A Member of

SUNRIGHT

KESM INDUSTRIES BERHAD

REG. NO. 197201001376 (13022-A)

ANNUAL REPORT 2021

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

AUTOMOTIVE

COMPUTING

CONSUMER

INDUSTRIAL

DATA PROCESSING

CLOUD COMPUTING

COMMUNICATIONS

INTERNET OF THINGS

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

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DEAR FELLOW SHAREHOLDERS

Our performance in FY2021 is a testament of KESM's remarkable resilience in dealing with difficult and evolving conditions.

Notwithstanding the prolonged COVID-19 Pandemic has created another challenging year, I am proud of how we worked together with so much determination under enormous limitations amidst the raging pandemic in delivering our commitments to customers and at the same time keeping our employees safe at large.

In sharing our community spirit towards our shareholders through these difficult months, we rewarded our shareholders with an interim dividend of 3 sen per ordinary share amounting to RM1.3 million on 24 August 2021. Additionally, the Board is proposing a final tax-exempt dividend of 6 sen, to be approved at the Annual General Meeting on 13 January 2022.

FY2021 FINANCIAL PERFORMANCE

We achieved revenue of RM248.3 million, as compared to RM241.0 million a year ago. Net profit improved to RM7.3 million, from a breakeven position last year. Earnings per share was 17.1 sen, as compared to 0.2 sen in FY2020.

As we emerged from the first wave of the COVID-19 Pandemic, our business in the first half of FY2021 improved from the second half of FY2020. However, as we entered into the second half of FY2021, the chip shortages impacted our loadings and outbreak of the more transmittable Delta variant became unstoppable. Manufacturing activities in Malaysia were limited by continuing border closures, as well as multiple and prolonged Movement Control Orders "MCOs". As a result, we operated with much lesser manpower along with deferred orders. We took swift steps to rebalance our resources to fulfil our customers' loadings, which were frequently interrupted by the restrictions and safety measures. Yet, we emerged more profitable than last year.

Notably, we were able to maintain a sturdy balance sheet, with strong cash holdings of over RM200 million.

BUILDING RESILIENCE THROUGH OUR LEADERSHIP

I am happy to report that at the end of August 2021, more than 90% of our workforce has been fully vaccinated through proactive engagement and counselling. Keeping our employees healthy and safe to ensure they are not infected or infecting their families, colleagues or our customers, ranked highly in our priorities.

As part of our goal towards smart manufacturing, we have automated our burn-in production process and the installation will be fully completed by end of the new fiscal year. We upgraded our equipment and setup our new factory in Malacca. We are well positioned to better serve customers in a wider range of market segments.

With more than 40 years of leadership in the 'burn-in and test' service industry, our core technology remains a critical quality process for the world's leading semiconductor manufacturers in automotive, 5G network, Internet of Things and computing. The expansion of digitalisation offers boundless opportunities. This new wave of growth favours KESM. The ability to drive our technology to expand 'burn-in and test' beyond automotive semiconductors, has benefited our performance.

POWERING AHEAD

The global car sales have been recovering and electric vehicles "EV" are growing. As technology shift to EV and eventually self-driving cars, the demand for automotive semiconductors will remain robust.

Demands for 'burn-in and test' for infotainment, power train and Advanced Driving Assistance Systems 'ADAS' devices are steadily increasing. 'ADAS' allows the vehicle to connect surrounding information for the safety and comfort of the driver by displaying warning messages. Features such as adaptive cruise control, anti-braking systems, pedestrian detection, lane departure warning and advanced parking assist require more and more functions. Inevitably semiconductor content per car has been increasing rapidly.

The requirement to ensure long product life cycles in cars require these automotive chips to be rigorously 'tested and burn-in'. KESM's leading position in 'test and burn-in' has enabled it to serve 5 out of the top 10 automotive semiconductor manufacturers in the world. We are well positioned to invest with the right leadership in place to leap forward in this growing market segment.

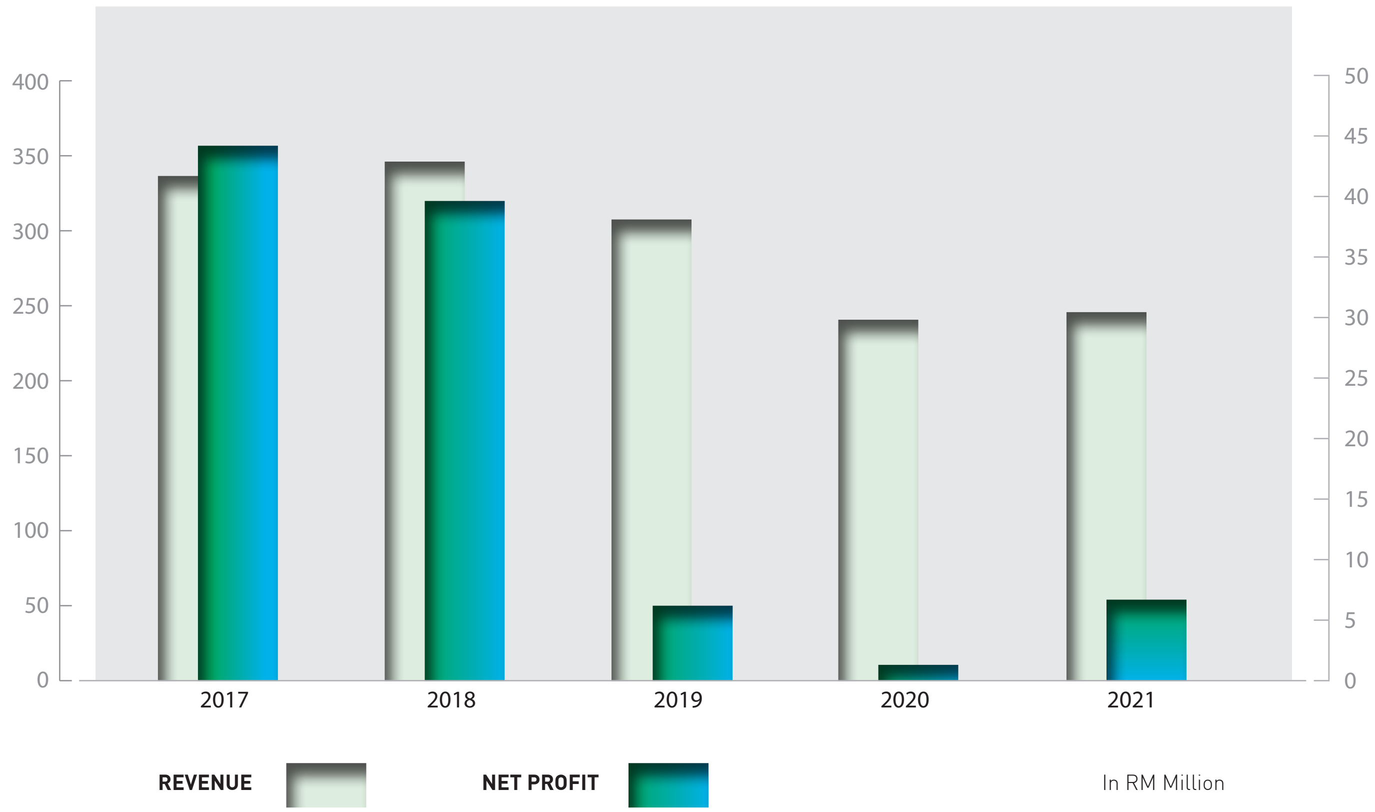
APPRECIATION

We are encouraged by the incredible adaptability, agility and resilience of KESM. We have our employees to thank for as well as loyal shareholders, bankers, suppliers and customers for your valued support. We look forward to updating you again on our success throughout FY2022.

Mr Samuel Lim Syn Soo
Executive Chairman & Chief Executive Officer
21 September 2021

5-YEAR FINANCIAL HIGHLIGHTS

FY Ended 31 July (RM '000)	2017	2018	2019	2020	2021
Revenue	337,988	349,777	307,375	240,976	248,257
Profit Before Tax	47,843	43,686	9,508	5,679	11,025
Net Profit Attributable To Owners of the Company	43,994	39,338	6,276	96	7,335
Total Equity Attributable To Owners of the Company	329,139	356,507	359,145	356,274	363,404
Basic Earnings Per Share (sen)	102.3	91.5	14.6	0.2	17.1
Dividend Per Share (sen)	12.5	18.5	9.0	7.5	9.0



OVERVIEW OF THE GROUP

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

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

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

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

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

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

Today, the Group serves 5 of the top 10 automotive semiconductor manufacturers, with a workforce of more than 2,000 in 3 locations.

OUR BUSINESS

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

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

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

After burn-in a semiconductor device is tested to determine whether it operates as intended as well as graded for its quality by determining the electrical characteristics of the device operate within specified limits and if the device performs its specified function.

The Group provides EMS as an ancillary service.

THE GROUP'S STRATEGY

KESM is principally involved in assuring the reliability and functionality of integrated circuits ("IC") by providing burn-in and test services. Generally, semiconductor manufacturers rely on burn-in and test services to ensure functionality and reliability of their IC, by eliminating defects that occur during their manufacturing process.

The Group's strategy is to offer seamless and complete burn-in and test solutions for semiconductor manufacturers. By combining our expertise in software and hardware solutions and building on our more than 40 years' experience in semiconductor burn-in and test, our customers can focus on their core competencies in bringing their new product developments to the market in an efficient and cost-effective manner.

REVIEW OF FINANCIAL RESULTS

The information in this Management Discussion and Analysis should be read in conjunction with the Company's consolidated financial statements and the notes related thereto.

The Group's revenue was higher by 3% or RM7.3 million, from RM241.0 million in the preceding financial year to RM248.3 million for the current financial year ended 31 July 2021. This was attributable to higher orders for EMS, but lower sales from burn-in and test services.

Interest income was lower by 35% or RM2.1 million, following lower interest rates on placement of fixed deposits.

Other income was higher by 15% or RM1.8 million, mainly due to fair value gain on investment securities of RM3.3 million, partially offset by lower gain on disposal of machinery and test equipment by RM1.2 million.

Raw materials and consumables used and changes in inventories of finished goods and work-in-progress increased by 56% or RM13.3 million, to support higher demand for EMS.

Depreciation of property, plant and equipment ("PPE") was lower by 8% or RM5.0 million, as certain machinery and test equipment became fully depreciated during the current financial year.

Finance costs reduced by 63% or RM1.5 million, following repayment of bank loans.

Other expenses were lower by 9% or RM6.3 million, mainly attributable to absence of fair value loss on investment securities of RM1.8 million; lower utility costs by RM3.1 million; and lower write-down of inventories by RM1.3 million.

Consequently, the Group's profit before tax increased by 94% or RM5.3 million, from RM5.7 million to RM11.0 million in the current financial year.

REVIEW OF FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

PPE was lower by 4% or RM5.1 million, from RM127.5 million as of preceding financial year to RM122.3 million as at 31 July 2021. The decrease was primarily due to depreciation charge of RM57.7 million, partially offset by capital expenditure of RM52.1 million.

Inventories were higher by 30% or RM1.8 million, from RM6.1 million to RM7.8 million, for fulfilment of EMS orders.

Trade and other receivables were higher by 36% or RM12.5 million, from RM34.4 million to RM46.8 million. This was largely due to improved sales in the fourth quarter of current financial year as compared to the fourth quarter of preceding financial year.

Investment securities increased by 60% or RM5.3 million, from RM8.9 million to RM14.2 million, mainly attributable to net additions of quoted securities of RM2.0 million, coupled with fair value gain of RM3.3 million.

Tax recoverable increased by RM2.9 million, from RM1.1 million to RM3.9 million, primarily due to higher monthly tax instalment payments made during the current financial year. Correspondingly, income tax payable was lower by 99% or RM2.8 million.

Cash and short-term deposits declined by 6% or RM14.7 million, from RM230.1 million to RM215.4 million, mainly due to payment for purchases of PPE and repayment of loans and borrowings.

Trade and other payables increased by 25% or RM6.1 million, from RM24.3 million to RM30.4 million, mainly due to higher payables for PPE purchases by RM5.0 million and higher dividend payable by RM0.6 million.

Contract liabilities increased by RM1.3 million, from RM0.04 million to RM1.4 million, largely as a result of higher sales deposits received for EMS orders.

Deferred tax liabilities increased by RM1.4 million, from RM1.1 million to RM2.5 million, as a result of higher deductible temporary differences arising from the utilisation of accelerated capital allowances that was provided as part of Malaysia's tax relief in response to COVID-19.

The Group's loans and borrowings reduced by 46% or RM11.8 million, from RM25.6 million to RM13.8 million, primarily due to net repayment of bank loans of RM8.8 million and repayment of lease liabilities of RM3.6 million.

OPERATIONS REVIEW

KESM provides burn-in and test services to ensure semiconductors such as microprocessors, microcontrollers and sensors used in automotive, industrial, consumer and commercial products are reliable. Our customers spanned across the USA, Europe and Asia Pacific.

FY2021, a continuance from last year, will be remembered as one of the most volatile periods in our history. The COVID-19 Pandemic has affected every industry, and disrupted trade, supply chains, work and business models and affected consumer behaviour. The world is undergoing extraordinary times.

Our operation teams faced many challenging tasks with extended MCOs, working with restricted number of employees in the factory. KESM gained approval to operate throughout MCOs and we were able to seamlessly execute amidst the disrupted supply chain, to manage and meet our customer' demands. Our dedication and service excellence enabled our performance to register a profitable year from a break-even position a year ago.

During this challenging period, we invested in a new facility in Malacca to expand our services for a wider range of market segments. We further invested on improving our process quality by automating our process towards smart manufacturing.

RISKS

The uncertainties of COVID-19 Pandemic may continue to threaten and disrupt global economic recovery. Although recent vaccine take-up rates have raised hopes of a turnaround in the pandemic, new variants of the virus and renewed waves pose concerns for the overall outlook. Border closures and MCOs are still in place which could hobble the supply chain.

The shortage of many semiconductors has caused production cutbacks in the automotive industry. This shortage is expected to also cause widespread shortages from electronics to medical devices to technology and networking equipment. As such, we expect volatility in the semiconductor supply chain to continue into FY2022.

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

The semiconductor industry is not only cyclical but highly capital-intensive in nature. The "semiconductor cycle" refers to the flow of supply and demand and the building and depletion of inventories. Also, it is often characterized by constant and rapid technological changes which obsolete our customers' products rapidly. KESM intends to mitigate this by collaborating closely with our customers at their new product introduction stage and proper allocation of our capital investments in support of customers' manufacturing capacities.

Also, KESM builds our production capacities based on customers' planned demands.

We have facilities in Malaysia and China and our revenue comes from services from these locations, which are exposed to political, social and economic conditions. The continuing trade barriers between the USA and China and the effects of the COVID-19 Pandemic may affect our loading plans.

There are some uncertainties with respect to the pace of rising labour costs, minimum wage imposed by the respective governments and countries. Increased labour costs and competition for qualified personnel may hinder us from staff retention.

KESM generates revenue for 5 of the top 10 automotive semiconductor manufacturers in the world, who are operating in the US$500 billion semiconductor industry. We expect our service to these customers to continue in the foreseeable future, since we are well integrated into their supply chain.

We expect competition from present players or new players in this niche market. We also face intense pricing competition in our market. We also expect the increased pricing competition may lead to reduced profit margins and lost business opportunities in the event that we may not be able to match price reduction of our competitors.

PROSPECTS AND OUTLOOK

The semiconductor industry is highly cyclical although our focus on the automotive segment is more resilient than other segments such as personal computers and consumer markets. Our performance may be affected by the challenging macroeconomic environment and the growing protectionism of trade pacts amongst countries that may impact global trade and hence the worldwide GDP growth.

The global economic outlook is projected to grow at 6.0 percent in 2021 and 4.9 percent in 2022. (source: IMF, July 2021). Coupled with the increasing protectionist stance between USA and China have affected the market which KESM operates in. Yet, the outlook for the worldwide semiconductor industry remains healthy. According to leading industry analyst report, the worldwide semiconductor revenue is projected to grow by 13% to US$527 billion in 2021, from the anticipated continued growth in consumer, computing, 5G, and automotive semiconductors. It is predicted to grow further by 8.8% to US$573 billion in 2022.

However, the supply of semiconductors globally remains tight and will affect worldwide automotive production this year. Additionally, pandemic induced factory lockdowns will hobble the semiconductor industry for several quarters.

Historically, we remained profitable despite the many downturns in the global semiconductor industry as well as the various financial crises and economic slowdowns. We are optimistic that we will continue to perform well as the semiconductor industry indicators return positively. We will continue our relentless efforts to strive for greater productivity through innovation and factory automation with a close watch over our costs, as we work towards increasing value-add for our customers.

KESM does not have a stated dividend policy. However, we have a track record of paying a proportion of our sustainable earnings as dividends. Such payments are dependent on a number of factors, such as earnings, cash requirements, capital commitments, general economic and industry environments which are reviewed and considered by the Board.

MR SAMUEL LIM SYN SOO
Aged 67, Singaporean
Executive Chairman and
Chief Executive Officer*

Mr Samuel Lim has been on the Board since 6 September 1986 and was last re-elected on 8 January 2020.

Mr Lim is Founder, Executive Chairman and Chief Executive Officer of the Company and Sunright Limited in Singapore, a company listed on the Main Board of the Singapore Exchange Securities Trading Limited. He led the Company to become the world's largest independent provider of burn-in and testing services.

A fifty year veteran of the local semiconductor industry, he has been credited with 3 joint patents for testing of devices.

