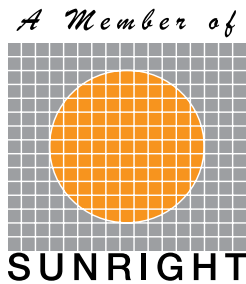


THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

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KESM INDUSTRIES BERHAD

(Company No.: 13022-A)

(Incorporated in Malaysia under the Companies Act, 1965)

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE:-

PROPOSED RENEWAL OF EXISTING SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

The Extraordinary General Meeting ("EGM") will be held at Spectrum, Level 3A, Connexion@Nexus, Bangsar South City, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Thursday, 14 January 2016 at 11.30 a.m., or immediately after the conclusion or adjournment (as the case may be) of the 44th Annual General Meeting of KESM Industries Berhad to be held at the same venue and on the same day at 10.30 a.m., whichever is the later. The Notice of the EGM together with the Form of Proxy is enclosed in this Circular.

If you are unable to attend and vote in person at the EGM, you are requested to complete and return the Form of Proxy enclosed in this Circular in accordance with the instructions therein. The Form of Proxy should be lodged at 802, 8th Floor, Block C, Kelana Square, 17 Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia not less than forty-eight (48) hours before the time for holding the EGM. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the EGM should you subsequently decide to do so.

This Circular is dated 29 October 2015

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular:-

“Act”	: The Companies Act, 1965
“AGM”	: Annual general meeting of the Company
“Audit Committee”	: Audit committee of the Company
“Board”	: The Board of Directors of KESMI
“Bursa Securities”	: Bursa Malaysia Securities Berhad
“Circular”	: This circular dated 29 October 2015 to the shareholders of the Company in relation to the Proposed Renewal of Shareholders’ Mandate
“CMSA”	: The prevailing Capital Markets and Services Act 2007
“Director(s)”	: A director of KESMI or any other company which is a subsidiary or holding company of the Company, which, in accordance with Paragraph 10.02(c) of the Listing Requirements, has the meaning given in Section 2(1) of the CMSA and includes any person who is or was within the preceding 6 months of the date on which the terms of the respective RRPTs were agreed upon, a director of the Company or any other company which is a subsidiary or holding company of the Company, or a chief executive officer of the Company or its subsidiary or holding company
“EGM”	: Extraordinary general meeting of the Company in relation to the Proposed Renewal of Shareholders’ Mandate
“KESMI” or the “Company”	: KESM Industries Berhad
“KESMI Group” or the “Group”	: KESMI and its subsidiaries, collectively
“KESM Test”	: KESM Test (M) Sdn Bhd, a wholly-owned subsidiary of KESMI
“KESM Tianjin”	: KESM Industries (Tianjin) Co., Ltd., a wholly-owned subsidiary of KESMI
“KESP”	: KESP Sdn Bhd, a wholly-owned subsidiary of KESMI
“Listing Requirements”	: Main Market Listing Requirements of Bursa Securities
“LPD”	: 30 September 2015, being the latest practicable date prior to the printing of this Circular
“Major Shareholder(s)”	: A major shareholder of KESMI, which, in accordance with Paragraph 10.02(f) of the Listing Requirements, includes any person who is or was within the preceding 6 months of the date on which the terms of the respective RRPTs were agreed upon, a major shareholder of the Company or its subsidiary or holding company whereby a “major shareholder” is defined under Paragraph 1.01 of the Listing Requirements as a person who has an interest or interests in one or more voting shares in KESMI and the nominal amount of that share, or the aggregate of the nominal amounts of those shares, is 10% or more of the aggregate of the nominal amounts of all the voting shares in KESMI or 5% or more of the aggregate of the nominal amounts of all the voting shares in KESMI where such person is the largest shareholder of the Company

DEFINITIONS (CONT'D)

“Proposed Renewal of Shareholders’ Mandate”	: Proposed renewal of the existing Shareholders’ Mandate for the RRPTs being sought by KESMI from its non-interested shareholders
“Related Party(ies)”	: A Director or Major Shareholder or person connected with such Director or Major Shareholder, as defined in Paragraphs 1.01 and 10.02 of the Listing Requirements
“RM”	: Ringgit Malaysia
“RRPT(s)”	: Related party transaction(s) which are recurrent and of a revenue or trading nature which are necessary for the day-to-day operations of the KESMI Group and entered into in the ordinary course of business by the KESMI Group which involves the interest, direct or indirect, of a Related Party
“Share(s)”	: Ordinary share(s) of RM1.00 each in KESMI
“Shareholders’ Mandate”	: A mandate from shareholders of the Company for the RRPTs, pursuant to Paragraph 10.09 of the Listing Requirements
“Sunright”	: Sunright Limited, a 48.41% shareholder of KESMI
“Sunright Group”	: Sunright and its subsidiaries, collectively

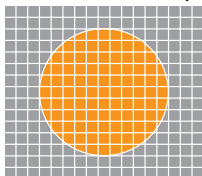
Words denoting the singular number only shall include the plural and vice-versa and words denoting the masculine gender shall, where applicable, include the feminine gender, neuter gender and vice versa. Reference to persons shall include a body of persons, corporate or unincorporated (including a trust). Any reference to a time of day shall be a reference to Malaysian time, unless otherwise stated. Any reference to any statute is a reference to that statute as for the time being amended or re-enacted.

