

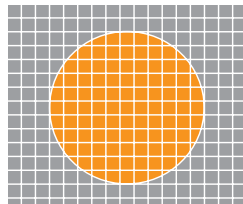
**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

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.

Bursa Malaysia Securities Berhad (“Bursa Securities”) has not perused the contents of this Circular prior to its issuance as it is an Exempt Circular pursuant to Paragraph 2.1 of Practice Note 18 of the Main Market Listing Requirements of Bursa Securities.

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*A Member of*



**SUNRIGHT**

**KESM INDUSTRIES BERHAD**

(Company No.: 13022-A)  
(Incorporated in Malaysia)

**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 Connexion Conference & Event Centre, Spectrum & Prism (Level 3A), Nexus, Bangsar South, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Thursday, 10 January 2019 at 11.00 a.m., or immediately after the conclusion or adjournment (as the case may be) of the 47<sup>th</sup> Annual General Meeting of KESM Industries Berhad to be held at the same venue and on the same day at 10.00 a.m., whichever is the later. The Notice of the EGM together with the Form of Proxy are 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 the Share Registrar’s Office at Lot 6.05, Level 6, KPMG Tower, 8 First Avenue, Bandar Utama, 47800 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 25 October 2018**

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## DEFINITIONS

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

“Act”	: The Companies Act 2016
“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 25 October 2018 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”	: 29 September 2018, 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

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**DEFINITIONS (CONT'D)**

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“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) 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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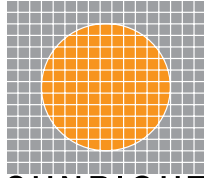
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*A Member of*



**SUNLIGHT**

**KESM INDUSTRIES BERHAD**

(Company No.: 13022-A)  
(Incorporated in Malaysia)

**REGISTERED OFFICE**

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

25 October 2018

**BOARD OF DIRECTORS**

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

Kenneth Tan Teoh Khoon (*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,

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

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**1.0 INTRODUCTION**

On 11 January 2018, 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 10 January 2019, unless approval for its renewal is obtained from the shareholders of the Company.

Accordingly, the Company had on 20 September 2018 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:-

<b>Company</b>	<b>Effective equity interest (%)</b>	<b>Principal activity</b>
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, burn-in equipment, testing equipment, electronic equipment and other related machinery from 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 2018 is provided in Notes to the Financial Statements No. 22 of the financial statements of the Company as contained in KESMI's Annual Report 2018.

#### **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 the burn-in and related equipment from 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.

The Board ensures that the purchases from 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

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

Nature of transaction	Related Party	Relationship	<sup>(1)</sup> Interested Director/ Major Shareholder/ persons connected	<sup>(2)</sup> Estimated value as per last Shareholders' Mandate RM'000	Actual value transacted from 11 January 2018 to the date of the LPD RM'000	<sup>(3)</sup> Estimated aggregate value from 10 January 2019 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"> <li>• KES Systems &amp; Service (1993) Pte. Ltd.</li> <li>• KEST Systems &amp; Service Ltd</li> </ul>	Subsidiaries of Sunright	<ul style="list-style-type: none"> <li>• Samuel Lim Syn Soo</li> </ul>	6,800	74	3,700
(ii) Purchase of equipment and related machineries (including consumables) by KESP	<ul style="list-style-type: none"> <li>• Kestronics (S) Pte Ltd</li> <li>• Kestronics (M) Sdn. Bhd.</li> <li>• Kestronics Philippines, Inc.</li> <li>• KES Systems &amp; Service (Shanghai) Co., Ltd</li> </ul>		<ul style="list-style-type: none"> <li>• Lim Mee Ing</li> <li>• Kenneth Tan Teoh</li> </ul>	3,500	1,197	5,500
(iii) Purchase of equipment and related machineries (including consumables) by KESM Tianjin	<ul style="list-style-type: none"> <li>• KES Systems, Inc.</li> <li>• KES Systems &amp; Service (M) Sdn. Bhd.</li> <li>• KES Systems &amp; Service Philippines Inc.</li> </ul>		<ul style="list-style-type: none"> <li>• Khoon Sunright</li> </ul>	8,000	15	1,000