He holds a Diploma in Industrial Engineering (Canada). Prior to the establishing of KESM Industries Berhad, Mr Lim held senior positions including engineering, manufacturing and marketing in U.S. multinational companies based in Asia and USA.

Mr Lim also sits on the Board of several other private companies in Singapore, Malaysia, Taiwan, China, Philippines and USA.

Mr Lim's holdings in the securities of the Company are as follows: -

	Direct Holdings	Indirect Holdings
Ordinary Shares	Nil	20,825,000 (Deemed interest by virtue of his substantial interest in Sunright Limited)

MR KENNETH TAN TEOH KHOON
Aged 64, Singaporean
Executive Director*

Mr Kenneth Tan was first appointed to the Board on 20 January 1992 and was last re-elected on 7 January 2021.

Mr Tan is responsible for the Group's strategic direction, corporate affairs, investor relations and oversees the financial management of the Group.

Prior to joining the Group in 1987, he worked in an international accounting firm, a major property group in Singapore and subsequently in a diversified multinational group in the manufacturing and packaging industries.

Mr Tan is currently an executive director of Sunright Limited and also sits on the Boards of several other private limited companies in Singapore, Malaysia, Taiwan, China, Philippines and USA.

Mr Tan holds a Bachelor of Accountancy degree from the National University of Singapore and is a Fellow Member of the Institute of Singapore Chartered Accountants.

** also key senior management*

MS LIM MEE ING
Aged 70, Singaporean
Non-Independent Non-Executive Director

Ms Lim was first appointed to the Board on 19 February 1990 and was last re-elected on 8 January 2020. She is also a member of the Audit Committee and Nominating Committee.

Ms Lim holds a Diploma from the Institute of Bankers, and has more than 18 years of working experience in the banking profession before her retirement in 1990. From 1973 to 1990, she worked with the Singapore Branch of Barclays Bank PLC in various senior positions. Prior to her exit, she was responsible for marketing the global securities and custodian services of the bank. Ms Lim was also a director of Barclays Bank (S) Nominees Pte Ltd from September 1982 to March 1990. She was a member of the Committee on Securities Industry of the Association of Banks in Singapore from September 1987 to March 1990.

Ms Lim currently sits on the Board of a private limited company in China.

TUAN HAJI ZAKARIAH BIN YET, AMS, AMN
Aged 66, Malaysian
Senior Independent Non-Executive Director

Tuan Haji Zakariah was first appointed to the Board on 27 January 1995 as a Non-Independent Non-Executive Director and was re-designated as Independent Non-Executive Director on 8 March 2011. He was last re-elected on 7 January 2021.

Tuan Haji Zakariah is also the Senior Independent Director and Chairman of the Audit Committee and Nominating Committee.

Tuan Haji Zakariah joined Lembaga Tabung Haji ("LTH") in 1979, serving in several departments, including Finance, Administration, Investment, Branch Office operation, Human Resource Management and Hajj Management.

In addition, he has wide experience in the private sector, holding important positions in two subsidiaries of LTH. Among others, he was appointed as the Deputy Chief Executive Officer of *TH* Global Services Sdn. Bhd. from 16 June 2001 to 31 August 2002; Senior General Manager and Acting Chief Executive Officer of *TH* Travel & Services Sdn. Bhd. from 1 September 2002 to 16 August 2004. His last position before his retirement was as the Chief Executive Officer of *TH* Global Services Sdn. Bhd. from 1 July 2011 to 31 January 2013.

Following his departure from LTH, Tuan Haji Zakariah became the Chief Operating Officer of Kopetro Travel and Tours Sdn Bhd, a subsidiary company of Cooperative of Petronas and retired on 16 May 2014.

He has a Master of Science in Engineering Business Management from Warwick University, United Kingdom.

MR YONG CHEE HOU
Aged 64, Malaysian
Independent Non-Executive Director

Mr Yong was first appointed to the Board on 11 January 2002 and was last re-elected on 10 January 2019. He is also a member of the Audit Committee and Nominating Committee of the Company.

Mr Yong graduated from the University of Hull, United Kingdom with a Bachelor of Science (Hons) Degree in Economics and Accounting and qualified as a member of the Institute of Chartered Accountants in England and Wales. He is a member of the Malaysian Institute of Accountants.

Mr Yong has spent over 9 years in the accountancy profession. He also sits on the Boards of several private limited companies in Malaysia.

1. FAMILY RELATIONSHIP

None of the Directors has any family relationship with other Directors and/or substantial shareholders of the Company except for Ms Lim Mee Ing, who is the spouse of Mr Samuel Lim Syn Soo.

2. CONFLICT OF INTEREST

None of the Directors has any conflict of interest with the Company.

3. CONVICTION OF OFFENCES

None of the Directors has been:

(i) convicted of any offences within the past five (5) years (other than traffic offence); or

(ii) imposed with any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 July 2021.

4. DETAILS OF ATTENDANCE AT BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 JULY 2021

Name of Directors	No. of Meetings Attended	Percentage %
Mr Samuel Lim Syn Soo	5 out of 5	100
Mr Kenneth Tan Teoh Khoon	5 out of 5	100
Ms Lim Mee Ing	5 out of 5	100
Tuan Haji Zakariah Bin Yet	5 out of 5	100
Mr Yong Chee Hou	5 out of 5	100

BOARD OF DIRECTORS
Mr Samuel Lim Syn Soo
(Executive Chairman & Chief Executive Officer)

Mr Kenneth Tan Teoh Khoon
(Executive Director)

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

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

Mr Yong Chee Hou
(Independent Non-Executive Director)

AUDIT COMMITTEE
Tuan Haji Zakariah Bin Yet
(Chairman)

Mr Yong Chee Hou
(Member)

Ms Lim Mee Ing
(Member)

NOMINATING COMMITTEE
Tuan Haji Zakariah Bin Yet
(Chairman)

Mr Yong Chee Hou
(Member)

Ms Lim Mee Ing
(Member)

COMPANY SECRETARY
Ms Leong Oi Wah
(MAICSA 7023802)

REGISTERED OFFICE
802, 8th Floor
Block C, Kelana Square
17 Jalan SS7/26
47301 Petaling Jaya
Selangor Darul Ehsan
MALAYSIA
Tel: 603-7803 1126
Fax: 603-7806 1387

SHARE REGISTRAR
Boardroom Share Registrars Sdn. Bhd.
(Registration No. 199601006647 (378993-D))
11th Floor, Menara Symphony
No. 5, Jalan Prof. Khoo Kay Kim
Seksyen 13
46200 Petaling Jaya
Selangor Darul Ehsan
MALAYSIA
Tel: 603-7890 4700
Fax: 603-7890 4670
Email: BSR.Helpdesk@boardroomlimited.com

AUDITORS
Ernst & Young PLT
Chartered Accountants
Level 23A, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur
MALAYSIA

PLACE OF INCORPORATION
Malaysia

COMPANY REGISTRATION NO.
197201001376 (13022-A)

STOCK EXCHANGE LISTING
Bursa Malaysia Securities Berhad
Main Market

STOCK NAME
KESM

STOCK CODE
9334

SECTOR
Technology

SUB-SECTOR
Semiconductors

WEBSITE
www.kesmi.com

During the financial year under review,

1. UTILISATION OF PROCEEDS RAISED FROM ANY CORPORATE PROPOSAL

there were no proceeds raised from corporate proposal.

2. AUDIT AND NON-AUDIT FEES

the amount of audit and non-audit fees incurred for services rendered to the Group and the Company by the External Auditors is disclosed in Note 8 of the audited financial statements included in this Annual Report. The non-audit fees mainly paid or payable to affiliates of Ernst & Young Malaysia, were for the guidance on sustainability reporting.

3. MATERIAL CONTRACTS

there were no material contracts entered into by the Company and its subsidiaries involving Directors' and major shareholders' interests, either still subsisting at the end of the financial year ended 31 July 2021 or entered into since the end of the previous financial year.

ABOUT KESM INDUSTRIES BERHAD

[GRI 102-1, 102-2, 102-3, 102-4, 102-5, 102-6, 102-7]

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

Principally involved in assuring the reliability and functionality of integrated circuits ("IC") by eliminating defects that occur during semiconductor manufacturing process, KESMI offers seamless and complete burn-in and test solutions for semiconductor manufacturers. By combining our expertise in software and hardware solutions with more than 40 years of experience, our customers can focus on their core competencies in bringing their new product developments to the market in an efficient and cost-effective manner. KESMI has built a strong foundation through achievement of internationally recognised certifications and standards, positioning us well in the market to continue delivering quality services to our customers.

ABOUT THE REPORT

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

Our fourth annual Sustainability Report covers the sustainability policies and practices of KESMI entities in Malaysia[1] and China[2], from the period of 1 August 2020 to 31 July 2021 ("FY2021"). Where applicable, historical performance data is also included for comparative purposes.

This report complies with the Global Reporting Initiative ("GRI") Standards: Core option, a globally recognised standard for sustainability reporting. The GRI Sustainability Reporting Standards have been considered most suitable for KESMI's sustainability reporting framework as the standards are recognised globally and are the most widely adopted global standards for sustainability reporting.

External assurance has not been sought for this report. KESMI may consider seeking external assurance for the sustainability report as our sustainability reporting process matures over time. We welcome feedback that would help improve our sustainability efforts. Please direct any feedback to sustainability@sunright.com.

SUSTAINABILITY: THE RIGHT WAY FORWARD

[GRI 102-18]

The semiconductor industry is poised for growth in the midst of a digitalisation era, and the integration of sustainability into KESMI's business strategy and operational practices puts us in good stead to unlock new opportunities and create long-term value for our organisation.

KESMI has an established sustainability governance structure that guides our sustainability management and practices. At management level, the Board and Executive Directors are responsible for reviewing and approving directives for sustainability programmes, which are implemented and led by local management. Senior Management and the Head of Departments initiate and collate relevant data on sustainability-related performance metrics on a regular basis, which is then compiled and presented to senior management and the Board for review of KESMI's sustainability and calibration of existing sustainability policies and practices where necessary.

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1 KESM Industries Berhad, KESP Sdn. Bhd. and KESM Test (M) Sdn. Bhd.
2 KESM Industries (Tianjin) Co., Ltd

STAKEHOLDER ENGAGEMENT

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

Maintaining strong relationships with stakeholders contribute to a strong sense of confidence and trust us. We engage them on a regular basis through various platforms to better understand and address their needs and concerns.

We have identified the following stakeholders as those who have significant impact on and are significantly impacted by KESMI's operations.

***Table 1**: KESMI's Approach towards Stakeholder Engagement*

	Stakeholder's expectations	Stakeholder management	Engagement platforms*	Frequency of management
SHAREHOLDERS				
	• KESMI's financial health and industry reputation • Sustainability performance	• Provide regular and timely updates about KESMI's performance to enable key shareholders, such as KWAP[3] to make informed investment decisions.	• Press releases • Announcements • Media conference • Annual report • Annual General Meeting • Analyst/investor meetings	• Periodic • Quarterly • Annual • Annual • Annual • As necessary
CUSTOMERS				
	• Service and product quality • Timely delivery	• Maintain international certifications and standards to ensure the quality, safety and efficiency of products, services and systems, e.g. ISO 9001:2015 certification, ISO 14001:2015 certification, IATF 16949:2016 certification	• Industry forums • Customer satisfaction surveys and scorecards • Customer visits to our plants	• Frequent • Periodic • As necessary
EMPLOYEES AND OUTSOURCED WORKERS				
	• Fair employment and well-being • Occupational health and safety	• Implement non-discriminatory Human Resources ("HR") policies • Provide deserving remuneration, welfare and benefits	• Electronic updates and newsletters • Annual performance appraisals • Company events and staff bonding sessions	• Periodic • Annual • Periodic
	• Training and development	• Provide relevant trainings (safety and job specific)	• Trainings	• Periodic

[3] KWAP is Malaysia's largest public services pension fund and a key shareholder of KESMI.

	Stakeholder's expectations	Stakeholder management	Engagement platforms*	Frequency of management
CONTRACTORS AND SUPPLIERS				
	• Business opportunities	• Conduct fair suppliers' screening process	• Project tenders	• As necessary
	• Feedback on performance	• Conduct regular supplier's evaluation process	• Supplier evaluation meetings	• Periodic
REGULATORS				
	• Compliance to regulatory requirements	• Keeping abreast with the latest regulatory requirements	• Statutory reporting • On-site inspections	• Periodic • As necessary
LOCAL COMMUNITY				
	• Corporate Social Responsibility ("CSR") initiatives	• Participate in CSR activities	• CSR programmes	• Periodic
	• Employment opportunities	• Provide employment opportunities through our business	• Teaming with local technical institutions for job training and internship opportunities	• Annual

* Due to safe distancing measures in view of the ongoing COVID-19 situation, KESMI's stakeholder engagement has switched to virtual communication platforms wherever possible (e.g. virtual staff bonding sessions and virtual plant visits). Strict safe distancing measures are put in place for activities that are required to be carried out in person such as on-site audits.

MATERIALITY ASSESSMENT

[GRI 102-46, 102-47]

KESMI's first materiality assessment was conducted alongside our inaugural sustainability report for FY2018. After a thorough study of the industry landscape and assessment of KESMI's business strategy, a list of potential material matters were identified. These were prioritised based on the significance of the impact of each issue with inputs from internal stakeholders in their appointed roles in KESMI as well as adopting the perspectives of external stakeholders. The final list of matters was validated and approved by the Board.

On an annual basis, KESMI reassessed the material matters to ensure their continued relevance amidst global and industry ESG trends. In FY2021, the Board determined that all material matters continue to be relevant to the business. KESMI also remains conscious of potential sustainability matters that may be of investor concern due to their significant environmental and social impacts (e.g. materials consumption, water and effluent management, etc.). While these matters have not been assessed as material to KESMI for now, we have strict management systems and internal controls that enable us to carry out our ongoing commitment to reducing our ESG impacts and environmental footprint where practicable.

***Figure 1**: KESMI's Materiality Assessment Process*

1

Identification

A preliminary list of potential sustainability matters was identified through review of KESMI's business strategy, environment, concerns, market landscape and leading reporters' practices.

2

Prioritisation

These sustainability matters were prioritised through an unbiased and anonymous voting exercise, accounting for:
i. Importance to KESMI's business
ii. Significance and influence on external stakeholders

3

Validation

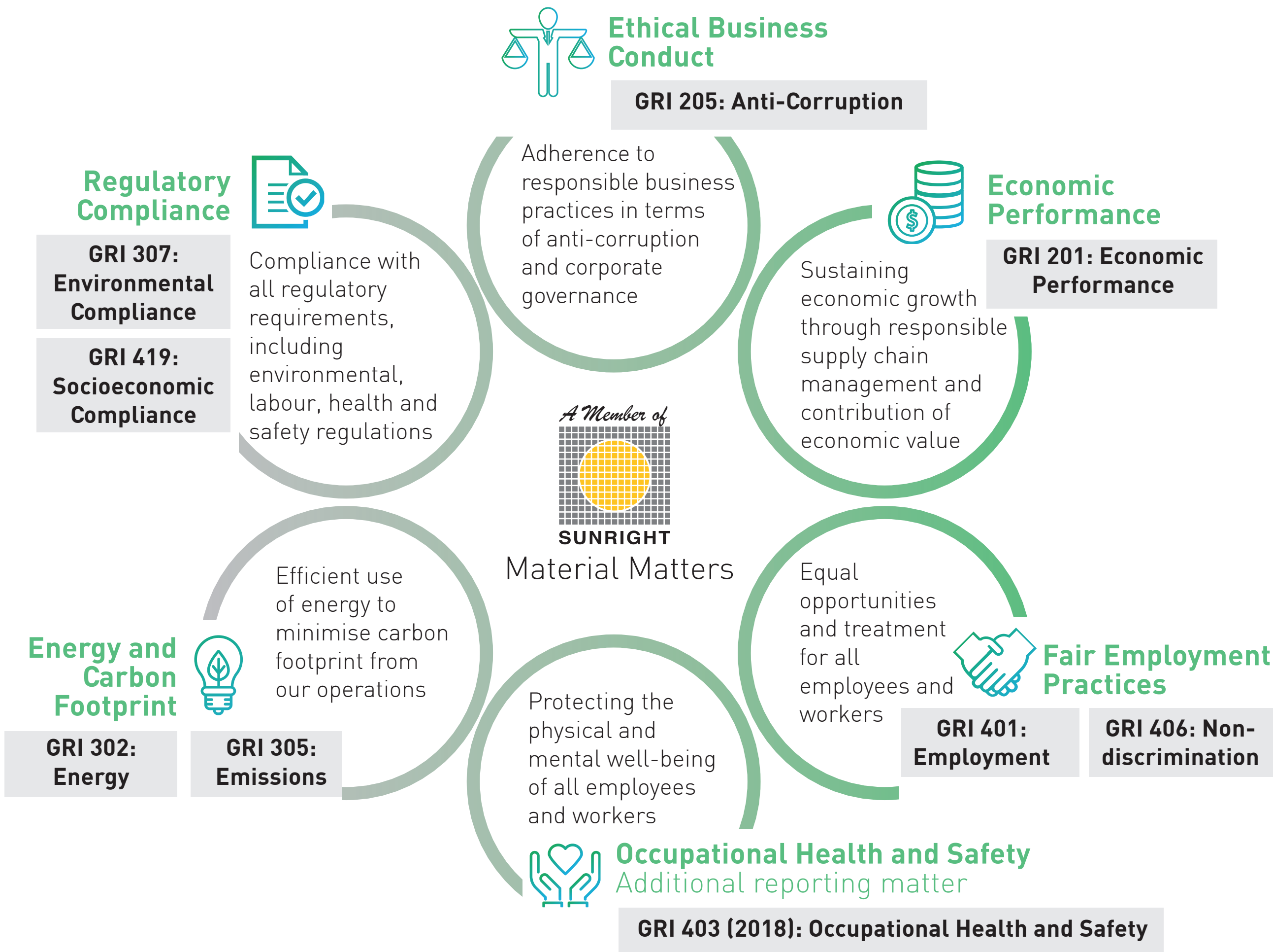
The results of the exercise were mapped into a materiality matrix, which is approved by the Board.