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A Member of



SUNRIGHT

KESM INDUSTRIES BERHAD

(Company No.: 13022-A)

(Incorporated in Malaysia under the Companies Act, 1965)

REGISTERED OFFICE

802, 8th Floor,
Block C, Kelana Square
17 Jalan SS7/26
47301, Petaling Jaya
Selangor Darul Ehsan
Malaysia

29 October 2015

BOARD OF DIRECTORS

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

Kenneth Tan Teoh Khoo (*Executive Director*)

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

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

Yong Chee Hou (*Independent Non-Executive Director*)

To: The Shareholders of KESMI

Dear Sir/Madam,

PROPOSED RENEWAL OF EXISTING SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

1.0 INTRODUCTION

On 15 January 2015, the Company obtained the general mandates from its shareholders for the KESMI Group to enter into the RRPTs based on commercial terms which are not more favourable to the Related Parties involved than those generally available to the public and in the ordinary course of business of the KESMI Group.

The said general mandates obtained for the RRPTs shall, in accordance with Paragraph 10.09 of the Listing Requirements, lapse at the conclusion of the forthcoming AGM which has been scheduled to be held on 14 January 2016, unless approval for its renewal is obtained from the shareholders of the Company.

Accordingly, the Company had on 22 September 2015 announced to Bursa Securities that the Company is proposing to seek the approval of its shareholders for the Proposed Renewal of Shareholders' Mandate.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH THE DETAILS OF THE PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE, TO SET OUT YOUR BOARD'S RECOMMENDATION THEREON, AND TO SEEK YOUR APPROVAL ON THE RESOLUTION TO BE TABLED AT THE FORTHCOMING EGM. THE NOTICE OF EGM TOGETHER WITH THE FORM OF PROXY ARE ENCLOSED HEREWITH IN THIS CIRCULAR.

SHAREHOLDERS OF KESMI ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDIX CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE AT THE FORTHCOMING EGM.

2.0 PROVISIONS UNDER THE LISTING REQUIREMENTS

In line with Paragraph 10.09(2) of the Listing Requirements, the Company may seek the Shareholders' Mandate subject to, inter-alia, the following:-

- (i) the RRPTs are in the ordinary course of business and are on terms not more favourable to the Related Parties involved than those generally available to the public;
- (ii) the Shareholders' Mandate is subject to annual renewal and disclosure is made in the annual report of KESMI of the aggregate value of RRPTs conducted pursuant to the Shareholders' Mandate during the financial year where the aggregate value is equal to or more than the threshold prescribed under subparagraph 10.09(1) of the Listing Requirements, i.e. where the consideration, value of the assets, capital outlay or costs of the RRPTs is RM1 million or more; or the percentage ratios of such RRPTs (as prescribed in Paragraph 10.02 of the Listing Requirements) is 1% or more, whichever is the lower;
- (iii) the interested Directors, interested Major Shareholders, interested persons connected with a Director or Major Shareholder, and where it involves the interest of an interested person connected with a Director or Major Shareholder, such Director or Major Shareholder, must not vote on the resolution approving the RRPTs at the forthcoming EGM. An interested Director or interested Major Shareholder must also ensure that persons connected with them abstain from voting on the resolution approving the RRPTs; and
- (iv) the Company immediately announces to Bursa Securities when the actual value of a RRPT entered into by the Company, exceeds the estimated value of the RRPT disclosed in the Circular by 10% or more and must include the information as may be prescribed by Bursa Securities in its announcement.

3.0 DETAILS OF THE PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE

3.1 The principal activities of the Company are investment holding and provision of semiconductor burn-in services. The principal activities of its subsidiaries are as follows:-

Company	Effective equity interest (%)	Principal activity
KESP	100.00	Provision of semiconductor burn-in services and electronic manufacturing services
KESM Test	100.00	Provision of semiconductor testing services
KESM Tianjin	100.00	Provision of semiconductor burn-in and testing services

3.2 In the course of the Group's day-to-day business, the Group purchases, sells and/or rents burn-in equipment, testing equipment, electronic equipment and other related machinery from/to the Sunright Group on a recurrent basis.

Burn-in equipment are systems and boards used in the burn-in process. The burn-in process involves subjecting a semiconductor device to controlled stresses, which simulate in a compressed time frame, electrical and thermal conditions to which the device would be subjected to during its normal life applications, in an effort to uncover defects and to assure long term reliability.

Testing equipment refers to testers and related accessories used in the testing process. Testing is carried out to determine whether a semiconductor device operates as intended as well as graded for its quality.

Further details of the RRPTs are provided in section 4.0 below.

- 3.3 The Board is seeking the approval of the shareholders of KESMI for the Group to continue to enter into the RRPTs on the conditions that such RRPTs are entered into at arm's length and on normal commercial terms which are not more favourable to the Related Parties involved than those generally available to the public, and which will not be detrimental to the minority shareholders of KESMI.
- 3.4 Information on the RRPTs that were entered into between the KESMI Group and the Related Parties involved for the financial year ended 31 July 2015 is provided in Notes to the Financial Statements No. 22 of the financial statements of the Company as contained in KESMI's Annual Report 2015.