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 11 January 2018 to the date of the next AGM	(3) Estimated aggregate value from 10 January 2019 to the date of the next AGM
(iv) Provision of management services by Sunright to KESMI	Sunright	Major Shareholder of KESMI	<ul style="list-style-type: none"> <li>• Samuel Lim Syn Soo</li> </ul>	RM'000 6,000	RM'000 3,556	RM'000 5,500
(v) Provision of management services by Sunright to KESP			<ul style="list-style-type: none"> <li>• Lim Mee Ing</li> </ul>	2,300	1,111	2,500
(vi) Provision of management services by Sunright to KESM Test			<ul style="list-style-type: none"> <li>• Kenneth Tan Teoh Khoon</li> <li>• Sunright</li> </ul>	6,000	3,526	5,800

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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	Actual value transacted from 11 January 2018 to the LPD	(3) Estimated aggregate value from 10 January 2019 to the date of the next AGM
(vii) Provision of EMS services by KESP	<ul style="list-style-type: none"> <li>• KES Systems &amp; Service (1993) Pte. Ltd.</li> <li>• KEST Systems &amp; Service Ltd</li> <li>• Kestronics (S) Pte Ltd</li> <li>• Kestronics (M) Sdn. Bhd.</li> <li>• Kestronics Philippines, Inc.</li> <li>• KES Systems &amp; Service (Shanghai) Co., Ltd.</li> <li>• KES Systems, Inc.</li> <li>• KES Systems &amp; Service (M) Sdn. Bhd.</li> <li>• KES Systems &amp; Service Philippines Inc.</li> </ul>	Subsidiaries of Sunright	<ul style="list-style-type: none"> <li>• Samuel Lim Syn Soo</li> <li>• Lim Mee Ing</li> <li>• Kenneth Tan Teoh Khoon</li> <li>• Sunright</li> </ul>	RM'000 5,200	RM'000 0	RM'000 3,600

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**Notes:-**

- (1) *The following Directors/Major Shareholders are deemed interested in the above RRPRTs:-*
  - (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 private limited company 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 RRPRTs are from 11 January 2018 to 10 January 2019 as disclosed in the circular to shareholders dated 26 October 2017.*
- (3) *The estimated transaction values for the period from the date of the forthcoming EGM on 10 January 2019 to the date of the next AGM are based on past RRPRTs and/or management estimates. Due to the nature of the RRPRTs, the actual value of the RRPRTs may vary from the estimated value disclosed above.*

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#### 4.3 Amounts due and owing by Related Parties

As at the end of the financial year ended 31 July 2018, 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) Sunright provides management services to the KESMI Group and charges a fee based on a cost plus formula; and

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

<b>Nature of transaction</b>	<b>Value of transaction (for each project or single transaction)</b>	<b>Authority Levels</b>
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 340 of the Act (but shall not extend to such extension as may be allowed pursuant to Section 340 of the Act); or
- (iii) revoked or varied by resolution passed by the shareholders in a general meeting,

whichever is earlier.

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## **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 No. of Shares	%	Indirect No. of Shares	%
<b><u>Interested Major Shareholders</u></b>				
Sunright	20,825,000	48.41	-	-
Samuel Lim Syn Soo	-	-	*20,825,000	48.41
<b><u>Interested Directors</u></b>				
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 8 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 Khoon 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 Connexion Conference & Event Centre, Spectrum & Prism (Level 3A), Nexus, Bangsar South, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Thursday, 10 January 2019 at 11.00 a.m. or immediately after the conclusion or adjournment (as the case may be) of the 47<sup>th</sup> Annual General Meeting of the Company to be held at the same venue and on the same day at 10.00 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 Share Registrar's Office 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

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**FURTHER INFORMATION**

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**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, 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:-

- (i) The Company's wholly-owned subsidiary, KESP Sdn Bhd ("**KESP**") had on 8 May 2013 received a Demand for Arbitration ("**Arbitration**") from the International Centre for Dispute Resolution ("**ICDR**"), a division of the American Arbitration Association ("**AAA**"). The Arbitration was commenced by one of KESP's customers, Datamatic Ltd ("**DL**") for a dispute arising out of a contract dated 21 November 2008 between DL and KESP for the supply of utility products. DL alleged that it received defective products from KESP and is entitled to claim. KESP adamantly denied the allegations and intends to vigorously defend itself at Arbitration and to pursue its own right to counterclaim against DL including non-payment of amounts owed under the contract.