4

Review

In FY2021, a review of the material matters was conducted. It was concluded that the original five material matters identified, as well as the material matter *Occupational Health and Safety* added in FY2020, remained relevant for reporting.

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



MANAGING THE IMPACTS OF COVID-19

The COVID-19 pandemic has created significant disruption to the global economy ever since it first reared its head in 2020. Continuing physical lockdowns and movement restrictions imposed upon the locations in which we operate created workforce disruptions and constraints, and required KESMI to respond flexibly in order to minimise operational kinks.

The health, safety and well-being of our employees remain key for KESMI. This year, we continued to maintain full compliance against all regulator-mandated COVID-19 prevention guidelines in Malaysia and China. In the workplace, even when restrictions were eased at some points in the year, the safe distancing guidelines and disinfection schedules of work areas remained in place. To care for our employees' well-being in these times, surgical masks, gloves and sanitisers are also make available to all employees. Additionally, we plan to introduce self-testing kits for our employees in plants in Malaysia.

KESMI stayed resilient amidst the ever-evolving pandemic situation, drawing on our robust risk management and business strategies rooted in sustainability and ensuring our financial resilience. Above all, we continue to safeguard the health and safety of our stakeholders and ensure close communication with employees through timely updates.

For our efforts, KESM Test was recognised with an award from one of its customers for the support provided during such challenging times.

Regulators

In Malaysia, we obtained the relevant approvals from the regulatory authorities to continue our manufacturing operations during this period, though workforce numbers were slightly constrained, amidst safe distancing rules. Our business continuity plans in Malaysia was activated in early 2020 in response to initial measures implemented by the local authorities. As such, when the government tightened its measures further through a series of Movement Control Orders ("MCO") in FY2021, KESMI was able to leverage our experience from the previous year, reacting swiftly to adjust our operations accordingly and minimise any adverse impacts on our operations. In FY2021, we passed all audits and inspections conducted by the relevant regulatory authorities in Malaysia (Ministry of Health, National Registration Department and Ministry of International Trade and Industry) and in China (Xiqing Economic and Technological Development Area).

As we operate in both Malaysia and China, we continue to maintain strict control measures such as twice-a-day temperature taking, wearing of face masks, proper sanitization procedures and social distancing.

KESMI remains in close communication with local authorities, keeping itself abreast of any new developments, and will update our safe management protocols promptly.

Employees and Workers

KESMI is committed to protecting our employees' job securities and livelihoods as the global economy slowly recovers in the wake of the pandemic. The extended MCOs ("EMCO") imposed by the Malaysian government, that limited our operations with headcount restrictions, had led to some forced leave arrangements. Work-from-home arrangements were adopted, particularly for employees situated in areas where the EMCO had been declared by the government, whilst split-team arrangements remained in place, where necessary. We continue to maintain vigilance on the situation at hand and continue to exercise prudence to protect jobs and livelihoods. In December 2020, we also provided a one-time COVID-19 relief allowance for our employees to help them tide through these difficult times.

For our workers who reside in hostels, we ensure that cleaning and disinfection regimes are carried out on a regular basis and conduct monthly audits on the hostel condition. We also ensure that similar sanitization is done in the chartered buses that workers take to/from the factory sites.

***Figure 3**: Cleaning and disinfection conducted at workers' accommodation*

***Figure 4**: Disinfection and safe distancing maintained in worker transportation*

At our operation sites, we organised response teams to prepare for any emergency situations regarding COVID-19. On site, employees are required to follow a set of Standard Operating Procedures ("SOP") developed by a safety team regarding regular disinfection, temperature taking/declaration, and reporting of possible interactions with possible COVID-19 patients. All employees and workers have access to medical supplies such as face masks, gloves, hand sanitisers and thermometers.

Due to the high level of COVID-19 cases across Malaysia in FY2021, we conducted mass screening for all employees, including canteen staff, cleaners and staff under vendor permits, to ensure continuance of a safe working environment in our factories and offices.

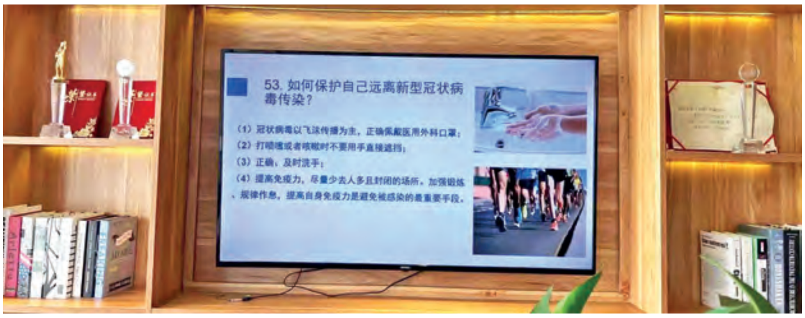
***Figure 5**: Cleaning, disinfection and safe distancing measures in KESP*

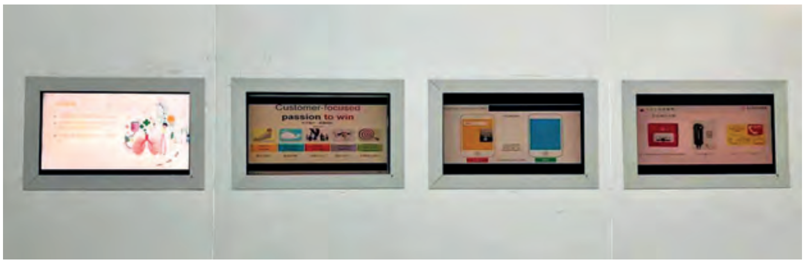
For our office staff, work-from-home arrangements continue to be implemented where practicable to minimise physical contact. To boost team morale and keep all employees updated on the progress of department tasks, our managers carry out regular online bonding sessions for individual departments, hence uplifting mental health.

All employees are also kept up to date with the COVID-19 situation as well as work arrangement plans through regular staff communication channels.

In China, epidemic prevention training is conducted plant-wide for all employees. Recognising the significant mental toll the pandemic can present, educational videos are also screened on television screens in all work sites to raise awareness and encourage employees to seek help from government websites and hotlines, and speak with managers should they be experiencing any emotional stress.

Figure 6: *COVID-19 Prevention videos at KESM Tianjin*





Shareholders

KESMI is committed to answering and clarifying all shareholder queries in a timely manner, including sharing prospects that are announced by the Board and Executive Directors. We continue to build financial resilience to maintain shareholder payouts, cut down on unnecessary costs and implement cost-control measures, so as to sustain recovery and profitability.

Suppliers and business partners

While the global lockdowns caused by COVID-19 created significant disruptions in global supply chains this year, KESMI continued to work with local suppliers to review contracts to ensure that our supply chain remain minimally affected. Maintaining those key lines of communication with our suppliers helped ensure that we had the flexibility in meeting our supply needs quickly.

Customers

Business has been severely disrupted since the start of the pandemic and is likely to remain a key challenge as the global economy recovers. KESMI continues to maintain a close working relationship with our customers, enabling us to keep track of the progress of our projects and gather feedback on our services offerings. With careful planning and management, we strictly ensure our ability to fulfill customer expectations, delivering critical and high-quality products in a timely manner.

Community

COVID-19 affects not only our shareholders but also the community at large. We seek, through the approximately 2,000 workforce, to carry the message of "staying safe, healthy life" to their spheres of influence.

BUILDING AN ETHICAL CULTURE

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

We value the trust that our stakeholders put in us and strive to conduct our business in a fair and honest way that embodies the values we believe in. KESMI has established a Code of Conduct (the "Code") that was developed based on the Responsible Business Alliance ("RBA") Code of Conduct[4]. This Code defines the values, principles, standard and norms and behaviour that guide how we manage our business and our interactions with our clients, suppliers and other stakeholders.

In our engagements, we uphold the principles of honesty, ethics and integrity between personal and professional parties, and hold our partners to this same standard. Clients and major suppliers are notified upon engagement on our long-standing policy on kickbacks, soliciting gifts, and entertainment of favour in return for business deals.

4 Responsible Business Alliance ("RBA") is a nonprofit coalition comprising of electronics, retail, auto and toy companies committed to supporting the rights and well-being of workers and communities worldwide affected by the global electronics supply chain.

We maintain a zero-tolerance policy towards any form of fraud, bribery and corruption. Employees are expected to embrace these values and adhere to all policies in the course of performing their work and we will not hesitate to enforce strict disciplinary action against any violation of our policies. To raise awareness on the importance of anti-corruption, posters are put up within our facilities and workplaces, and relevant policies and procedures are communicated to all employees through the Code via annual briefings, emails and letters, while new joiners undergo the necessary mandatory training.

In FY2021, 813 employees have been communicated to and 350 have received training on anti-corruption policies, translating to about 100% and 43% of all employees respectively.

Responsible Business Alliance Code of Conduct ("RBA")

The RBA Code of Conduct is a set of globally-recognised social, environmental and ethical industry standards. These standards ensure employees are provided fair working conditions where they are treated with respect and dignity, while business operations are conducted in an environmentally and ethically responsible manner.

As the code is designed to be a total supply chain initiative, at a minimum, KESMI shall require its next tier suppliers to implement the code.

Management will monitor and review the Code on a regular basis to ensure its continued applicability and effectiveness.

***Table 2**: KESMI's Policies relating to Business Ethics and Anti-Corruption*

Name of Policy	Policy Description
Whistleblower Policy	KESMI has a Whistle-blower Policy ("Policy") in place alongside internal controls, operating procedures and governance policies intended to detect and to prevent or deter improper conduct. These policies encourage and protect the identity of any employee who provides information on potential improprieties (e.g. wrongdoing or misconduct). Directors, employees as well as third parties such as suppliers, contractors, sub-contractors and agents are required to comply with the Policy. The objectives of the Policy are as follows: i. To encourage employees to confidently raise genuine concerns about possible improprieties, ii. Provide ways for employees to raise concerns and receive feedback on any actions taken as a result, and iii. Reassure employees that they will be protected from possible reprisals or victimization.
Grievance Handling Policy	In the interests of industrial efficiency and stability in performance, the Grievance Handling Policy and the accompanying grievance mechanism procedure were formulated to ensure grievances are handled at the lowest corporate level possible. Grievances can include any violations or threats on fair and humane treatment such as prohibition of sexual harassment, abuse (mental, physical or verbal), coercion, corporal punishment etc.
Business Ethics Policy	Employees are prohibited to be associated with illegal cartel activities, illicit price-fixing, deception and undesirable social behaviour, as well as prohibited from dealing with customers or vendors that offer rebates, commissions, and other forms of illegal remuneration. Employees are required to fully disclose any circumstances likely to give rise to conflicts of interest, and disallowed from giving or accepting any gifts, which might improperly influence the normal business relationship with any supplier or customer. All company business dealings are based on a 'fair deal' basis. All employees shall impress upon business partners on the high business ethics standards, and refrain from providing or accepting bribes and kickbacks.
Purchasing Policy	The Purchasing Policy sets clear guidelines on maintaining ethical relations with vendors and suppliers while acting with integrity throughout all procedures related to the purchasing activities of the company.

Table 3: *Number of employees and business partners who received communication and training on anti-corruption policies in FY2021 by employee category*

Category	Staff	Manager	Business partners: Customers, Suppliers, Agents
Communicated To			
	760	53	1,178
Received Training			
	329	21	341

In FY2021, 0 cases of corruption within KESMI were reported; this is a record we strive to maintain.

Focus Area	Perpetual Target	FY2021 Performance
Ethical Business Conduct	0 confirmed cases of corruption within KESMI	Achieved

ENSURING STRICT COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

[GRI 307-1, 419-1]

KESMI respects the laws of all countries in which it operates, including environmental and socioeconomic regulations and obligations; these requirements guide our stringent Code of Conduct that we require all employees to align with. We keep abreast of relevant regional and industry trends and regulations via regular policy reviews and internal checks, and any significant changes will be communicated to our staff to ensure that they are aware of the conduct expected of them when they carry out their duties.

Focus Area	Perpetual Target	FY2021 Performance
Regulatory Compliance	0 confirmed cases of non-compliance with environmental laws and regulations	Achieved
	0 confirmed cases of non-compliance with socioeconomic laws and regulations	Achieved

SUSTAINING ECONOMIC PERFORMANCE

Managing Supply Chains Responsibly

[GRI 102-9, 204-1]

A robust and sustainable supply chain ensures KESMI's ability to provide products and services with high quality standards in the most efficient and cost-effective manner. KESMI ensures that the materials we use such as 3TG metals (tungsten, tantalum, tin and gold) during printed circuit board ("PCB") assembly, are procured from responsible sources. Our engagement with suppliers that practise responsible management of resources greatly reduces our exposure to a supply chain with potential sustainability risks such as poor labour practices, emissions of pollutants exceeding legal limits resulting in high litigation costs as well as damages to reputation.

Key to this is our commitment to local sourcing. In FY2021, 72% of our procurement budget was allocated to local suppliers in Malaysia and China, a decrease from last year due to customer specifications. KESMI makes it a priority to support the domestic economy of our operations by sourcing most of our products and services locally. This strategy reduces our carbon footprint and ensures shorter lead times, enabling us to maintain production efficiency. Our procurement team has thus set an annual target to ensure that at least 50% of our purchases are locally sourced.

KESMI's Purchasing Policy provides a strong foundation upon which our screening, selection and management procedures are based on. Our robust Three-Step Supply Chain Management Process outlines the procurement procedures, from sourcing and selection of new items, delivery follow-up, receiving, to inspection of goods and payments.

***Figure 7**: Purchasing Policy and Procedures*

Purchasing Policy

Vendor Qualification Procedure	Purchasing Procedure
Recognising that our suppliers exert significant influence on our supply chain, KESMI adheres to stringent criteria in selecting environmentally and economically accountable suppliers as laid out in our Vendor Qualification Procedure. This comprehensive procedure is an integral component of KESMI's Three-Step Supply Chain Management Process (see below).	KESMI's Purchasing Procedure acts as an overall check-and-balance on all purchasing activities associated with our supply chain. The provisions of this policy encompass guidelines, procedures and the scope of all purchases.

***Figure 8**: KESMI's Supply Chain Management Process*

1

Internal Requisition ("IR")
The first step of our Supply Chain Management Process is the IR process, which is facilitated by an online system maintaining a clear audit trail of all requisition cases. Once the IR is raised, an approval process is triggered before vendor sourcing commences and a Purchase Order is raised.

2

Supplier Selection/Vendor Qualification Procedure
KESMI adheres to stringent supplier selection criteria to manage our supply chain impacts on the economy, society and environment.

The suppliers need to acknowledge and accept KESMI's Supplier Code of Conduct before engagement. The following aspects are covered in the Code:

i. Compliance with all applicable laws and regulations
ii. Prevention of, and intolerance for, corruption and all forms of bribery
iii. Prohibition of child labour
iv. Safeguarding the health and safety of employees
v. Upholding of human rights

Our suppliers are also expected to eliminate the use of conflict mineral to achieve 100% conflict-free mineral sourcing. They are also responsible for performing due diligence on their supply chain as appropriate to ensure compliance.

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

3

Supplier Evaluation
Our suppliers are regularly assessed to allow KESMI to improve or maintain our quality of services and drive customer satisfaction. Where a supplier's performance is unsatisfactory, feedback is provided to help them identify any scope for improvement. Should the supplier continue to be negligent in improving their performance, we may take stern actions, including the suspension of contracts.

Focus Area	Perpetual Target	FY2021 Performance
Responsible Supply Chain Management	At least 50% of all purchases are sourced locally[5]	Achieved

Contributing Direct Economic Value
[GRI 102-7, 201-1]

In FY2021, KESMI generated approximately RM248.3 million in total revenue, an increase of RM7.3 million or 3%, from RM241.0 million in previous financial year.

The global economic slowdown caused by the COVID-19 pandemic continues to affect our business operations in FY2021, and the supply chain disruptions created from various lockdowns and market uncertainties have affected manufacturing operations and that of our partners that support our business.

The Organisation for Economic Co-operation and Development (OECD)'s Economic Outlook foresees brighter prospects for the world economy in the second half of 2021 and beyond as international cooperation on COVID-19 vaccines and effective public health strategies contribute to the recovery of the global economy[6]. In view of this, we maintain a cautious outlook on business recovery and continue to adapt to any challenges that arise by implementing relevant business continuity plans. KESMI looks towards improving our business resilience and recovery and maintain a strong market position.

***Table 4**: Economic Value Generated, Distributed and Retained from FY2019 to FY2021*

	FY2019	FY2020	FY2021
Economic Value Generated (RM' million)			
Revenue	307	241	248
Other income from financial investments	10	8	6
Sales of assets	3	10	8
Economic Value Distributed (RM' million)			
Operating costs[7]	(148)	(106)	(146)
Employee wages and benefits	(104)	(93)	(94)
Payments to providers of capital	(12)	(6)	(4)
Payments to governments	(4)	(5)	(8)
Economic Value Retained (RM' million)	**52**	**49**	**10**
For further details on our economic performance, please refer to the following sections in our Annual Report: Financial Statement and Chairman's Statement.			