4.0 DETAILS OF THE RRPTS

4.1 Types of RRPTS

The specific types of RRPTs which are covered under the Proposed Renewal of Shareholders' Mandate are as follows:-

(i) **Purchase and/or sale of equipment and related machinery (including consumables)**

The KESMI Group purchases and/or sells equipment such as burn-in equipment, testing equipment, electronic equipment and other related machinery (including consumables such as sockets, drivers etc.) from/to the Sunright Group to cater to its day-to-day operational requirements.

In purchasing and/or selling the burn-in and related equipment from/to the Sunright Group, the Board takes into consideration the following factors:-

- (a) The Sunright Group is already principally involved in the manufacture of such equipment, and is believed by the Board to be the world's largest independent provider of burn-in and test services in addition to being a leading and reliable manufacturer of parallel test and burn-in systems. It therefore makes commercial sense to the Board to purchase certain products such as burn-in equipment and related equipment from the Sunright Group. In addition, the Board believes that such an arrangement would enable the Group to:-
- obtain a more secured and continuing supply source with consistent product quality;
 - gain access to Sunright Group's specialist knowledge of the burn-in and testing industry on a global basis as well as the accumulated expertise and experience of the Sunright Group; and
 - tap into the Sunright Group's strengths including its commitment to continuing research and development, long term recurring relationships with major semiconductor and electronic manufacturers as well as a global presence, to procure the necessary and continuous support, which has enabled the Group to keep up-to-date with global advances in semiconductor and electronic technology.

In fact, since its commencement of business in 1978, the KESMI Group has been relying on the Sunright Group for, inter-alia, engineering assistance and advancement, as the Board does not see the need to duplicate the efforts in such areas for which the Sunright Group has already incurred time, effort and costs to develop and sustain the necessary expertise.

- (b) Optimising the equipment utilisation and efficiency rate, for example, having a close working relationship with the Sunright Group provides the necessary critical support for the KESMI Group at certain times when the Group may be coping with insufficient manufacturing capacities due to overwhelming orders from customers. Conversely, at certain times, the Group may face a situation where there is an unanticipated drop in customer orders resulting in temporary periods of excess unutilised manufacturing capacity, and in such an instance, it would be commercially sensible for the Group to sell or rent such excess manufacturing capacities to the Sunright Group, if required.

The Board ensures that the purchases and/or sales from/to the Sunright Group are transacted on an arm's length pricing basis, after taking into consideration alternative quotations from other companies.

(ii) **Provision of management services**

The KESMI Group obtains management services from Sunright in the areas of administrative support and human resource management, business development, corporate finance and treasury services and accounting, financial planning and controls and legal matters ("**Group Management and/or Support Services**").

The centralisation of these management support areas with the Sunright Group is made with the aim of enabling the KESMI Group to eliminate duplication of supporting management services in addition to saving cost by sharing out such expenses.

Sunright charges a fee for such services based on a cost plus formula.

(iii) **Provision of electronic manufacturing services ("EMS")**

Due to capacity constraints and the changing pattern in customer demand, the Sunright Group may from time to time outsource part of its processes to the KESMI Group at a competitive price.

The KESMI Group provides EMS services to the Sunright Group and this provides an additional source of revenue stream to the KESMI Group.

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4.2

Information on the RRPTs

(a) The estimated aggregate values of the respective RRPTs under the Proposed Renewal of Shareholders' Mandate are as follows:-

Nature of transaction	Related Party	Relationship	(¹) Interested Director/ Major Shareholder/ persons connected	(²) Estimated value as per last Shareholders' Mandate RM'000	Actual value transacted from 15 January 2015 to the date of the LPD RM'000	(³) Estimated aggregate value from 14 January 2016 to the date of the next AGM RM'000
(i) Purchase of equipment and related machineries (including consumables) by KESMI	<ul style="list-style-type: none"> KES Systems & Service (1993) Pte. Ltd. KEST Systems & Service Ltd. 	Subsidiaries of Sunright	<ul style="list-style-type: none"> Samuel Lim Syn Soo 	1,500	1,152	1,500
(ii) Purchase of equipment and related machineries (including consumables) by KESM Test	<ul style="list-style-type: none"> (⁴) Kestronics (Thailand) Co. Ltd. Kestronics (S) Pte. Ltd. Kestronics (M) Sdn. Bhd. Kestronics Philippines, Inc. 		<ul style="list-style-type: none"> Lim Mee Ing Kenneth Tan Teoh 	500	3	50
(iii) Purchase of equipment and related machineries (including consumables) by KESP	<ul style="list-style-type: none"> KES Systems & Service (Shanghai) Co. Ltd. KESU Systems & Service, Inc. KES Systems Inc. 		<ul style="list-style-type: none"> Tan Teoh Khoon Sunright 	10,415	0	2,700
(iv) Purchase of equipment and related machineries (including consumables) by KESM Tianjin	<ul style="list-style-type: none"> KES Systems & Service (M) Sdn Bhd (⁶) KES Systems & Service Costa Rica Sociedad Anonima KES Systems & Service Philippines, Inc. 			1,700	227	1,700