On 26 September 2013, DL had filed a voluntary petition for liquidation under Chapter 7 in the U.S. Bankruptcy Court in Dallas, Texas. The AAA then agreed with the Company's solicitor that the Arbitration will be stayed until bankruptcy court trustee ("**Trustee**") for DL determines whether to pursue the Arbitration.

On 20 September 2016, DL's bankruptcy case was closed and the bankruptcy court trustee had determined not to pursue the Arbitration. However, notwithstanding the bankruptcy case had closed, DL has taken the position that it can still pursue the arbitration claim it filed against KESP before bankruptcy and had notified the ICDR, a division of the AAA, that it is reopening the Arbitration. KESP has numerous objections to DL's attempt to continue pursuit of the Arbitration. KESP will pursue its objections with the arbitrators or in the appropriate court of law in the U.S. to determine if DL is precluded from pursuing the pre-bankruptcy claim. The Company and KESP's position is that DL's claim is without merit, and KESP intends to vigorously defend against it, including by way of asserting KESP's own claim against DL filed with and allowed by the bankruptcy court trustee, the value of which was in excess of DL's claim.

**3. MATERIAL CONTRACTS**

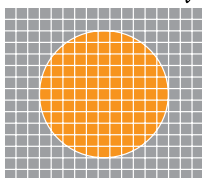
There are no material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by the KESMI Group within the two (2) years immediately preceding the date of this Circular.

**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; and
- (b) the audited financial statements of the KESMI Group for the past two (2) financial years ended 31 July 2017 and 31 July 2018.

*A Member of*



**SUNRIGHT**

## **KESM INDUSTRIES BERHAD**

(Company No.: 13022-A)

(Incorporated in Malaysia)

### **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 Connexion Conference & Event Centre, Spectrum & Prism (Level 3A), Nexus, Bangsar South, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Thursday, 10 January 2019 at 11.00 a.m. or immediately after the conclusion or adjournment (as the case may be) of the 47<sup>th</sup> Annual General Meeting of the Company to be held at the same venue and on the same day at 10.00 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 of the circular to shareholders of the Company dated 25 October 2018 (“**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 340 of the Companies Act, 2016 (“**Act**”) (but shall not extend to such extension as may be allowed pursuant to Section 340 of the Act); or
- (c) revoked or varied by a resolution passed by the shareholders in a general meeting,

whichever is earlier,

**AND THAT** proper disclosure 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

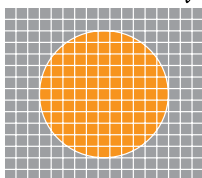
Petaling Jaya

25 October 2018

**Notes:-**

1. *In respect of deposited securities, only members whose names appear in the General Meeting Record of Depositors on 3 January 2019 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.*
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 Share Registrar's Office at Lot 6.05, Level 6, KPMG Tower, 8 First Avenue, Bandar Utama, 47800 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)

**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 at the Extraordinary General Meeting of the Company to be held at Connexion Conference & Event Centre, Spectrum & Prism (Level 3A), Nexus, Bangsar South, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Thursday, 10 January 2019 at 11.00 a.m. or immediately after the conclusion or adjournment (as the case may be) of the 47<sup>th</sup> Annual General Meeting of the Company to be held at the same venue and on the same day at 10.00 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 \_\_\_\_\_ 2018/2019

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Signature / Common Seal of  
Shareholder(s)

**Notes:-**

1. In respect of deposited securities, only members whose names appear in the General Meeting Record of Depositors on 3 January 2019 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.
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.
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AFFIX  
STAMP

The Share Registrar  
**KESM INDUSTRIES BERHAD** (13022-A)  
c/o Boardroom Corporate Services (KL) Sdn. Bhd.  
Lot 6.05, Level 6, KPMG Tower,  
8 First Avenue, Bandar Utama,  
47800 Petaling Jaya,  
Selangor Darul Ehsan,  
Malaysia

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