5 Local purchases refer to purchases made (except for production machineries) from locally registered companies, which supply trade and non-trade goods and services.
6 OECD Economic Outlook, May 2021
7 Operating costs includes cash payments made outside the organisation for material cost, purchase of property, plant and equipment and other expenses.

DEVELOP AN ENGAGED WORKFORCE & FAIR WORKPLACE

KESMI's Employee and Worker Profile

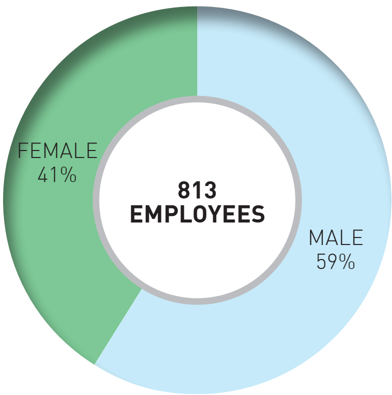
[GRI 102-7, 102-8, 401-1]

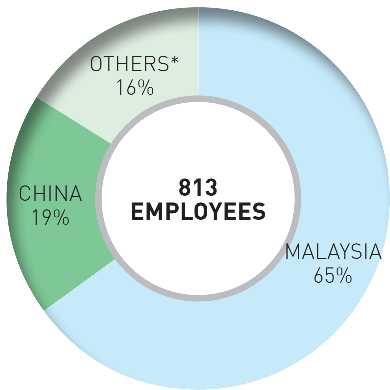
As at 31 July 2021, KESMI employed a total of 813 employees and 1,220 workers across Malaysia and China.

KESMI has a long-standing commitment to develop our employees and provide them with opportunities to excel within the organisation. Our current workforce consists of 84% of People's Republic of China ("PRC") nationals and Malaysians and is a testament to our commitment in supporting and developing local economies. We also strongly believe in having a diversified and inclusive workforce, and ensure fair gender representation in our workforce through a well-balanced ratio of male and female employees.

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

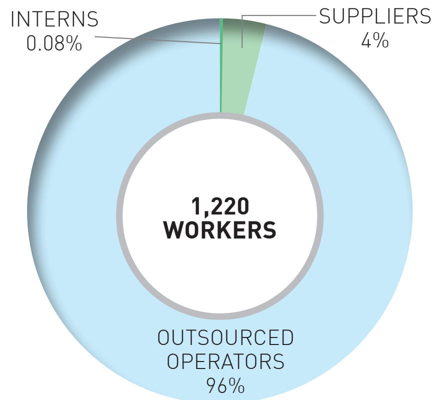
***Figure 9**: KESMI's Employee Demographics by Gender and Region in FY2021*





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

***Figure 10**: KESMI's Worker Demographics in FY2021*



In FY2021, we welcomed 517 new employees, a significant increase from FY2020 in line with the similar high turnover of 546 employees. We are cognizant of the volatile job market in these times and will continue to monitor these statistics closely.

***Figure 11**: KESMI's New Hires by Gender, Age Group in FY2021*

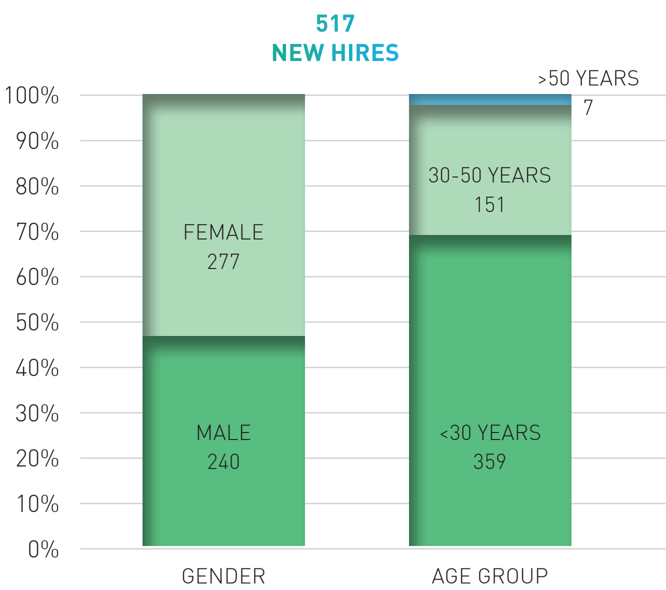
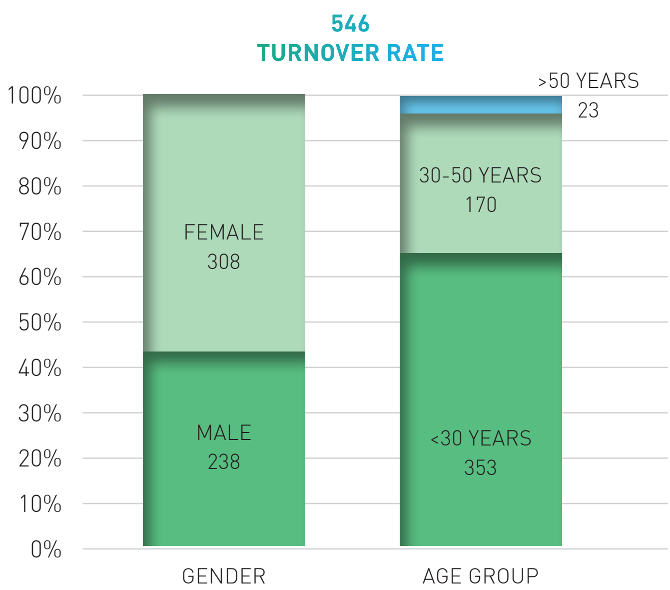


***Figure 12**: KESMI's Turnover by Gender, Age Group in FY2021*



Fair Employment Practices

[GRI 406-1]

At KESMI, our employees and workers are our greatest assets, and this is reflected in our human resource policies that protect and promote the welfare of our employees. These policies are communicated to all new joiners and made readily available and accessible to all employees in organisation-wide shared folders.

In recognition of the value our employees bring, we also provide a suite of benefits and welfare to ensure the continued well-being of our employees and enable them to achieve their fullest potential. We also seek to establish strong relationships between higher management and our employees to better understand their needs and implement more effective measures and policies to positively impact our employees.

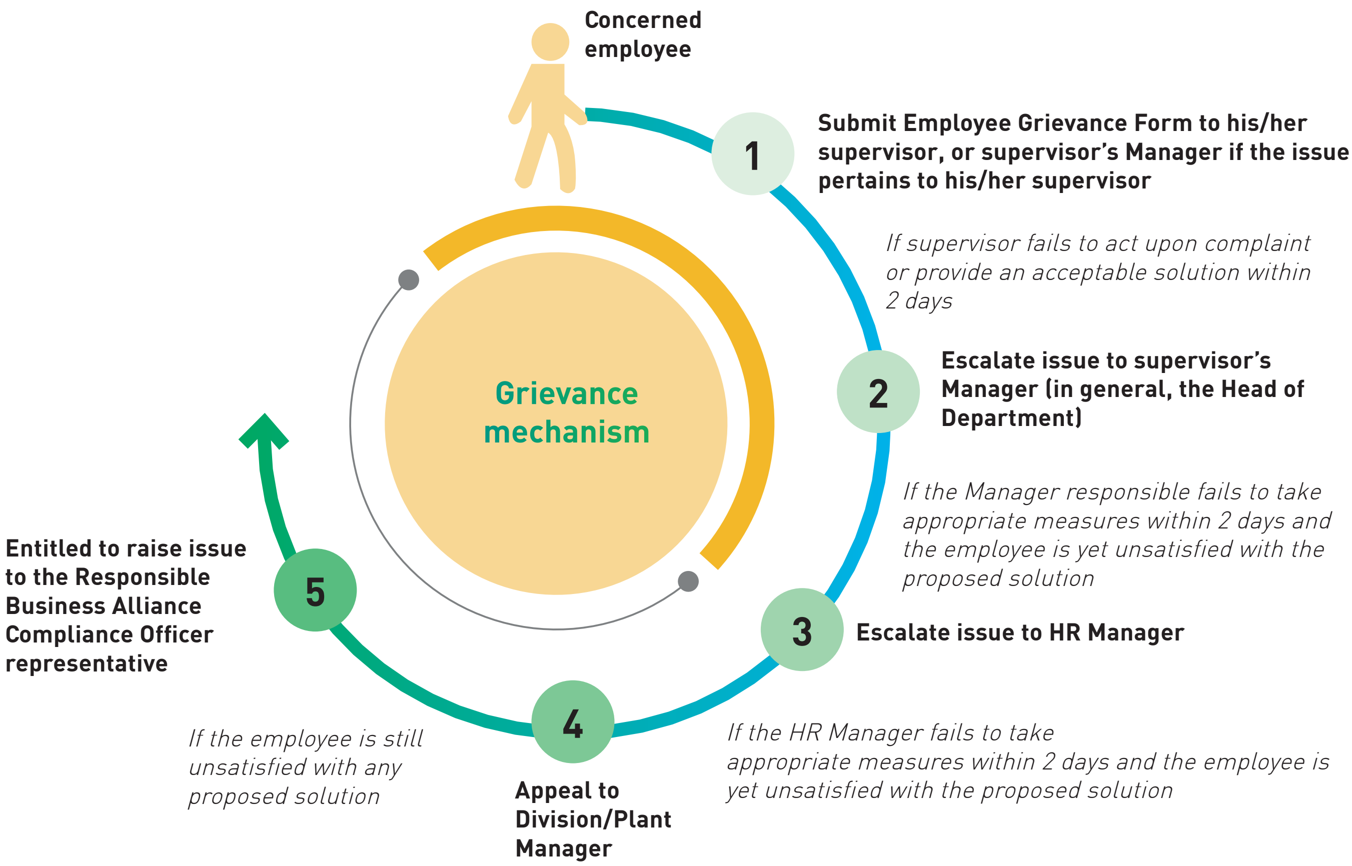
***Table 5**: KESMI's Policies on Fair Employment and Well-Being of Employees and Workers*

Name of Policy	Policy Description
Recruitment and Selection Policy	KESMI practises fair hiring practices that are merit-based and non-discriminatory. This policy covers the terms and conditions of the recruitment process, selection and placement of all qualified applications as well as current employees. We do not condone any form of discrimination and race, colour, religion, gender, age, sexual orientation, gender identity and expression, ethnicity or national origin, covered veteran status, protected genetic information, disability, pregnancy, political affiliation, union membership and marital status.
Grievance Procedures/ Mechanism	We strongly encourage our employees to voice their concerns through the feedback channels provided, and we have a standardised grievance reporting mechanism that allows workers to report their grievances without fear of reprisal or retaliation. This mechanism covers both our employees and foreign workers who are able to submit their concerns in their native language, and the HR department will seek the assistance of a translator for investigation and provision of solutions. Overall, this ensures that the employees' case will be investigated promptly by our dedicated HR team that is specialised to deal with such matters.
Labour and Human Rights Standards	Our commitment to ensure proper labour and human rights practices is in line with our Corporate Social Responsibility ("CSR") goals. We acknowledge the importance of ensuring a safe, conducive and healthy environment for our employees, customers, vendors and shareholders as part of our strategy and operating initiatives. We value the diversity of our workforce, freedom of expression and feedback provided by our employees. If employees have safety concerns regarding their work environment or they feel their workspace is not conducive for daily work and productivity, they are encouraged to immediately voice their concerns to their supervisor. KESMI has zero tolerance for racism, verbal abuse, discrimination and derogatory remarks. We expect the highest ethical standards from all our employees and will not hesitate to suspend, dismiss or report rouge employees to the relevant authorities. This policy is also available in Mandarin Chinese for the ease of understanding and benefit of employees at our Tianjin facility.
Benefits Policy	We show appreciation to our employees by providing competitive pay, a healthy work-life balance and benefits. Our comprehensive benefits policy that is allotted to all our employees covers medical benefits, public holidays, service awards, annual salary review, gifts on occasions, etc.

KESMI's fair employment practices also extend to our outsourced workers. To ensure that our workers are paid fairly, we conduct quarterly audits on the associate companies that provide a large number of foreign workers to support our operations. Furthermore, as we engage external vendors to provide worker accommodation, audits are also conducted monthly on hostel conditions in accordance with the Responsible Business Alliance checklist, and audit reports will be provided to KESMI upon request. No significant findings have been raised from these audits to date.

KESMI aims to forge a culture of feedback and improvement within the organisation, and the HR department conducts regular dialogue sessions to receive any grievances, concerns and feedback raised by our employees and workers. Figure 13 illustrates KESMI's formalised grievance mechanism, which outlines the steps that employees who feel unfairly treated or are experiencing any workplace discrimination can follow; after the initial submission of a grievance form to their supervisor or through our HR feedback channel, these issues may be channeled to the relevant authority in order to ensure that they are fully resolved.

***Figure 13**: KESMI's Employee Grievance Mechanism*



In FY2021, no substantiated complaints were received from our employees regarding unfair or discriminatory employment practices within KESMI.

Employee Engagement

KESMI aims to recognise and appreciate our employees in building a conducive work environment. We conduct regular engagement sessions to foster good relationships and improve morale and productivity, as well as organise various sports and recreational activities (pre-COVID-19), staff bonding activities and appreciation functions to encourage team bonding. We also hold birthday celebrations and present staff with a small token of appreciation and a birthday message from the company on their special day.

In FY2021, we introduced the perfect attendance incentive program for staff and held the first Perfect Attendance prize giving ceremony for 3 winners where they were presented with cash prizes. Due to the MCO imposed in Malaysia, coffee talks that had been planned for were temporarily put on hold. We also engage our employees through training sessions, for example quarterly training sessions for operators and technicians to raise awareness on quality-related issues.

Focus Area	Perpetual Target	FY2021 Performance
Fair Employment Practices	0 complaints from employees to regulatory authorities pertaining to unfair or discriminatory employment practices	Achieved

FOSTERING A SAFETY CULTURE

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

KESMI's Health and Safety Policy sets objectives and guidelines that ensure that the health and well-being of our staff are taken care of in the workplace. This policy describes the procedures, guidelines and best practices that our staff are required to adhere to in order to mitigate health and safety risks in the workplace. Our subsidiaries also follow similar guidelines as detailed by an effective OHS Management System ("OHSMS") which was developed with reference to local safety regulations and covers all workers in our operating locations.

Hazard Identification and Risk Assessment

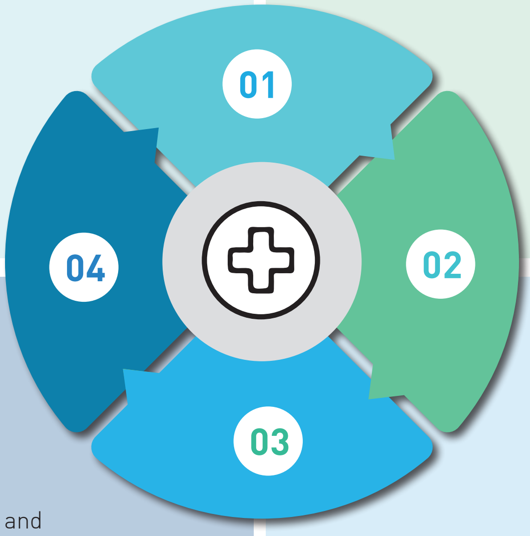
We aim to detect and minimise all substandard practices and work-related hazards. Some of these hazards include cuts from handling sharp blade edges, trips or falls due to electrical appliances and other energy sources, fire, vehicles, slippery floors etc, while occupational health hazards include exposure to airborne tin from soldering activities. Together with timely audits, risks are continually assessed and controlled to improve the effectiveness of the OHSMS.

Strict control measures such as annual exposure monitoring are in place to ensure that any chemical exposure is kept to a minimum. We also conduct regular safety walks and equipment inspection to ensure that our safety protocols are strictly adhered to. On-site safety personnel are kept up to date with the latest safety practices to ensure that risks are properly identified and controlled. Before every work shift, workers are briefed by the Head Supervisor to remind our workers on the importance of safety. All these efforts, as described in greater detail in Figure 14, contribute to the overall effectiveness of the OHSMS.

***Figure 14**: Process of Hazard Identification, Risk Assessment and Improvement of OHSMS*

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

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



Continual Improvement of OHSMS
- Methodical and timely audits
- Review of programme regularly
- Allocation of resources to the appropriate personnel to perform remedial action and risk control
- Regular safety meetings to review and propose improvements to Standard Operating Procedure

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

Incident Investigation

At KESMI, we have implemented a systematic process to minimise unsafe work situations. Workers are required to immediately alert their supervisor or head of department upon encountering a potentially dangerous situation. All potential safety issues must be resolved before employees are allowed to resume work.

Following the chain of command, the OHS committee will officially launch an investigation on the incident and record all details in an investigation report, and follow-up action will be conducted by relevant authorities. Employees who report these potential incidents are protected from backlash under the Code.

Occupational Health Services and Promotion of Worker Health

KESMI ensures that the occupational health services ("OHS") we provide are accessible, safe, and tailored to the employees exposed to these potential hazards. All new employees are required to attend a physical health checkup to certify that they are fit for work, and we also provide yearly medical check-ups for employees handling chemicals, as well as yearly audiometric check-ups for employees working at high noise areas. We engage only certified service providers that comply with international and national OHS standards and regulations as well as facilitate the availability of information in several languages to ensure they are easily understood.