Nature of transaction	Related Party	Relationship	(1) Interested Director/ Major Shareholder/ persons connected	(2) Estimated value as per last Shareholders' Mandate	Actual value transacted from 15 January 2015 to the LPD	(3) Estimated aggregate value from 14 January 2016 to the date of the next AGM
				RM'000	RM'000	RM'000
(v) Provision of management services by Sunright to KESMI	Sunright	Major Shareholder of KESMI	<ul style="list-style-type: none"> • Samuel Lim Syn Soo 	2,400	2,475	3,000
(vi) Provision of management services by Sunright to KESP			<ul style="list-style-type: none"> • Lim Mee Ing • Kenneth Tan Teoh Khoon • Sunright 	3,000	2,111	3,000

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Nature of transaction	Related Party	Relationship	(1) Interested Director/ Major Shareholder/ persons connected	(2) Estimated value as per last Shareholders' Mandate RM'000	Actual value transacted from 15 January 2015 to the date of the next AGM RM'000	(3) Estimated aggregate value from 14 January 2016 to the date of the next AGM RM'000
(vii) Provision of EMS services by KESP	<ul style="list-style-type: none"> • KES Systems & Service (1993) Pte. Ltd. • KEST Systems & Service Ltd. • ⁽⁴⁾ Kestronics (Thailand) Co. Ltd. • Kestronics (S) Pte. Ltd. • Kestronics (M) Sdn. Bhd. • Kestronics Philippines, Inc. • KES Systems & Service (Shanghai) Co. Ltd. • KESU Systems & Service, Inc. • KES Systems Inc. • KES Systems & Service (M) Sdn Bhd • ⁽⁵⁾ KES Systems & Service Costa Rica Sociedad Anonima • KES Systems & Service Philippines, Inc. 	Subsidiaries of Sunright	<ul style="list-style-type: none"> • Samuel Lim Syn Soo • Lim Mee Ing • Kenneth Tan Teoh Khoon • Sunright 	8,300	194	20,000

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Nature of transaction	Related Party	Relationship	(1) Interested Director/ Major Shareholder/ persons connected	(2) Estimated value as per last Shareholders' Mandate RM'000	Actual value transacted from 15 January 2015 to the LPD RM'000	(3) Estimated aggregate value from 14 January 2016 to the date of the next AGM RM'000
(viii) Sales of equipment and related machineries (including consumables) by KESP	<ul style="list-style-type: none"> • KES Systems & Service (1993) Pte. Ltd. • KEST Systems & Service Ltd. • (4) Kestronics (Thailand) Co. Ltd. • Kestronics (S) Pte. Ltd. • Kestronics (M) Sdn. Bhd. • Kestronics Philippines, Inc. • KES Systems & Service (Shanghai) Co. Ltd. • KESU Systems & Service, Inc. • KES Systems Inc. • KES Systems & Service (M) Sdn Bhd • (5) KES Systems & Service Costa Rica Sociedad Anonima • KES Systems & Service Philippines, Inc. 	Subsidiaries of Sunright	<ul style="list-style-type: none"> • Samuel Lim Syn Soo • Lim Mee Ing • Kenneth Tan Teoh Khoon • Sunright 	930	4	(6) 0

Nature of transaction	Related Party	Relationship	⁽¹⁾ Interested Director/ Major Shareholder/ persons connected	⁽²⁾ Estimated value as per last Shareholders' Mandate RM'000	Actual value transacted from 15 January 2015 to the LPD RM'000	⁽³⁾ Estimated aggregate value from 14 January 2016 to the date of the next AGM RM'000
(ix) Sales of equipment and related machineries (including consumables) to KESM Tianjin	⁽⁷⁾ KESM Test	⁽⁷⁾ Sunright was a major shareholder of KESM Test	<ul style="list-style-type: none"> • Samuel Lim Syn Soo • Lim Mee Ing • Kenneth Tan Teoh Khoon • Sunright 	5,000	0	⁽⁷⁾ 0

