV. The electronic contents in cars will increase, so the strategic move by KESM eight years ago to focus on the EV market segment is on the right track.*

10. What is the expected capital expenditure (“capex”) for FY2023?
- Around RM100 million investment was made in FY2022 and in the recent Q1 announcement we reported capital expenditure commitment of about RM50 million. Further capital investment will have to be aligned with the requirements of the customers.*
11. With China moving away from the Zero-Covid policy, would there be any other stumbling block for China operations to be profitable?
- We would like to see better utilisation and more steady performance of the production as we work towards improving manufacturing output.*
12. KESM Tianjin serving the internal combustion engine-based companies. Does it has plan to penetrate into the local EV space. If yes, has KESM Tianjin won any of the businesses?
- The semiconductor manufacturers in China produce mostly lower end devices but they are investing into new technology. For now, it does not affect our burn-in and test business.*