Workplace injuries are treated with the utmost importance. First aid treatment is provided for personnel involved in minor cases, and transportation to the nearest hospital is immediately arranged for more severe injuries. To evaluate the effectiveness of the health services we provide, KESMI welcomes feedback from our employees via surveys and rating systems, with the overall goal to maintain high quality service standards.

The general well-being of our employees is also supported through annual health screenings and consultations at company-approved clinics. We also collaborate with external service providers to organise voluntary blood tests and indoor/outdoor activities for our workers to participate in during working hours.

Worker Participation and Training

A strong safety culture can only be achieved with the active involvement of all employees and workers. Annual OHS training is conducted for all employees, where we cover topics including training for management staff, first aid and CPR training for designated workers. Furthermore, workers exposed to specific hazards (e.g. chemicals) are given the appropriate hazard-specific training. A formal joint management-worker OHS committee has also been established to engage our workers in OHS consultation and communication process.

Figure 15*: Worker Participation, Consultation and Communication on OHS*

Focus Area	Perpetual Target	FY2021 Performance
Occupational Health and Safety	0 work-related fatalities and injuries	Achieved

PROTECTING THE ENVIRONMENT

[GRI 302-1, 305-2]

KESMI recognises its duty to protect the environment and maximise energy efficiency within our business operations. Our operations are guided by the Environmental Management System (certified to ISO 14001) and other local Energy Policies. Additionally, our Code also outlines specific environmental standards such as resource conservation, dealing with hazardous substances, wastewater and solid waste, air emissions, among others.

One such local Energy Policy is in place at our Tianjin plant, which was designed for efficient management of electrical energy consumption. Although the existing Tianjin pilot Emission Trading System does not cover the semiconductor and electronics manufacturing industry, we will continue to monitor our electricity consumption and make adjustments where possible to contribute to national carbon emissions reductions.

In FY2021, KESMI consumed 77.7 GWh of electricity. This translates to a decrease in electricity consumption of 3.8 GWh, or 5%, from the previous year. Similarly, our Scope 2 emissions have fallen by 6% to 54.2 kilo tonnes CO_2. This is testament to our tight monitoring of electricity consumption to reduce our environmental footprint.

***Figure 16**: KESMI's Electrical Energy Consumption*

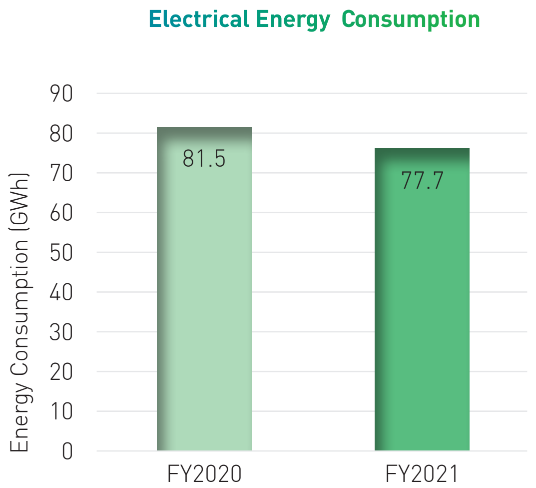
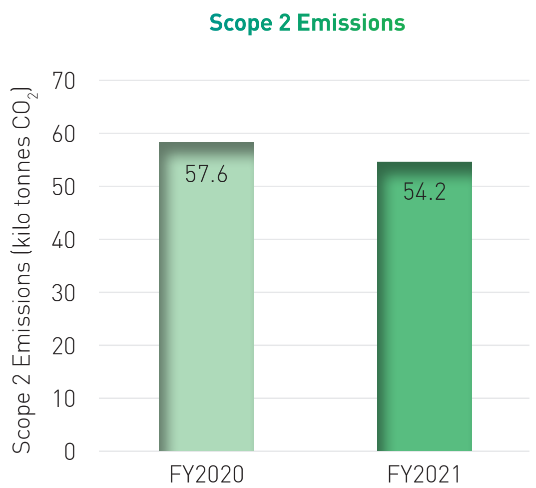


***Figure 17**: KESMI's Scope 2 (Indirect) Emissions[8]*



Focus Area	Perpetual Target	FY2021 Performance
Energy Consumption	2% reduction in year-on-year energy consumption	Achieved 5% reduction

KESMI strives to continually improve the quality and efficiency of our systems and operations to reduce our footprint. This year, we are working towards integrating the use of renewable solar energy in our operations and hope to share more details in coming years.

[8] The Electricity Grid Emissions Factors ("GEF") used in the calculation of Scope 2 Emissions for FY2020 and FY2021 have been obtained from the Institute for Global Environmental Strategies ("IGES") 2020 database.

GRI CONTENT INDEX

Disclosure		Reference(s) or Reasons for Omission
Material Topic: General Disclosures		
Organisational Profile		
102-1	Name of the organisation	About KESM Industries Berhad (page 14)
102-2	Activities, brands, products, and services	Management Discussion and Analysis (page 5); About KESM Industries Berhad (page 14)
102-3	Location of headquarters	Malaysia; About KESM Industries Berhad (page 14)
102-4	Location of operations	Management Discussion and Analysis (page 5); About KESM Industries Berhad (page 14)
102-5	Ownership and legal form	About KESM Industries Berhad (page 14); Annual Report (page 70)
102-6	Markets served	About KESM Industries Berhad (page 14)
102-7	Scale of the organisation	Management Discussion and Analysis (page 5); Contributing Direct Economic Value (page 24); KESMI's Employee and Worker Profile (page 25)
102-8	Information on employee and other workers	Develop an Engaged Workforce & Fair Workplace (pages 25-28)
102-9	Supply chain	Sustaining Economic Performance (pages 22-24)
102-10	Significant changes to the organisation and its supply chain	There have been no significant changes to our supply chain.
102-11	Precautionary principle and approach	KESMI does not specifically address the principles of the precautionary approach. However, our management is risk-based. Refer to Annual Report (pages 51-53)
102-12	External initiatives	We take reference from Responsible Business Alliance's Code of Conduct
102-13	Membership of associations	Malaysian Employers Federation; The Free Trade Zone, Penang Companies' Association
Strategy		
102-14	Statement from senior decision-maker	Chairman's Statement (pages 2-3)
Ethics and Integrity		
102-16	Values, principles, standards, and norms of behaviour	Building an Ethical Culture (pages 20-22)
Governance		
102-18	Governance structure	Sustainability: The Right Way Forward (page 14)

Disclosure		Reference(s) or Reasons for Omission
Stakeholder Engagement		
102-40	List of stakeholder groups	Stakeholder Engagement (pages 15-16)
102-41	Collective bargaining agreements	None of our employees are covered by collective bargaining agreements. Nonetheless, KESMI respects the rights of its employees to join or form a labour union.
102-42	Identifying and selecting stakeholders	Stakeholder Engagement (pages 15-16)
102-43	Approach to stakeholder engagement	Stakeholder Engagement (pages 15-16)
102-44	Key topics and concerns raised	Stakeholder Engagement (pages 15-16)
Reporting Practice		
102-45	Entities included in the consolidated financial statements	Annual Report (page 98)
102-46	Defining report content and topic boundaries	Materiality Assessment (pages 16-17)
102-47	List of material topics	Materiality Assessment (pages 16-17)
102-48	Restatements of information	Economic Value Generated, Distributed and Retained (page 24) were adjusted to reflect greater accuracy.
102-49	Changes in reporting	Nil
102-50	Reporting period	FY2021
102-51	Date of most recent report (if any)	FY2020
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	sustainability@sunright.com
102-54	Claims of reporting in accordance with the GRI Standards	About the Report (page 14)
102-55	GRI content index	GRI Content Index (pages 32-35)
102-56	External assurance	About the Report (page 14)
Material Topic: Ethical Business Conduct		
Management Approach		
103-1	Explanation of the material topic and its boundary	Building an Ethical Culture (pages 20-22)
103-2	The management approach and its components	Building an Ethical Culture (pages 20-22)
103-3	Evaluation of the management approach	Building an Ethical Culture (pages 20-22)
Anti-Corruption		
205-2	Communication and training about anti-corruption policies and procedures	Building an Ethical Culture (pages 20-22)
205-3	Confirmed incidents of corruption and actions taken	Building an Ethical Culture (pages 20-22)

Disclosure		Reference(s) or Reasons for Omission
Material Topic: Regulatory Compliance		
Management Approach		
103-1	Explanation of the material topic and its boundary	Ensuring Strict Compliance with Applicable Laws and Regulations (page 22)
103-2	The management approach and its components	Ensuring Strict Compliance with Applicable Laws and Regulations (page 22)
103-3	Evaluation of the management approach	Ensuring Strict Compliance with Applicable Laws and Regulations (page 22)
Environmental Compliance		
307-1	Non-compliance with environmental laws and regulations	Ensuring Strict Compliance with Applicable Laws and Regulations (page 22)
419-1	Non-compliance with laws and regulations in the social and economic area	Ensuring Strict Compliance with Applicable Laws and Regulations (page 22)
Material Topic: Economic Performance		
Management Approach		
103-1	Explanation of the material topic and its boundary	Sustaining Economic Performance (pages 22-24)
103-2	The management approach and its components	Sustaining Economic Performance (pages 22-24)
103-3	Evaluation of the management approach	Sustaining Economic Performance (pages 22-24)
Economic Performance and Procurement Practices		
201-1	Direct economic value generated and distributed	Contributing Direct Economic Value (page 24)
204-1	Proportion of spending on local suppliers	Managing Supply Chains Responsibly (pages 22-24)
Material Topic: Fair Employment Practices		
Management Approach		
103-1	Explanation of the material topic and its boundary	Develop an Engaged Workforce & Fair Workplace (pages 25-28)
103-2	The management approach and its components	Develop an Engaged Workforce & Fair Workplace (pages 25-28)
103-3	Evaluation of the management approach	Develop an Engaged Workforce & Fair Workplace (pages 25-28)
Employment and Non-Discrimination		
401-1	New employee hire and employee turnover	KESMI's Employee and Worker Profile (page 25)
406-1	Incidents of discrimination and corrective actions taken	Fair Employment Practices (pages 26-27)

Disclosure		Reference(s) or Reasons for Omission
Material Topic: Energy and Carbon Footprint		
Management Approach		
103-1	Explanation of the material topic and its boundary	Protecting the Environment (page 31)
103-2	The management approach and its components	Protecting the Environment (page 31)
103-3	Evaluation of the management approach	Protecting the Environment (page 31)
Energy Consumption and Emissions		
302-1	Energy consumption within the organisation	Protecting the Environment (page 31)
305-2	Energy indirect (Scope 2) GHG Emissions	Protecting the Environment (page 31)
Additional Reporting Matter: Occupational Health and Safety		
Management Approach (2018)		
103-1	Explanation of the material topic and its boundary	Fostering a Safety Culture (pages 28-30)
103-2	The management approach and its components	Fostering a Safety Culture (pages 28-30)
103-3	Evaluation of the management approach	Fostering a Safety Culture (pages 28-30)
403-1	Occupational health and safety management system	Fostering a Safety Culture (pages 28-30)
403-2	Hazard identification, risk assessment, and incident investigation	Fostering a Safety Culture (pages 28-30)
403-3	Occupational health services	Fostering a Safety Culture (pages 28-30)
403-4	Worker participation, consultation, and communication on occupational health and safety	Fostering a Safety Culture (pages 28-30)
403-5	Worker training on occupational health and safety	Fostering a Safety Culture (pages 28-30)
403-6	Promotion of worker health	Fostering a Safety Culture (pages 28-30)
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Fostering a Safety Culture (pages 28-30)
Occupational Health and Safety (2018)		
403-9	Work-related injuries	Fostering a Safety Culture (pages 28-30)

The Audit Committee ("the Committee") is pleased to present its report for the financial year ended 31 July 2021 ("FY2021").

COMPOSITION

The Committee currently comprises the following directors:-

Chairman	:	Tuan Haji Zakariah Bin Yet	*Senior Independent Non-Executive Director*
Members	:	Mr Yong Chee Hou	*Independent Non-Executive Director*
		Ms Lim Mee Ing	*Non-Independent Non-Executive Director*

KEY FUNCTIONS AND RESPONSIBILITIES

The Committee has clear written Terms of Reference ("TOR") defining its functions, qualifications for membership, scope of duties and responsibilities, regulations and procedures governing the manner in which the Committee is to operate and how decisions are to be taken.

The TOR is available on the Company's website at www.kesmi.com.

MEETINGS AND ATTENDANCE

The Committee met five (5) times in FY2021. Other Board members, corporate office staff and the company secretary attended the meetings upon invitation of the Committee. The representatives of the internal and external auditors were also present during deliberations which required their inputs and advice.

The meeting attendance record of the Committee members was as follows:

Name of Members	No. of Meetings attended
Tuan Haji Zakariah Bin Yet	5
Mr Yong Chee Hou	5
Ms Lim Mee Ing	5

SUMMARY OF THE WORK OF THE COMMITTEE

During FY2021, the Committee: -

Financial Reporting

1. reviewed with the external auditors their audit for the financial year ended 31 July 2020 ("FY2020") to ensure that the audited financial statements were prepared to give a true and fair view in compliance with applicable Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016; and discussed their audit findings and accounting issues arising from their audit together with their recommendations and Management's responses; and considered Management's handling of impairment assessment, corrected or uncorrected misstatements and unadjusted audit differences;

2. enquired and discussed with the external auditors on new developments of accounting standards that are applicable to the Company;

3. reviewed and recommended the audited financial statements of the Company and of the Group for FY2020 for the Board's approval; and

4. reviewed the unaudited quarterly results of the Group to ensure compliance with applicable approved accounting standards and Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR"), appropriate accounting policies had been adopted and applied consistently and narrative disclosures made were correct and comprehensive.

External Audit

1. considered Management's feedback on the service delivery of the external auditors and their audit fees and recommended their re-appointment;

2. reviewed the external auditors' report on the Statement on Risk Management and Internal Control in respect of FY2020 to ascertain that the disclosures are consistent with the Company's established systems of risk management and internal control prior to Board's approval;

3. reviewed the audit plan for FY2021 with the external auditors with focus on the audit engagement team, areas of audit emphasis and impairment assessment, multilocation scoping and audit timeline;

4. reviewed the external auditors' confirmation of independence and was satisfied that the non-audit services rendered were immaterial to impair their independence and the audit partner had been rotated; and

5. met with the external auditors twice in FY2021 without the presence of Executive Board members and senior management to enquire about Management's co-operation with the external auditors, and sought clarification on certain issues arising from the final audit.

Internal Audit

1. reviewed the internal audit plan and was satisfied that the internal auditors employed a systematic and reasonable methodology to select suitable audit areas and the corresponding group companies targeted for audit review;

2. reviewed and discussed the internal auditors' reports which highlighted the risk profiles and assessments, their recommendations, management responses and actions;

3. reviewed and discussed with the internal auditors on their follow-up audit on prior year's audits to ensure management had carried out the agreed actions timely;

4. enquired with the internal auditors and was satisfied that they did receive full information and co-operation from management during their audit reviews; and

5. conducted annual assessment of the competency and effectiveness of the internal auditors and was satisfied that the audit team has the relevant qualifications, adequate expertise and experience to conduct the audit competently and they have also demonstrated to provide quality audit performance.

Related Party Transactions

1. reviewed the recurrent related party transactions ("RRPT") of the Group quarterly to:

   (i) ascertain that they were entered in accordance to the Company's established guidelines and procedures, and within the mandated limits, on normal commercial terms and were not detrimental to the interest of the Company and its minority shareholders; and

   (ii) monitored the aggregate value transacted to determine if the threshold had been breached to warrant immediate announcement to Bursa Securities.

2. submitted the aforesaid RRPT to the Board for ratification and approval.

3. reviewed the Audit Committee Statement in the Circular to Shareholders in relation to the proposed renewal of the existing shareholders' mandate for RRPT of a revenue or trading nature and recommended to the Board to include the same in the Circular.

Others

1. prepared the Committee's report in respect of FY2020 and presented it to the Board for approval.

2. reviewed the TOR and proposed revisions to the Board for approval.

SUMMARY OF THE WORK OF INTERNAL AUDIT FUNCTION

During the financial year under review, the internal auditors:

1. presented the internal audit plan for the Committee's approval at the second meeting of the Committee;

2. conducted audit review in accordance to the approved audit plan, which covered the following business processes or areas:-

   - Corporate Liability Review
   - Cyber Security Management
   - RRPT
   - Inventory Management

   and presented the audit reports to the Committee; and

3. carried out follow-up audit review on prior year's audits and presented the outcome of their review to the Committee.

The total cost incurred for the Group's internal audit function amounted to RM69,000.

The Board of Directors ("the Board") is committed to ensuring that good corporate governance practices are observed throughout the Company and its subsidiaries ("the Group") as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and the financial performance of the Group. Hence, the Board has subscribed to the principles and practices of good corporate governance practices (including the intended outcomes) as promulgated by the Malaysian Code of Corporate Governance 2017 ("MCCG") in leading and managing the business and affairs of the Group in an effective and responsible manner, whilst promoting business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value.