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Notes:-

- (1) *The following Directors/Major Shareholders are deemed interested in the above RRPTs:-*
 - (i) *Samuel Lim Syn Soo, the Executive Chairman and Chief Executive Officer of KESMI and the indirect Major Shareholder of KESMI, is a director and a major shareholder of Sunright. He is also a director of the companies within the Sunright Group.*
 - (ii) *Lim Mee Ing, a Non-Independent Non-Executive Director of KESMI and the spouse of Samuel Lim Syn Soo, is a director of Sunright. She is also a director of a few of the companies within the Sunright Group.*
 - (iii) *Kenneth Tan Teoh Khoon, a Non-Independent Executive Director of KESMI, is an executive director and a shareholder of Sunright. He is also a director of the companies within the Sunright Group.*
 - (iv) *Sunright is a Major Shareholder of KESMI with a direct equity interest of 48.41% in KESMI.*
- (2) *The estimated values of these RRPTs are from 15 January 2015 to 14 January 2016 as disclosed in the circular to shareholders dated 29 October 2014.*
- (3) *The estimated transaction values for the period from the date of the forthcoming EGM on 14 January 2016 to the date of the next AGM are based on past RRPTs and/or management estimates. Due to the nature of the RRPTs, the actual value of the RRPTs may vary from the estimated value disclosed above.*
- (4) *Renewal will not be sought at the upcoming EGM for RRPTs with Kestronics (Thailand) Co. Ltd. as we do not expect any RRPTs between the KESMI Group and Kestronics (Thailand) Co. Ltd. moving forward.*
- (5) *Renewal will not be sought at the upcoming EGM for RRPTs with KES Systems & Service Costa Rica Sociedad Anonima as we do not expect any RRPTs between the KESMI Group and KES Systems & Service Costa Rica Sociedad Anonima moving forward.*
- (6) *The renewal of this RRPT will not be sought at the upcoming EGM.*
- (7) *Following the completion of KESMI's acquisition of the remaining 34.62% equity interest in KESM Test not already owned by KESMI from Sunright on 13 May 2015, KESM Test has become a wholly-owned subsidiary of KESMI. Hence, renewal of this RRPT will not be sought at the upcoming EGM.*

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4.3 Amounts due and owing by Related Parties

As at the end of the financial year ended 31 July 2015, there are no outstanding amounts due and owing by a Related Party which exceeded the credit term.

4.4 The guidelines and procedures for transacting with Related Parties

The KESMI Group had established various guidelines and procedures to ensure that the RRPTs are undertaken on an arm's length basis, on transaction prices and terms not more favourable to the Related Parties involved than those generally available to the public and not detrimental to the minority shareholders of the Company.

The management of KESMI shall review the RRPTs based on the following parameters/procedures:-

- (i) the RRPTs will only be entered into after taking into account the pricing, availability of machinery, order size, useful life, delivery time and level of service;
- (ii) the purchase price, terms and conditions of the RRPTs are determined after taking into consideration, amongst others, the demand and supply of the products, credit terms and reliability of supply, where practical and feasible. At least two other contemporaneous transactions with unrelated third parties for similar products and/or services and/or quantities will be used as comparison, wherever available or possible, to determine whether the price and terms offered to and/or by the Related Parties are fair and reasonable and comparable to those offered to/by other unrelated third parties for the same or substantially similar type of products and/or services and/or quantities.

In the event that quotations or comparative pricing from unrelated third parties cannot be obtained for the proposed RRPTs, the management will rely on their usual business practices and their market knowledge of prevailing industry norms bearing in mind the urgency and efficiency of services to be provided or required to ensure that the RRPTs are not detrimental to the Company and/or the Group;

- (iii) the sales prices are determined after taking into consideration the costing of the products, the profits margin and/or the prevailing open market-based prices;
- (iv) Sunright provides management services to the KESMI Group and charges a fee based on a cost plus formula; and
- (v) rentals for certain equipment entered into between the KESMI Group and the Sunright Group are to be made on the basis of expected duration of requirement, availability of the equipment and competitive pricing.

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RRPTs shall be reviewed and authorised by the following parties within the Company:-

Nature of transaction	Value of transaction (for each project or single transaction)	Authority Levels
Non-capital expenditure RRPTs	Up to RM2 million (provided the aggregate value does not exceed RM20 million per quarter)	2 Executive Directors
	Above RM2 million	Audit Committee
Capital expenditure RRPTs	Up to RM5 million	2 Executive Directors
	Above RM5 million	Audit Committee

Where any Director has an interest (direct or indirect) in any of the RRPTs, such Director shall abstain from deliberating and voting on all matters pertaining to the RRPTs at the relevant meetings of the Audit Committee and/or the Board, as the case may be.

All RRPTs shall be tabled to the Audit Committee for their approval and/or ratification, as the case may be. The Audit Committee shall review the RRPTs with due care to determine whether the established guidelines and procedures of the Company for such transactions have been adhered to strictly.

Pursuant to Paragraph 10.09 of the Listing Requirements, in a meeting to obtain the shareholders' approval for the Proposed Renewal of Shareholders' Mandate, the interested Director, interested Major Shareholder or interested persons connected with a Director or Major Shareholder, and where it involves the interest of an interested person connected with a Director or Major Shareholder, such Director or Major Shareholder, must not vote on the resolution approving the RRPTs. In addition, such interested Director or Major Shareholder must also ensure that persons connected with him/her (as the case may be) abstain from voting on the resolution approving the RRPTs. Interested Directors shall also abstain from deliberating at the board meetings in respect of the RRPTs in which they are interested.

5.0 STATEMENT BY AUDIT COMMITTEE

The Audit Committee, save for Lim Mee Ing who is an interested Director in relation to the Proposed Renewal of Shareholders' Mandate, has seen and reviewed the guidelines and procedures set out in section 4.4 above and is of the view that they are sufficient to ensure that the RRPTs will be carried out on normal commercial terms which are not more favourable to the Related Parties involved than those generally available to the public and not detrimental to the interest of the Company and its minority shareholders.

The Audit Committee is of the view that the Group has in place adequate procedures and processes to monitor, track and identify RRPTs in a timely and orderly manner. The Audit Committee shall review these procedures and processes on a quarterly basis. This is to ensure that the RRPTs are not detrimental or prejudicial to the minority shareholders of the Company.

6.0 DISCLOSURE AND VALIDITY PERIOD OF THE SHAREHOLDERS' MANDATE

Disclosure will be made in the next Annual Report of the Company of the breakdown of the aggregate value of the RRPTs, type of transactions, and names of the Related Parties involved and their relationship with the Company, during the current financial year, and in the Annual Report of the subsequent financial years of the Company during which the Proposed Renewal of Shareholders' Mandate remains in force.

The Proposed Renewal of Shareholders' Mandate is subject to annual renewal and shall continue to be in full effect and force until:-

- (i) the conclusion of the next AGM of the Company following the forthcoming EGM if the Shareholders' Mandate is successfully passed, at which time it will lapse, unless by a resolution passed at the said AGM, the authority for the Shareholders' Mandate is renewed;
 - (ii) the expiration of the period within which the next AGM after that date is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
 - (iii) revoked or varied by resolution passed by the shareholders in a general meeting,
- whichever is earlier.

7.0 RATIONALE FOR THE PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE

The rationale for the Proposed Renewal of Shareholders' Mandate is as follows:-

- (a) The Proposed Renewal of Shareholders' Mandate will facilitate transactions with the Related Parties which are in the Group's ordinary course of business, undertaken on commercial terms and on terms not more favorable to the Related Parties than those generally available to and/or from the public, where applicable, and, in the Company's opinion, not detrimental to the minority shareholders of the Company;
- (b) The Proposed Renewal of Shareholders' Mandate will enhance the KESMI Group's ability to pursue business opportunity which are time-sensitive in nature and will eliminate the need for the Company to convene separate general meetings to seek shareholders' approval for each RRPT;
- (c) The Proposed Renewal of Shareholders' Mandate will substantially reduce the expenses associated with the convening of general meetings on an ad hoc basis, improve administrative efficiency considerably and allow resources to be channeled towards attaining other corporate objectives;
- (d) The Proposed Renewal of Shareholders' Mandate is expected to benefit the KESMI Group as detailed in section 4.1 above; and
- (e) In respect of the Group Management and/or Support Services, the Proposed Renewal of Shareholders' Mandate will enable the KESMI Group to reduce operating cost and improve efficiency, thereby improving the Group's business and administrative efficacy.

8.0 APPROVAL REQUIRED

The Proposed Renewal of Shareholders' Mandate is subject to the approval of the shareholders of the Company being obtained at the forthcoming EGM to be convened.

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9.0 DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

9.1 As at the LPD, the direct and indirect interests of the interested Major Shareholders and interested Directors in KESMI are as follows:-

	Shareholdings as at the LPD			
	Direct		Indirect	
	No. of Shares	%	No. of Shares	%
<u>Interested Major Shareholders</u>				
Sunright	20,825,000	48.41	-	-
Samuel Lim Syn Soo	-	-	*20,825,000	48.41
<u>Interested Directors</u>				
Samuel Lim Syn Soo	-	-	*20,825,000	48.41
Kenneth Tan Teoh Khoon	-	-	-	-
Lim Mee Ing	-	-	-	-

Note:-

* Deemed interested by virtue of his major shareholding in Sunright pursuant to Section 6A of the Act.

9.2 Save as disclosed below, none of the Directors and Major Shareholders or persons connected with such Directors and Major Shareholders, have any interest, direct or indirect, in the Proposed Renewal of Shareholders' Mandate:-

- (i) Sunright is a Major Shareholder of KESMI with a direct equity interest of 48.41% in KESMI. Samuel Lim Syn Soo, Kenneth Tan Teoh Khoon and Lim Mee Ing are deemed interested in the Proposed Renewal of Shareholders' Mandate by virtue of their common directorships in the KESMI Group and the Sunright Group (as further detailed in section 4.2);
- (ii) Samuel Lim Syn Soo is a major shareholder of Sunright with an indirect equity interest of 48.41% in KESMI. He is also the Executive Chairman and Chief Executive Officer of KESMI and Sunright; and
- (iii) Lim Mee Ing is the spouse of Samuel Lim Syn Soo and a Non-Independent Non-Executive Director of KESMI. She is also a director of Sunright.

9.3 Accordingly, Samuel Lim Syn Soo, Kenneth Tan Teoh Khoon and Lim Mee Ing have abstained and shall continue to abstain from any deliberation and voting in relation to the Proposed Renewal of Shareholders' Mandate at the meetings of the Board. In addition, Samuel Lim Syn Soo, Kenneth Tan Teoh Khoon and Lim Mee Ing shall abstain from voting at the forthcoming EGM in respect of his/her direct/indirect shareholdings in KESMI on the resolution in relation to the Proposed Renewal of Shareholders' Mandate at the forthcoming EGM.

9.4 Sunright shall abstain from voting at the EGM to be convened in respect of its direct shareholding in KESMI on the resolution in relation to the Proposed Renewal of Shareholders' Mandate.