This Statement provides an overview of the corporate governance practices adopted by the Company in respect of the financial year ended 31 July 2021 ("FY2021"). It outlines the manner in which the Company has applied the principles and practices set out in the MCCG, in accordance with paragraph 15.25(1) and Practice Note 9 of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities"). The applications of the principles and practices of the MCCG have also been set out, in greater detail, in the Corporate Governance Report prescribed by Bursa Securities ("CG Report"). Accordingly, this Statement should be read together with the CG Report, which is available on the Company's website: http://kesmi.com/investor-relations/general-meetings/, to obtain a comprehensive view of the adherence of the Company to the MCCG during FY2021.

The Board has taken note of the updated Practices and Guidance in the revised Code on Corporate Governance issued by the Securities Commission which came into effect from 28 April 2021 ("MCCG 2021"). MCCG 2021 supersedes and replaces the MCCG and will apply to the annual reports covering financial years ending 31 December 2021 onwards. The Company will review and set out the corporate practices in place to comply with MCCG 2021, when appropriate in the next annual report.

PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS

I. Board Responsibilities

The Board has the overall responsibility over the Company and the companies within the Group. In discharging its duties and responsibilities, the Board had set the strategies of the Group to ensure that the Group was led and managed in an effective and responsible manner so that the objectives and goals are met.

The Board was guided by the Board Charter that had been approved by the Board, as well as internal guidelines which set forth matters that require the Board's approval. This assisted the Board in ensuring that its performance of its duties and responsibilities are in line with the Constitution, the Companies Act 2016, the MMLR and any applicable rules, laws and regulations.

Amongst the steps that had been taken by the Board to satisfy its functions and responsibilities were:

i. reviewed, approved and adopted the overall strategic plan of the Group;

ii. conducted periodical reviews of the Group's strategies and business focus concurrently with the regular financial results reporting;

iii. promoted sustainability strategies to support long term value creation, which also took into consideration economic, environmental and social considerations;

iv. reviewed the adequacy and integrity of the Group's internal control and enterprise risk management, as well as the financial and non-financial reporting responsibilities;

v. oversight of succession planning of management by ensuring that the management staff possess the necessary skills and experience; and

vi. oversight of investor relations and shareholder communication.

Chairman of the Board

The Board is led by its Executive Chairman ("Chairman"), who is responsible for instilling good corporate governance practices, leadership and effectiveness of the Board. To this end, the Chairman takes on the role of creating an environment that enables open, robust and effective discourse between the Board members, as well as between the Board and management, and with the stakeholders of the Company. He is supported by the Executive Director, who is responsible for the execution of the decisions made by the Board and the day-to-day operations of the Group.

Role of Chairman and CEO

The Board Chairman is Mr Samuel Lim, who is also the Company's Chief Executive Officer ("CEO"). This single leadership appointment is a deviation under Practice 1.3 of the MCCG which recommends that each role should be held by different individuals to ensure accountability and facilitates division of responsibilities between them.

The Board has taken the view that given the nature and size of the Group's businesses, it is in the best interests of the Company to vest both roles on the same individual, Mr Samuel Lim. His deep knowledge of the products, experience of the business, wide contacts in the industry and visionary leadership; will ensure there is effective management and continued success of the Group in meeting its obligations and goals. The combined roles thus provide the Group with a strong and consistent leadership, and allows for more effective planning and expeditious execution of the business strategies.

To ensure compliance with the relevant principle in the MCCG, the Chairman/CEO always abstains from all deliberations and voting on matters, which he is directly or deemed interested, and the Board ensures that all related party transactions involving the Chairman/CEO are appropriately dealt with in accordance with the MMLR. Moreover, the Senior Independent Director, Tuan Haji Zakariah Bin Yet, is available to deal with any concerns regarding the Company where it would be a conflict for the Chairman/CEO to deal with.

Additionally, the Board comprises sufficient independent directors who are able to exercise their duties unfettered, and make judgements independently for the Board that are fair and objective, and ensures that the objectives and goals of the Company are met.

Furthermore, in view of Mr Samuel Lim's performance, professionalism and objectivity in discharging his responsibilities, the Board fully supports the retention of his combined roles as Board Chairman and CEO.

Role and Responsibilities of the Company Secretary

The Board is supported by a professionally qualified Company Secretary who is a Fellow Member of the Malaysian Institute of Chartered Secretaries and Administrators. She has more than 35 years of experience in handling corporate secretarial matters.

The Company Secretary is accountable to the Board on all matters connected with the proper functioning of the Board's responsibilities. To this end, during the FY2021, the Company Secretary (1) assisted the Chairman and chairmen of the Board committees in developing agendas for meetings; (2) administered, attended and prepared the minutes of the meetings of the Board, Board Committees and shareholders; (3) advised on statutory and regulatory requirements, monitored the compliance thereof, and the resultant implication of the requirements on the Company and the Board; (4) advised on matters relating to corporate governance practices; (5) facilitated suitable training courses and arranged for Directors to attend such courses; and (6) ensured good information flow between Board members, the Board and its Committees, as well as between management and the Directors.

Access to Information

All Directors have full and unrestricted access to timely information which is necessary for them to discharge their duties responsibly.

Agendas and meetings papers containing reports, financial statements and information to facilitate active participation and informed decision making, are typically circulated to the Board, and the Board Committees, a week or so prior to the meetings, to allow the Directors to study and evaluate the matters to be discussed. Directors are also able to call for additional clarification and information to assist them in their decision making.

Board Charter

The Board Charter sets out the Board structure and protocols, the Board's roles and responsibilities, including the roles of the individual directors, and that of the Senior Independent Director, the divisions of the responsibilities and powers between the Board and management, and different committees, and also between the Chairman and CEO, establishment of the Board Committees, remuneration of Directors, and processes and procedures for convening Board meetings.

The Board Charter is reviewed periodically, as and when the need arises to cater to the development and requirements of the Group, and changes to legislations and regulations. In the FY2021, the Board had adopted revisions to the Board Charter, in particular to expand the Board responsibilities to the subsidiary companies.

The Board Charter is publicly available, in an abridged form, on the Company's website at www.kesmi.com.

Code of Conduct and Ethics and Whistle-Blower Policy

The Company has established a code of conduct and ethics ("the Code") that provides an overview of the various policies, procedures and guidelines that have been adopted by the Company to steer acceptable employment practices, ethical values and conduct for behavior of employees. The Company periodically reviews the Code and its adopted policies, standards and guidelines to ensure that the conduct and ethical values it promulgates are upheld in its highest regard in its day-to-day dealings, and are in compliance with all applicable laws, rules and regulations. The Code may be referred to on the Company's website at www.kesmi.com.

The Company also has in place a whistle-blower policy which provides a mechanism for employees and external parties to report, and raise in good faith and in confidence, any concern about possible improprieties in matters of financial reporting or other matters. The whistle-blower policy may be referred to on the Company's website at www.kesmi.com.

II. Board Composition

The Company is led and managed, by an experienced Board, comprising members with a good mix of the necessary knowledge, skills and wide range of experiences relevant to the Group.

As at the FY2021, the Board comprises five (5) directors, three (3) of whom are non-executive. Of the non-executive directors, 2 are independent. The profiles of each Director and other relevant information are set out in the "Board of Directors" and "Other Information on Directors" sections of this Annual Report.

Although the Board has not met the requirement of having Directors with at least half of them being independent, the Company has proven that the performance of the Group has not been compromised by a lack of majority of independent directors in the composition of the Board. In fact, the success of the Company has not been in doubt due to the professional and knowledgeable contributions of the Executive Chairman and Executive Director of the Company.

Overall, the Directors are bound by their respective fiduciary obligation to act in the best interest of the Company. The independent and diverse perspectives of each of the Board members' views and decisions have effectively contributed to the success of the Group. Nevertheless, Directors have always abstained from the decision-making process where they are deemed interested in a particular matter.

Tenure of Independent Director

Notwithstanding the requirement of the MCCG relating to the tenure of independent directors, the Board is of the view that the tenure of an independent director alone should not be the criterion to determine a director's independence as there are advantages to be gained from the long-serving directors who possess good insight and knowledge of the Group's businesses and affairs.

Instead, the Board, through the Executive Directors, undertakes periodical assessments of the independence of its Independent Directors as it believes that the Executive Directors who have an intimate working relationship amongst the Directors, are well placed to ascertain the independence issue instead of the shareholders. In this regard, the Board has, subsequent to the FY2020, conducted an appraisal on the independence of Tuan Haji Zakariah Bin Yet and Mr Yong Chee Hou, who have served on the Board for more than 9 years and 12 years respectively. The Board concluded that they have met the independence criteria set out in the MMLR, their independence have not been affected by their long tenure as they have demonstrated their ability to exercise independent judgement, provide objective views and act in the best interests of the Company. In this connection, the Board successfully sought shareholders' approval at the 49th AGM via one-tier voting, in line with the objectives of the MCCG, to allow them to continue as Independent Directors.

Appointment and Assessment of Directors and Senior Management

The Nominating Committee is charged with, amongst others, sourcing, selecting and shortlisting suitable potential new Board candidates, for the Board's consideration. Some of the key responsibilities of the Nominating Committee are:

(a) reviewing the character, experience, integrity, commitment, competency, qualification and track record of the proposed candidate for appointment to the Board, and in the case of a proposed nomination of an independent non-executive director, to evaluate the nominee's ability to discharge such responsibilities/functions as expected of an independent non-executive director;

(b) reviewing the structure, size and composition of the Board (including evaluating the mix and balance of skills, knowledge, experience and diversity), and making recommendations to the Board with regard to any changes deemed necessary; and

(c) monitoring and evaluating the effectiveness of the Board and its committees, and developing appropriate procedures for individual evaluations.

The appointment of management staff is delegated to the Executive Directors who determines the required skill sets, qualification, character, relevant experience, regardless of age or ethnicity. As part of its succession and talent retention initiatives, the Company will first identify suitable appointee from within the Group, failing which external sourcing via open advertisement or recruitment agencies would be employed to source for candidate that has the best match and fit for the vacancy.

In accordance with the Company's Constitution, all directors are required to submit themselves for re-election by rotation at least once in every three (3) years at each Annual General Meeting ("AGM"). Newly appointed directors shall hold office until the AGM following their appointment, and shall then be eligible for re-election by shareholders. In this regard, the Nominating Committee has also evaluated the eligibility of the retiring Directors to stand for re-election and have nominated Mr Samuel Lim Syn Soo and Mr Yong Chee Hou for re-election at the upcoming AGM.

Board Diversity

The Board has not established a diversity policy on gender, nationality, ethnicity and age, nor set any target for that purpose, as it is of the view that in assessing the appropriateness of the composition of the Board, greater consideration should be given to the character, integrity, commitment of availability of time, mix of skills, abilities and expertise, length of service on the Board, the independence criteria as well as experience on other Boards. Notwithstanding, the Company has diversity initiatives and strategies that are designed to attract, develop and advance the most talented individuals in the organisation regardless of their race, religion, age, gender or any other dimension of diversity.

The Board believes that the current measures and considerations taken in this regard sufficiently enables the Board, having mix skill sets, experience and talents, to effectively and objectively act in the best interests of the Company.

The table below gives an overview of the Board Diversity:

Diversity in:				
Gender	Male	80%	Female	20%
Race/Ethnicity	Malay	20%	Chinese	80%
Nationality	Malaysian	40%	Foreigner	60%
Age Group	60 to 65 Years	40%	Above 65 Years	60%
Core Competencies	Accounting, banking, business acumen, engineering, finance, general management, human resources, industry knowledge, legal, marketing, manufacturing and strategic development.			

Time Commitment

All Directors are made aware that they must commit adequate time to devote to his/her Board responsibilities in the Company. To this end, the Directors are made aware that they:

- have to attend Board and Board Committee meetings physically, or otherwise via electronic means (where practicable) if such physical attendance is not possible;
- are to attend courses to update their knowledge and better equip themselves to discharge their duties as Directors; and
- shall, before accepting an invitation to serve on another Board,
  - ensure that he/she is not already serving on the Board of more than five (5) public listed companies; and
  - gives prior notification to the Chairman.

Board Meetings

The Board meets on a scheduled basis, at least five (5) times a year to approve quarterly and annual financial results, recurrent related party transactions, annual budgets and any other matters that require the Board's approval. Due notice is given for all scheduled meetings.

In the FY2021, the Board met a total of five (5) occasions. The commitment of each individual director in carrying out their duties is reflected in their full attendance of the Directors at the Board meetings held during the financial year as shown in the table under the "Other Information on Directors" section of this Annual Report. Deliberations of the Board, and the decisions made at the Board meetings, have been duly recorded by the Company Secretary.

The Board is fully aware and acts on its specifically reserved matters for decision to ensure that the direction of the Company is firmly in its hands. During the year under review, the Board also resolved and approved the Company's matters through circular resolutions. Board members are provided with sufficient detailed information to facilitate their approvals.

Directors' Training – Continuing Education Programmes

All the Directors had fulfilled his/her Mandatory Accreditation Programme obligations stipulated by the MMLR. The Directors recognise the need to continue to receive continuous training to broaden their perspectives and keep abreast with the new statutory and regulatory requirements. The Board views that this can be achieved through a mix of in-house training programmes and external training programmes that are deemed appropriate to aid them in the discharge of their duties as directors. In this regard, the Directors have, from time to time during the normal proceedings of meetings, received updates and briefings, particularly regulatory and industry developments, relevant new laws and changes to the accounting standards, from the management, company secretary and auditors.

During the FY2021, the Directors had attended the following trainings that were organised in-house or by professional organisations:

Director	Course Title/Date	Organiser
Mr Samuel Lim Syn Soo	Corporate Governance Monitor 2020 18 November 2020	In-House
	Financial Reporting developments on amended Malaysian Financial Reporting Standards ("MFRS") covering MFRSs 3, 7, 9, 10, 17, 101, 108, 116, 128, 137, 139 and the Revised Conceptual Framework for Financial Reporting, as at 31 December 2020 9 March 2021	In-House
	Malaysian Code on Corporate Governance 2021 27 May 2021	In-House
	ESG Reporting Health Check 22 July 2021	Boardroom Corporate Services Sdn. Bhd.
Mr Kenneth Tan Teoh Khoon	Corporate Governance Monitor 2020 18 November 2020	In-House
	Financial Reporting developments on amended Malaysian Financial Reporting Standards ("MFRS") covering MFRSs 3, 7, 9, 10, 17, 101, 108, 116, 128, 137, 139 and the Revised Conceptual Framework for Financial Reporting, as at 31 December 2020 9 March 2021	In-House
	Malaysian Code on Corporate Governance 2021 27 May 2021	In-House
	The New Reality of Cyber Hygiene 21 July 2021	KPMG Board Leadership Center, Malaysia
Ms Lim Mee Ing	Corporate Governance Monitor 2020 18 November 2020	In-House
	Financial Reporting developments on amended Malaysian Financial Reporting Standards ("MFRS") covering MFRSs 3, 7, 9, 10, 17, 101, 108, 116, 128, 137, 139 and the Revised Conceptual Framework for Financial Reporting, as at 31 December 2020 9 March 2021	In-House
	Malaysian Code on Corporate Governance 2021 27 May 2021	In-House
	The New Reality of Cyber Hygiene 21 July 2021	KPMG Board Leadership Center, Malaysia

Director	Course Title/Date	Organiser
Tuan Haji Zakariah Bin Yet	Corporate Governance Monitor 2020 18 November 2020	In-House
	Financial Reporting developments on amended Malaysian Financial Reporting Standards ("MFRS") covering MFRSs 3, 7, 9, 10, 17, 101, 108, 116, 128, 137, 139 and the Revised Conceptual Framework for Financial Reporting, as at 31 December 2020 9 March 2021	In-House
	Malaysian Code on Corporate Governance 2021 27 May 2021	In-House
Mr Yong Chee Hou	Corporate Governance Monitor 2020 18 November 2020	In-House
	Financial Reporting developments on amended Malaysian Financial Reporting Standards ("MFRS") covering MFRSs 3, 7, 9, 10, 17, 101, 108, 116, 128, 137, 139 and the Revised Conceptual Framework for Financial Reporting, as at 31 December 2020 9 March 2021	In-House
	Malaysian Code on Corporate Governance 2021 27 May 2021	In-House

Board Committees

Two (2) Board Committees have been established to assist the Board in fulfilling its duties and responsibilities.

Audit Committee

The composition, terms of reference and summary of activities of the Audit Committee ("AC") are set out in the "Audit Committee's Report" section of this Annual Report.

Nominating Committee

The Nominating Committee comprises the following directors:

Chairman	:	Tuan Haji Zakariah Bin Yet	*Senior Independent Non-Executive Director*
Members	:	Mr Yong Chee Hou	*Independent Non-Executive Director*
		Ms Lim Mee Ing	*Non-Independent Non-Executive Director*

Nominating Committee has clear written Terms of Reference defining its functions, qualifications for membership, scope of duties, regulations and procedures governing the manner in which the Committee is to operate and how decisions are to be made. The Terms of Reference are available on the Company's website at www.kesmi.com.

The Nominating Committee met once in the FY2021, and had the full attendance of the Committee, to undertake the necessary evaluations and assessments of the Board, the Board Committees and the individual Directors.

During the FY2021, the Nominating Committee had undertaken the following evaluations in accordance with its approved Terms of Reference:

- evaluated the effectiveness of the Board as a whole and the Board Committees;
- assessed the contributions of each individual director;
- assessed and confirmed the independence of the independent Directors; and
- evaluated the board composition with regards to the mix of its skill and diversity.

The evaluation criteria used for the assessment of the Board comprised assessment of its structure, operation, mix of skill sets and experience, roles and responsibilities, whereas the Board Committees were assessed based on their composition, contribution to the Board's effectiveness and discharge of their duties. As for the performance of the individual directors, some factors used include contribution to interaction, attendance and participation at meetings and decision making processes, quality of input as well as understanding of his/her role and responsibilities. From the results of the assessments, the Nominating Committee was satisfied, and the Board similarly concurred with the Nominating Committee's findings, that the Board is of the right size and is well balanced from the perspective of the mix skill set, experience, strength and independence, and diversity. The Board is of the view that the current size and composition suffice to enable the Board to operate effectively, and to meet the current and future needs of the Company.

III. Remuneration

Directors' and Senior Management Remuneration

The Board does not have a Remuneration Committee ("RC") to implement its policies and procedures on remuneration of the Directors and senior management staff. Instead, the Board itself undertakes this responsibility during the normal proceedings of the meetings of Directors.

The Board has established remuneration policies and procedures that are formalised in the Board Charter. These are generally disclosed in the abridged Board Charter posted on the Company's website. Broadly, these encompass:

(a) periodic review of the Directors' fees;

(b) determination of Directors' fees based on:

- reference to prevailing market practices of comparable companies in similar industry;
- fee for membership of the Board;
- fee for chairmanship of the Board;
- fee for membership of the Board Committee; and
- fee for chairmanship of Board Committee;

(c) determination of remuneration packages of Executive Directors based on market trends and the performance of the Group; and

(d) abstention of Directors in determining his/her own fees or remuneration package.

The Board periodically reviews the remuneration policies and procedures, with a view to ensuring that the Group's remuneration policies remain competitive and attractive to retain Directors and senior management staff of high calibre with the necessary skills and expertise required for effective management of the Group.

The details of the Directors' remuneration for the FY2021 are as follows:

RM'000

COMPANY

DIRECTORS	FEES	MEETING ALLOWANCE	SALARIES & BONUSES	TOTAL
Samuel Lim Syn Soo	54	–	709	763
Kenneth Tan Teoh Khoon	49	–	709	758
Tuan Haji Zakariah Bin Yet	55	9	–	64
Yong Chee Hou	54	9	–	63
Lim Mee Ing	54	9	–	63

GROUP

DIRECTORS	FEES	MEETING ALLOWANCE	SALARIES & BONUSES	TOTAL
Samuel Lim Syn Soo	144	–	709	853
Kenneth Tan Teoh Khoon	59	–	709	768
Tuan Haji Zakariah Bin Yet	65	9	–	74
Yong Chee Hou	64	9	–	73
Lim Mee Ing	54	9	–	63

Details on named basis of the top 5 management staff's remuneration component in bands of RM50,000 have not been made as the Board views such disclosure to be commercially unviable in this very competitive industry for high calibre staff. Additionally, the Board is of the view that disclosing such sensitive information may compromise retainability of good management staff, which in turn will jeopardise the Group's successful management and operations of its businesses. Nonetheless, the aggregate amount of the remuneration paid to the top 5 management staff (excluding the Executive Directors) of the Group is about RM2.7 million.

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

I. Audit Committee

The Audit Committee ("AC") is tasked by the Board to oversee the financial reporting process. This includes assessing the suitability, objectivity and independence of the external auditor, and being able to independently challenge and ask probing questions on the company's financial reporting process, internal controls, risk management and governance.

The composition of the AC has been duly considered by the Board to ensure that each member of the AC is financially literate, and possess the necessary skills and experience to discharge their respective duties. The profiles of the AC, as well as the continuing professional development programmes that the AC members have attended during the FY2021 are provided under the section of "Board of Directors" of this Annual Report and the foregoing paragraph "Directors' Training – Continuing Education Programmes" respectively. A summary of the activities of the AC are set out in the "Audit Committee's Report" section of this Annual Report.

The Board has assessed the effectiveness of the AC in performing its duties pursuant to its Terms of Reference, and is satisfied that the AC has discharged its duties accordingly.

In the FY2021, the Terms of Reference of the AC had been revised and made available on the Company's website at www.kesmi.com.

External Auditors

The Company has always maintained transparent relations with its external auditors in seeking their professional advice, and ensured compliance with the applicable approved accounting standards in Malaysia.

The AC has direct and unrestricted access to the external auditors. The role of the AC in relation to the external auditors is described in the "Audit Committee's Report" section of this Annual Report.

In considering the suitability, objectivity and independence of the external auditors, the AC, in consultation with the Board, had established a questionnaire form setting out the criterions that would be employed for the assessment. In addition, the AC has also obtained a written assurance from the external auditors, Ernst & Young PLT ("EY"), confirming their independence throughout the conduct of the audit engagement.

The AC had reviewed the suitability, objectivity and independence of EY based on the above mentioned criterion, and had recommended their re-appointment as external auditors of the Company for the financial year ending 31 July 2022. The Board, having considered the AC's recommendation, is satisfied with the competency, performance and independence of EY, and had recommended their re-appointment as the Company's external auditors for shareholders' approval at the forthcoming AGM.

II. Risk Management and Internal Control Framework

The Board has in place a risk management and internal control framework, which the Board reviews to ensure its effectiveness, adequacy and integrity.

The Board oversees the Group's overall risk management and internal control systems, while the business unit management identifies and assesses the material risks faced by the Group as well as the design, implementation and monitoring of suitable internal controls to manage and mitigate these risks. The systems include organisational structure, strategic planning, risk management, financial management, operational control, regulatory and compliance controls to safeguard shareholders' investments, customers' interests and the Group's assets.

The AC also supports the Board in this role by overseeing the internal control systems, financials and governance matters.

The Statement on Risk Management and Internal Control included in this Annual Report provides an overview of the main features of the Company's risk management and internal control system.

Internal Audit

The Board recognises the importance of sound internal control for good corporate governance. As such, an internal audit function is independently undertaken to ensure that the work is conducted with impartiality, proficiency and due professional care.

The internal audit function of the Group was outsourced to Deloitte Business Advisory Sdn Bhd ("Deloitte"). Deloitte has conducted the necessary objectivity and independence checks, and has confirmed to the AC that its engagement is free from any relationships or conflicts of interests, which could impair its objectivity and independence. Deloitte has a headcount of over 25 internal auditors to service the Group on internal audit work.

The responsibilities of the internal auditors included planning the scope of internal audit and audit schedules in consultation with, but independently of, management, presenting the scope of audit reviews to the AC, conducting audits, submitting the audit reports to the AC on their findings and recommendations on the Group's systems of internal control.

Details of the work carried out by the internal auditors in the FY2021 are described in the "Audit Committee's Report" and "Statement on Risk Management and Internal Control" sections of this Annual Report.

Details of the AC's oversight of the internal auditors are outlined in the "Summary of the Work of the Committee" section of the "Audit Committee's Report" included in this Annual Report.

Financial Reporting

The Board is required to prepare financial statements in accordance with the applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of financial position of the Group and of the Company, and of the results and cash flows of the Group and of the Company for a financial year under review.

In preparing the financial statements, the Directors have:

- selected suitable accounting policies and applied them accordingly;
- made reasonable and prudent judgements and estimates; and
- ensured that all applicable accounting standards have been followed.

The Directors have ensured that the Company and its group companies have kept proper accounting and other records which disclose with reasonable accuracy the financial position of the Group and of the Company, and which would enable them to ensure that the financial statements are drawn up according to applicable laws, regulations and standards.

The Directors have also taken such steps as are reasonably necessary to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities.

PRINCIPLE C – INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

I. Corporate Disclosure and Stakeholders Communication

The Company maintains communication with its shareholders and other stakeholders to keep them informed of all major developments and performance of the Group through timely quarterly announcements, and various disclosures and announcements made to Bursa Securities via the Bursa Link, press releases, the Company's annual reports and circular to shareholders.

Additionally, the Board also provides the shareholders with an opportunity to interact with the Board at the Company's general meetings to clarify any questions that they may have, and to gain better understanding of the Group's business affairs and performance. Throughout the year, the Executive Directors, who are responsible for investor relations of the Company, also meet with analysts and institutional investors to keep them abreast of the Group's strategies, performance and activities.

The Company's website also serves as a platform for shareholders and members of the public in general to gain access to updated information about the Group.

II. Conduct of General Meetings

AGMs are the principal forum for dialogue with shareholders. Notice of AGMs and Annual Reports are typically sent to shareholders at least 21 days before the date of the annual general meeting as per the requirements of the Companies Act 2016, and the MMLR. Each item of special business included in the notice of AGM is accompanied by a full explanation of the effects of a proposed resolution to facilitate full understanding and evaluation of issues involved. The Annual Report provides detailed and comprehensive information on the Group's activities, business and performance over the financial year to help shareholders make informed decisions on their investment in the Company. The Annual Report is also uploaded on the Company's website at http://kesmi.com/investor-relations/general-meetings/.

Notwithstanding the above, in line with the MCCG, the notice of this 50th AGM was sent out on 27 October 2021, which is at least 28 days prior to the AGM.

The Board always encourages shareholders' active participation at such meetings. Members of the Board and the external auditors are also present to provide meaningful answers to questions raised during the meetings.

In addition, Extraordinary General Meetings ("EGMs") are held as and when needed to obtain shareholders' approval on certain business or corporate proposals. Adequate notice of the EGM, together with comprehensive details and rationale for the proposals for which shareholders' approval are being sought, will be sent out to shareholders in accordance with the regulatory requirements.

In support of equitable and greater transparency in the voting process, all resolutions proposed at the Company's general meetings are put to the vote through an electronic poll voting system. Whilst the Constitution does not provide for voting in absentia, a member who is unable to attend the general meeting is allowed to appoint a proxy to participate and vote at such meetings on his or her behalf.

The Company leveraged on technology to hold its 49th AGM in January 2021, by electronic means. As such, shareholders were able to participate in the meeting remotely and cast their votes online.

This Statement is made in accordance with the resolution of the Board of Directors dated 21 September 2021.

INTRODUCTION

The Board of Directors ("Board") is pleased to present its Statement on Risk Management and Internal Control ("Statement") made pursuant to Paragraph 15.26(b) and Practice Note 9 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. In making this Statement, the Board is guided by Part II of Principle B, Intended Outcome 9.0, Practices 9.1 and 9.2 read together with Guidance 9.1 and 9.2 of the Malaysian Code on Corporate Governance and the guidelines on the "Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers".

The Statement gives an outline of the nature and scope of risk management and internal control practices of the Group in respect of the financial year ended 31 July 2021 ("FY2021").

BOARD'S RESPONSIBILITY

The Board oversees the Group's risk management and internal control systems, while the business unit management identifies and assesses the material risks faced by the Group as well as the design, implementation and monitoring of suitable internal controls to manage and mitigate these risks. The systems include organisational structure, strategic planning, risk management, financial management, operational control, regulatory and compliance controls to safeguard shareholders' investments, customers' interests and the Group's assets.

The Board acknowledges its responsibility to maintain a sound risk management framework and internal control systems, which includes the establishment of an appropriate risk management and control framework as well as reviewing its effectiveness, adequacy and integrity. However, in view of the inherent limitations in any such system, the Board recognises that the system of risk management and internal control is designed to manage and mitigate risks rather than eliminate the risk of failure to achieve the Group's internal control objectives. Accordingly, it can only provide reasonable and not absolute assurance against material financial misstatement or loss.

The Board is supported in its risk management and internal control oversight responsibilities by:

- Business unit management – to identify, assess and implement suitable risk management and internal control systems;

- Executive Directors, assisted by corporate management, oversee and endorse risk management and internal control system implementation by business unit management; and

- Audit Committee – for oversight over internal control systems, financials and governance matters to provide reasonable assurance that adverse impact arising from a foreseeable future event or situation on the Group's objectives is mitigated and managed.

RISK MANAGEMENT FRAMEWORK

The Group has in place an Enterprise Risk Management ("ERM") framework (based on an internationally recognised risk management framework) which is designed to provide consistency in the management of risks across the Group. The ERM framework is embedded into the corporate culture, processes and structures of the Group.

The Board's responsibilities for the governance of risks and controls include:

- setting the tone and culture for effective risk management and internal control systems;

- ensuring risk management is embedded in all aspects of the Group's daily business and operational activities and processes;

- endorsing acceptable risk appetite and determining the nature and extent of significant risks which the Group is willing to take in achieving its strategic objectives; and

- reviewing the risk management framework, processes and responsibilities to ensure it provides reasonable assurance that risk management has been effective to keep it within tolerable levels.

The Group has in place a detailed risk management process, culminating in a Board review, which identifies the key risks facing each business unit. This information is reviewed by Executive Directors as part of the strategic review and periodical business performance process. ERM framework consists of the following key processes:

- policies, guidelines, procedures and documentation on strategic, financial, operational, compliance and information technology management;

- an established and structured process for identification, assessment, communication, treatment, monitoring as well as continual review of risks and effectiveness of risk mitigation strategies and controls within the business unit levels for their daily operating activities and processes, aided by self-assessment risk checklist and risk register compassing risk appetite and tolerance assessment;

- Executive Directors and corporate management, meet on quarterly basis, with the business units, to review on the Group's key risks and Group's risk register (which sets out the priority and focus on risk mitigation strategies based on risk categories and ratings), and the execution and management of the risk mitigation strategies;

- continuing assessments by the Group's internal auditors on the quality of risk management and control, and the reports to the Executive Directors and corporate management, and the Audit Committee on the status of specific areas identified for improvement; and

- assessment on the effectiveness of the risk management process in the Group during the financial year by the Executive Directors and subsequently by the Board.

The Group's customer base is concentrated amongst the top-tier semiconductor suppliers. To mitigate such risks, we align our business strategies with these customers' strategic plans. Notwithstanding this, we continue to avail our core competencies and competitive advantages to the markets that we serve.

INTERNAL CONTROL FRAMEWORK

The Board is committed to conducting its business in an ethical and honest manner, and will endeavour to ensure all its business relationship and dealings are conducted professionally and with high integrity. Accordingly, the Board establishes Code of Conduct and Ethics, Anti-Bribery and Anti-Corruption policy, and the Whistle-Blower policy to articulate the acceptable practices and to guide the behaviours of all directors, management and employees.

The Board acknowledges that internal control system inevitably is intertwined with the Group's operating activities. The Group's internal control framework is complementary to the ERM framework where internal control policies and procedures are designed to address key business risks, including corruption risks, prevention of asset and data loss. The key internal control structures the Group has in place are described below.

The Group's internal audit function is outsourced to a public accounting firm of international standing. The internal audit function facilitates the Board in its review and evaluation of the adequacy and integrity of the Group's internal control systems.

The internal auditors adopt a risk-based approach and prepare its audit strategy and plan based on the risk profiles of the business units of the Group. Audits are carried out according to the annual audit plan approved by the Audit Committee. The resulting reports from the annual audits undertaken are presented to the Audit Committee at its regular meetings. Board members are invited when the Audit Committee meets to review, discuss, and direct actions on matters pertaining to the reports, which among other matters, include findings relating to the adequacy and integrity of the internal control system of the Group. After the Audit Committee had deliberated on the reports, these are then forwarded to the business unit management for attention and necessary actions. The business unit management is responsible for ensuring recommended corrective actions on reported weaknesses were taken within the required time frame.

The annual internal audits therefore provide the Board with an independent assessment on the adequacy, efficiency and effectiveness of the Group's internal control systems in anticipating potential risk exposures over key business systems and processes and in controlling the proper conduct of business within the Group.

Apart from internal audit, the Board has in place an organisation structure with formally defined lines of responsibility and delegation of authority. A process of hierarchical reporting has been established which provides for a documented and auditable trail of accountability.

The monitoring and management of the Group is delegated to the Executive Directors and senior operational management. The Executive Directors through their day-to-day involvement in the business operations and regular attendance at senior management level meetings, manage and monitor the Group's financial performance, key business indicators, operational effectiveness and efficiency, discuss and resolve significant business issues and ensure compliance with applicable laws, regulations, rules, directives and guidelines. These senior management meetings serve as a two-way platform for the Board, through the Executive Directors, to communicate and address significant matters in relation to the Group's business and financial affairs and provide update on significant changes in the business and the external environment which result in significant risks.

The Group's internal control procedures are set out in a series of standard operating practice manuals and business process manuals, to serve as guidance for proper measures to be undertaken and are subject to regular review, enhancement and improvement.

REVIEW OF THIS STATEMENT

The external auditors had reviewed this Statement pursuant to Audit and Assurance Practice Guide 3 Guidance for Auditors on the Review of Directors' Statement on Risk Management and Internal Control and had reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process the Board has adopted in the review of the adequacy and integrity of the system of internal control of the Group.

The external auditors have performed limited assurance procedures on this Statement in accordance with *Malaysian Approved Standard on Assurance Engagements, ISAE 3000, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and Audit and Assurance Practice Guide 3, Guidance for Auditors on Engagements to Report on this Statement included in the Annual Report*.

They have reported to the Board that nothing has come to their attention that causes them to believe this Statement intended to be included in the Annual Report is not prepared, in all material respects, in accordance with the disclosures required by Paragraphs 41 and 42 of *Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers* nor is this Statement factually inaccurate.

CONCLUSION

The Board has received assurance from Mr Samuel Lim Syn Soo, the Executive Chairman and Chief Executive Officer and Mr Kenneth Tan Teoh Khoon, the Executive Director that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management model adopted by the Group.

The Board has reviewed the risk management and internal control framework and control procedures to ensure continual effectiveness and adequacy of the system of risk management and internal control of the Group.