9.5 Sunright, Samuel Lim Syn Soo, Kenneth Tan Teoh Khoon and Lim Mee Ing have also given the undertaking that they will ensure that persons connected to them shall abstain from voting in respect of their direct and indirect shareholdings in KESMI on the resolution in relation to the Proposed Renewal of Shareholders' Mandate at the forthcoming EGM.

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10.0 DIRECTORS' STATEMENT AND RECOMMENDATION

The Board, save for Samuel Lim Syn Soo, Kenneth Tan Teoh Khoo and Lim Mee Ing who are the interested Directors in relation to the Proposed Renewal of Shareholders' Mandate, is of the opinion that the Proposed Renewal of Shareholders' Mandate is in the best interest of the Company. Accordingly, the Board, save for the aforesaid interested Directors, recommends that you vote in favour of the resolution in relation to the Proposed Renewal of Shareholders' Mandate to be tabled at the forthcoming EGM.

11.0 EGM

The EGM, notice of which is enclosed in this Circular, will be held at Spectrum, Level 3A, Connexion@Nexus, Bangsar South City, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Thursday, 14 January 2016 at 11.30 a.m. or immediately after the conclusion or adjournment (as the case may be) of the 44th Annual General Meeting of the Company to be held at the same venue and on the same day at 10.30 a.m., whichever is later, for the purpose of considering and, if thought fit, passing the resolution to approve the Proposed Renewal of Shareholders' Mandate.

If you are unable to attend and vote in person at the EGM, you are requested to complete, sign and return the Form of Proxy enclosed in this Circular in accordance with the instructions therein as soon as possible so as to arrive at the Registered Office of the Company not less than forty-eight (48) hours before the appointed time for holding the EGM or any adjournment thereof. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the EGM should you subsequently decide to do so.

12.0 FURTHER INFORMATION

Shareholders are requested to refer to the attached Appendix I of this Circular for further information.

Yours faithfully,
For and on behalf of the Board of Directors of
KESM INDUSTRIES BERHAD

TUAN HAJI ZAKARIAH BIN YET
Senior Independent Non-Executive Director

FURTHER INFORMATION

1. DIRECTORS' RESPONSIBILITY STATEMENT

This Circular has been seen and approved by the Board and they collectively and individually accept full responsibility for the accuracy and completeness of the information given and confirm that after making all reasonable enquiries, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. MATERIAL LITIGATION

Save as disclosed below, to the best of the knowledge of the Company, neither KESMI nor its subsidiaries are engaged in any material litigation, claims or arbitration either as plaintiff or defendant, and the Directors of KESMI are not aware of any proceeding pending or threatened against the KESMI Group or of any facts likely to give rise to any proceeding which may materially affect the position or business of the KESMI Group as at the LPD:-

- (a) On 8 May 2013, KESP received an arbitration demand (“**Arbitration**”) from Datamatic Ltd (“**DL**”) seeking damages for the products sold by KESP to DL. DL alleges that the products delivered by KESP were defective and is claiming for the amount of US\$5 million. KESP denies these claims and intends to counterclaim against DL. The trial date has been scheduled for mid-May 2014. On 18 October 2013, KESP was further informed by the American Arbitration Association that DL had on 26 September 2013 filed a voluntary petition for liquidation under Chapter 7 in the United States Bankruptcy Court in Dallas, Texas. In view of this development, the American Arbitration Association has agreed with KESP’s solicitors that the Arbitration will be stayed until the bankruptcy court trustee for DL (“**Trustee**”) determines whether to pursue with the Arbitration. Accordingly, the trial date initially scheduled for mid-May 2014 was cancelled and no new trial date was set. Subsequently, KESP’s solicitors had advised that the Counsel for the Trustee is in the process of completing and closing the bankruptcy case and there are no funds available to pay to the general unsecured creditors, which include KESP. Since then, no further actions have taken place with respect to either DL’s alleged claims against KESP or KESP’s alleged claim against DL.

3. MATERIAL CONTRACTS

Save as disclosed below, there are no material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by the KESMI Group within the two (2) years immediately preceding the date of this Circular:-

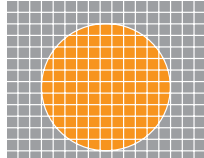
- (a) On 13 February 2015, KESMI entered into a share sale agreement with Sunright for the acquisition of the remaining 692,308 ordinary shares of RM1.00 each in KESM Test, representing approximately 34.62% of the equity interest not already owned by KESMI, for a cash consideration of RM35.00 million. The said acquisition was completed on 13 May 2015.

4. DOCUMENTS FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours (except public holidays) at the Registered Office of the Company from the date of this Circular up to and including the date of the forthcoming EGM:-

- (a) Memorandum and Articles of Association of KESMI;
- (b) the relevant cause papers relating to the material litigation referred to in section 2 above;
- (c) the material contract referred to in Section 3 of this Appendix I; and
- (d) the audited financial statements of the KESMI Group for the past two (2) financial years ended 31 July 2014 and 31 July 2015.

A Member of



SUNRIGHT

KESM INDUSTRIES BERHAD

(Company No.: 13022-A)

(Incorporated in Malaysia under the Companies Act, 1965)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting of KESM Industries Berhad (“**KESMI**” or the “**Company**”) will be held at Spectrum, Level 3A, Connexion@Nexus, Bangsar South City, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Thursday, 14 January 2016 at 11.30 a.m. or immediately after the conclusion or adjournment (as the case may be) of the 44th Annual General Meeting of the Company which will be held at the same venue and on the same day at 10.30 a.m., whichever is the later, for the purpose of considering and, if thought fit, passing the following resolution, with or without modifications:-

ORDINARY RESOLUTION – PROPOSED RENEWAL OF EXISTING SHAREHOLDERS’ MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

“**THAT** approval be and is hereby given, for the purposes of Chapter 10, Paragraph 10.09 of the Main Market Listing Requirements of the Bursa Malaysia Securities Berhad (“**Listing Requirements**”), for the Company and/or its subsidiaries (“**Group**”) to enter into transactions falling within the types of recurrent related party transactions of a revenue or trading nature which are necessary for the day-to-day operations of the Group (“**RRPTs**”), as set out in section 4.2(a) of the circular to shareholders of the Company dated 29 October 2015 (“**Circular**”), with any party who is described as a related party in the Circular, provided that such transactions are carried out in the normal course of business, on arm’s length basis, at transaction prices and terms which are not more favourable to the related parties involved than those generally available to the public and which will not be to the detriment of the minority shareholders of the Company in accordance with the guidelines and procedures of the Company for the RRPTs as specified in section 4.4 of the Circular;

AND THAT such approval shall continue to be in force until:-

- (a) the conclusion of the next annual general meeting of the Company, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or
- (b) the expiration of the period within which the next annual general meeting after the date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (“**Act**”) (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of Act); or
- (c) revoked or varied by a resolution passed by the shareholders in a general meeting,

whichever is earlier,

AND THAT proper disclosures of the various RRPTs and the aggregate value of such transactions shall be disclosed in the Annual Report of the Company,

AND FURTHER THAT the Directors be and are hereby authorised to complete and do all such acts and things as may be required by the relevant authorities (including executing such documents as may be required) to give effect to the transactions contemplated and/or authorised by this Ordinary Resolution.”

By Order of the Board

LEONG OI WAH (MAICSA 7023802)

Company Secretary

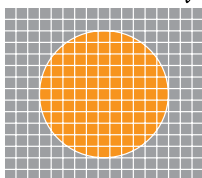
Petaling Jaya

29 October 2015

Notes:-

1. *In respect of deposited securities, only members whose names appear in the General Meeting Record of Depositors on 8 January 2016 shall be eligible to attend the Extraordinary General Meeting.*
2. *A member entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint a proxy/proxies who may but need not be a member/members of the Company to attend and vote in his/her stead and Section 149 (1)(b) of the Companies Act, 1965 shall not apply.*
3. *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.*
4. *The instrument appointing a proxy 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.*
5. *The instrument appointing a proxy must be deposited at the Registered Office at 802, 8th Floor, Block C, Kelana Square, 17 Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia, at least forty-eight (48) hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof.*

A Member of



SUNRIGHT

KESM INDUSTRIES BERHAD

(Company No.: 13022-A)

(Incorporated in Malaysia under the Companies Act, 1965)

FORM OF PROXY

I/We _____ (Full Name in Block Letters) of

NRIC/Passport/Company No. _____ of _____

_____ (Address)

being a member/members of KESM Industries Berhad hereby appoint

Name	Address	NRIC/ Passport No.	Proportion of Shareholdings (%)

and/or (delete as appropriate)

Name	Address	NRIC/ Passport No.	Proportion of Shareholdings (%)

or failing him/her, Chairman of the Meeting as my/our proxy/proxies to attend and vote for me/us on my/our behalf, and if necessary, to demand a poll, at the Extraordinary General Meeting of the Company to be held at Spectrum, Level 3A, Connexion@Nexus, Bangsar South City, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Thursday, 14 January 2016 at 11.30 a.m., or immediately after the conclusion or adjournment (as the case may be) of the 44th Annual General Meeting of the Company which will be held at the same venue and on the same day at 10.30 a.m., whichever is the later.

I/We direct my/our proxy/proxies to vote for or against the resolution to be proposed at the meeting as indicated hereunder. If no specific directions 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.

ORDINARY RESOLUTION	For*	Against*
PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE		

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

Total number of shares held	
-----------------------------	--

Signed this _____ day of _____ 2015/2016

Signature / Common Seal of
Shareholder(s)

Notes:-

- In respect of deposited securities, only members whose names appear in the General Meeting Record of Depositors on 8 January 2016 shall be eligible to attend the Extraordinary General Meeting.*
- A member entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint a proxy/proxies who may but need not be a member/members of the Company to attend and vote in his/her stead and Section 149 (1)(b) of the Companies Act, 1965 shall not apply.*
- 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.*
- The instrument appointing a proxy 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.*
- The instrument appointing a proxy must be deposited at the Registered Office at 802, 8th Floor, Block C, Kelana Square, 17 Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia, at least forty-eight (48) hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof.*



Fold this flap for sealing

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AFFIX
STAMP

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

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