The Board is of the opinion that the system of risk management and internal control that has been instituted throughout the Group was satisfactory and has not resulted in any material adverse impact that would require disclosure in the Group's annual report.

This Statement is made in accordance with the resolution of the Board of Directors dated 21 September 2021.

FINANCIAL STATEMENTS

The directors are pleased to present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 July 2021.

Principal activities

The principal activities of the Company are investment holding and provision of semiconductor burn-in services.

The principal activities and other details of the subsidiaries are disclosed in Note 13 to the financial statements.

Results

	Group RM'000	Company RM'000
Profit net of tax	7,335	2,418

There was no material transfer to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

Dividends

	RM'000
In respect of the financial year ended 31 July 2020 as reported in the directors' report of that year:	
Final tax exempt dividend of 6 sen per ordinary share, on 43,014,500 ordinary shares, approved on 7 January 2021 and paid on 9 February 2021	2,581
In respect of the financial year ended 31 July 2021:	
Interim tax exempt dividend of 3 sen per ordinary share, on 43,014,500 ordinary shares, approved on 15 July 2021 and paid on 24 August 2021	1,290
	3,871

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the financial year ended 31 July 2021, of 6 sen per ordinary share on 43,014,500 ordinary shares amounting to RM2,581,000 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 July 2022.

Directors

The directors of the Company in office since the beginning of the financial year to the date of this report are:

Samuel Lim Syn Soo*
Kenneth Tan Teoh Khoon*
Lim Mee Ing
Tuan Haji Zakariah Bin Yet*
Yong Chee Hou*

* These directors are also directors of some of the Company's subsidiaries.

Directors' interests

According to the register of directors' shareholdings, the interest of directors in office at the end of the financial year in shares in the Company were as follows:

	Number of ordinary shares			
	At 1.8.2020	Acquired	Sold	At 31.7.2021
Deemed interest				
Samuel Lim Syn Soo	20,825,000	–	–	20,825,000

By virtue of his interest in shares in the Company, Samuel Lim Syn Soo is also deemed interested in shares in all the Company's subsidiaries to the extent the Company has an interest.

Other than as disclosed above, none of the other directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

Directors' benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby directors might acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of remuneration received or due and receivable by the directors or the fixed salary of a full-time employee of the Company as shown in Note 8 and Note 22 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member or with a company in which the director has a substantial financial interest, except as disclosed in Note 23 to the financial statements.

Indemnity and insurance for the directors and officers

During the financial year, the total amount of indemnity coverage given to directors and officers of the Company pursuant to Director and Officer liability insurance is RM20,000,000.

Other statutory information

(a) Before the statements of profit or loss and other comprehensive income and statements of financial position of the Group and of the Company were made out, the directors took reasonable steps:

  (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and

  (ii) to ensure that any current assets which were unlikely to be realised their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances:

  (i) which would render it necessary to write off any bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent;

  (ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading;

Other statutory information (cont'd)

(b) At the date of this report, the directors are not aware of any circumstances: (cont'd)

(iii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; and

(iv) not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

(c) At the date of this report, there does not exist:

(i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

(ii) any contingent liability in respect of the Group or of the Company which has arisen since the end of the financial year.

(d) In the opinion of the directors:

(i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

Significant event

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

Auditors

The auditors, Ernst & Young PLT, have expressed their willingness to continue in office.

Auditors' remuneration are disclosed in Note 8 to the financial statements.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young PLT, as part of the terms of its audit engagement against claims by third parties arising from the audit for an unspecified amount. No payment has been made to indemnify Ernst & Young PLT during or since the end of the financial year.

Signed on behalf of the Board in accordance with a resolution of the directors dated 21 September 2021.

Samuel Lim Syn Soo

Kenneth Tan Teoh Khoon

Pursuant to Section 251(2) of the Companies Act 2016

We, Samuel Lim Syn Soo and Kenneth Tan Teoh Khoon, being two of the directors of KESM Industries Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 64 to 119 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 July 2021 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board in accordance with a resolution of the directors dated 21 September 2021.

Samuel Lim Syn Soo

Kenneth Tan Teoh Khoon

STATUTORY DECLARATION

Pursuant to Section 251(1)(b) of the Companies Act 2016

I, Kenneth Tan Teoh Khoon, being the director primarily responsible for the financial management of KESM Industries Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 64 to 119 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing this declaration to be true, and by virtue of the Oaths and Declarations Act (Cap 211).

Subscribed and solemnly declared by
the abovenamed Kenneth Tan Teoh Khoon
at Republic of Singapore on 21 September 2021

Kenneth Tan Teoh Khoon

Before me,
Lim Chee Kiang

Report on the audit of the financial statements

Opinion

We have audited the financial statements of KESM Industries Berhad, which comprise the statements of financial position as at 31 July 2021 of the Group and of the Company, and statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 64 to 119.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 July 2021, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

Key audit matters (cont'd)

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

Impairment assessment of property, plant and equipment
Refer to Note 3.2(ii) and Note 11 to the financial statements.

As at 31 July 2021, the Group's property, plant and equipment including right-of-use assets amounted to RM122,331,000, representing 29% of its total assets.

The Group is required to perform impairment test of the cash generating units ("CGU") whenever there is an indication that the CGU may be impaired by comparing the carrying amount with its recoverable amount. The Group estimated the recoverable amounts using the value in use ("VIU") and fair value less cost to sell ("FVLCS") methods. Arising from the ongoing COVID-19 pandemic, the Group determined that there is an indication of impairment due to the government measures taken to curb the spread of the COVID-19 pandemic that has led to operational disruptions to the Group.

In determining the recoverable amount using the VIU method, management is required to apply judgements and make assumptions on estimates supporting underlying projected cash flows, taking into account its operations and current market conditions which has also been impacted by the COVID-19 pandemic.

In deriving the recoverable amount using the FVLCS method, management has engaged external valuers to determine the fair value of its property, plant and equipment at the reporting date.

We identified this as an area of audit focus, as the VIU determined using discounted cash flows is complex and involves significant management judgement and estimates, specifically the key assumptions on the revenue growth, production cost and expenses. Furthermore, the FVLCS determined through the valuation of property, plant and equipment involves complex valuation method and high dependency on a range of estimates based on current and future market or economic condition.

In determining the recoverable amount based on VIU, our procedures included amongst others, the following:

a) We obtained an understanding of the methodology adopted by the management in estimating the VIU and assessed whether such methodology is reasonable;

b) We assessed the robustness of management's budgeting process by comparing the actual results achieved against previously forecasted budgets;

c) We evaluated the key assumptions on revenue growth, production cost and expenses by comparing them to the historical data, as well as current and future market or economic conditions;

d) We assessed the reasonableness of the discount rate and the methodology used in deriving the VIU calculations, with the support of our valuation experts; and

e) We performed sensitivity analysis on the key assumptions to understand the impact that alternative assumptions would have had on the overall carrying amount.

In determining the recoverable amount based on FVLCS, our procedures included amongst others, the following:

a) We obtained an understanding of the methodology adopted by the independent valuers in estimating the fair value of the property, plant and equipment and assessed whether such methodology is consistent with those used in the industry;

b) We considered the objectivity, independence and expertise of the firms of independent valuers; and

c) We had discussions with the independent valuers to obtain an understanding of the inputs used to the valuation models included, amongst others, the recent market transactions and quotation from suppliers and assessed the reasonableness by corroborating to available market data.

In addition, we also evaluated the adequacy of the Group's disclosures in the notes to the financial statements.

Key audit matters (cont'd)

Key audit matters in respect of the financial statements of the Group (cont'd)

Recognition of deferred tax assets
Refer to Note 3.2(i) and Note 20 to the financial statements.

As at 31 July 2021, the Group recognised deferred tax assets of RM3,398,000, which mainly comprise of other deductible temporary differences relating to provisions. The Group recognised deferred tax assets to the extent that it is probable that taxable profits will be available in the future to recover these deferred tax assets.

The recognition of deferred tax asset is a complex process which involves management exercising judgement and making significant estimates about future taxable profits, including expectation of future sales as well as future overall market and economic conditions. In view of the complexity of estimating the future taxable profits and the significance of the other deductible temporary differences relating to provisions, accordingly we have identified this as an area of audit focus.

Our audit procedures, included, amongst others, the following procedures:

a) We obtained an understanding of the relevant processes and internal controls over the estimation of the recoverability of deferred tax assets;

b) We assessed management's key assumptions and estimates in the computation of future taxable profits, such as revenue growth, production cost and expenses by comparing them to historical data;

c) We considered current and future market or economic conditions and management's assumption on the timing of utilisation of these allowances and other deductible temporary differences in the respective entities; and

d) We assessed the appropriateness of the disclosures in the notes to the financial statements.

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

Impairment assessment of investment in subsidiaries
Refer to Note 3.2(iii) and Note 13 to the financial statements.

As at 31 July 2021, the Company's investment in subsidiaries amounted to RM79,250,000, representing 38% of its total assets. The Company is required to estimate the recoverable amount of its investment in subsidiaries when there is indication that such investments may be impaired. For investment in subsidiaries with indicators of impairment, management performed an impairment assessment and estimated the recoverable amount of the investment in subsidiaries using value in use ("VIU") method.

Estimating the VIU involves estimating the future cash inflows and outflows that will be derived from the investment and discounting them at an appropriate rate.

We considered assessment of impairment on investment in subsidiaries to be an area of audit focus as it involves significant level of judgement and assumptions applied by management. Our audit procedures, included amongst others, the following procedures:

a) We obtained an understanding of the relevant processes and internal controls over the estimation of the recoverable amount;

b) We evaluated the key assumptions on revenue growth, production cost and expenses by comparing them to the historical data, as well as current and future market or economic conditions;

c) We assessed the reasonableness of the discount rate, long term growth rate and the methodology used in deriving the VIU calculations, with the support of our valuation experts; and

d) We evaluated the adequacy of the Company's disclosures in the notes to the financial statements.

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the annual report, which is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Company and take appropriate action.

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiary of which we have not acted as auditors, is disclosed in Note 13 to the financial statements.

Other matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young PLT	Lim Eng Hoe
202006000003 (LLP0022760-LCA) & AF 0039	No. 03403/12/2022 J
Chartered Accountants	Chartered Accountant

Kuala Lumpur, Malaysia
21 September 2021

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 July 2021

	Note	Group 2021 RM'000	Group 2020 RM'000	Company 2021 RM'000	Company 2020 RM'000
Revenue	4	248,257	240,976	57,179	59,367
Other items of income					
Interest income	5	4,009	6,158	1,342	2,192
Dividend income		184	169	184	169
Other income		13,213	11,460	6,596	3,274
Items of expenses					
Raw materials and consumables used		(36,886)	(22,558)	(1,434)	(1,596)
Changes in inventories of finished goods and work-in-progress		(238)	(1,226)	–	–
Employee benefits expense	6	(93,739)	(92,762)	(31,384)	(31,192)
Depreciation of property, plant and equipment	11	(57,748)	(62,727)	(9,079)	(8,877)
Finance costs	7	(881)	(2,371)	(274)	(253)
Other expenses		(65,146)	(71,440)	(20,633)	(24,984)
Profit/(loss) before tax	8	11,025	5,679	2,497	(1,900)
Income tax expense	9	(3,690)	(5,583)	(79)	(100)
Profit/(loss), net of tax		7,335	96	2,418	(2,000)
Other comprehensive income:					
Item that will not be reclassified to profit or loss					
Remeasurement gain/(loss) arising from net defined benefit liabilities, net of tax	22	391	(116)	–	–
Item to be reclassified subsequently to profit or loss					
Foreign currency translation gain		3,275	375	–	–
Other comprehensive income for the year, net of tax		3,666	259	–	–
Total comprehensive income/(loss) for the year, net of tax		11,001	355	2,418	(2,000)
Earnings per share attributable to owners of the Company					
- Basic	10	17.1 sen	0.2 sen		

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

As at 31 July 2021

	Note	Group 2021 RM'000	Group 2020 RM'000	Company 2021 RM'000	Company 2020 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	11	122,331	127,461	29,947	23,577
Investment in subsidiaries	13	–	–	79,250	79,250
Deferred tax assets	20	3,398	3,513	1,100	804
Other receivables	15	664	667	403	302
		126,393	131,641	110,700	103,933
Current assets					
Inventories	14	7,844	6,055	120	187
Trade and other receivables	15	46,801	34,351	13,294	12,614
Prepayments		1,414	2,419	778	1,595
Investment securities	25(ii)	14,182	8,872	14,182	8,872
Tax recoverable		3,926	1,053	1,385	978
Cash and short-term deposits	16	215,368	230,103	65,735	74,556
		289,535	282,853	95,494	98,802
Total assets		415,928	414,494	206,194	202,735
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company					
Share capital	17	43,678	43,678	43,678	43,678
Reserves	18	319,726	312,596	143,499	144,952
Total equity		363,404	356,274	187,177	188,630
Non-current liabilities					
Loans and borrowings	19	6,375	4,487	5,257	1,660
Defined benefit liabilities	22	4,362	4,402	–	–
Deferred tax liabilities	20	2,528	1,088	–	–
		13,265	9,977	5,257	1,660
Current liabilities					
Trade and other payables	21	30,443	24,345	9,612	10,227
Contract liabilities	4	1,375	41	–	–
Loans and borrowings	19	7,417	21,078	4,148	2,218
Income tax payable		24	2,779	–	–
		39,259	48,243	13,760	12,445
Total liabilities		52,524	58,220	19,017	14,105
Total equity and liabilities		415,928	414,494	206,194	202,735

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

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 July 2021

			Attributable to owners of the Company						
				Non-distributable	Distributable	Non-distributable			
	Note	Equity, total	Equity attributable to owners of the Company, total	Share capital (Note 17)	Retained earnings (Note 18)	Other reserves, total	Foreign currency translation reserve (Note 18)	Capital reserve (Note 18)	Statutory reserve fund (Note 18)
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group									
As at 1 August 2019		359,145	359,145	43,678	299,063	16,404	9,535	2,240	4,629
Profit for the year		96	96	–	96	–	–	–	–
Other comprehensive income for the year, net of tax		259	259	–	(116)	375	375	–	–
Total comprehensive income for the year		355	355	–	(20)	375	375	–	–
Transaction with owners									
Dividends on ordinary shares	29	(3,226)	(3,226)	–	(3,226)	–	–	–	–
As at 31 July 2020		356,274	356,274	43,678	295,817	16,779	9,910	2,240	4,629
As at 1 August 2020		356,274	356,274	43,678	295,817	16,779	9,910	2,240	4,629
Profit for the year		7,335	7,335	–	7,335	–	–	–	–
Other comprehensive income for the year, net of tax		3,666	3,666	–	391	3,275	3,275	–	–
Total comprehensive income for the year		11,001	11,001	–	7,726	3,275	3,275	–	–
Transaction with owners									
Dividends on ordinary shares	29	(3,871)	(3,871)	–	(3,871)	–	–	–	–
As at 31 July 2021		363,404	363,404	43,678	299,672	20,054	13,185	2,240	4,629

For the financial year ended 31 July 2021

	Note	Equity, total RM'000	Non-distributable: Share capital (Note 17) RM'000	Distributable: Retained earnings (Note 18) RM'000	Non-distributable: Other reserves, total RM'000	Non-distributable: Merger relief reserve (Note 18) RM'000
Company						
As at 1 August 2019		193,856	43,678	148,963	1,215	1,215
Total comprehensive loss for the year		(2,000)	–	(2,000)	–	–
Transaction with owners						
Dividends on ordinary shares	29	(3,226)	–	(3,226)	–	–
As at 31 July 2020		188,630	43,678	143,737	1,215	1,215
As at 1 August 2020		188,630	43,678	143,737	1,215	1,215
Total comprehensive income for the year		2,418	–	2,418	–	–
Transaction with owners						
Dividends on ordinary shares	29	(3,871)	–	(3,871)	–	–
As at 31 July 2021		187,177	43,678	142,284	1,215	1,215

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

STATEMENTS OF CASH FLOWS

For the financial year ended 31 July 2021

	Note	Group 2021 RM'000	Group 2020 RM'000	Company 2021 RM'000	Company 2020 RM'000
Operating activities					
Profit/(loss) before tax		11,025	5,679	2,497	(1,900)
Adjustments for:					
Depreciation of property, plant and equipment	11	57,748	62,727	9,079	8,877
Net gain on disposal of property, plant and equipment	8	(7,860)	(9,063)	–	–
Property, plant and equipment written off		–	1	–	1
Net fair value (gain)/loss on investment securities	8	(3,329)	1,842	(3,329)	1,842
Unrealised exchange (gain)/loss		(24)	20	(15)	29
Write-down of inventories	8	134	1,462	–	–
Impairment of trade receivables	8	–	144	–	–
Dividend income		(184)	(169)	(184)	(169)
Interest income	5	(4,009)	(6,158)	(1,342)	(2,192)
Finance costs	7	881	2,371	274	253
Operating cash flows before changes in working capital		54,382	58,856	6,980	6,741
Changes in working capital:					
(Increase)/decrease in inventories		(1,923)	(110)	67	(33)
(Increase)/decrease in prepayments and receivables		(11,060)	30,931	(19)	9,179
Decrease in payables and contract liabilities		(230)	(2,312)	(1,950)	(1,033)
Cash flows from operations		41,169	87,365	5,078	14,854
Income taxes paid, net		(7,601)	(4,627)	(782)	(695)
Interest paid		(808)	(2,425)	(274)	(253)
Interest received		4,320	6,206	1,439	2,219
Net cash flows from operating activities		37,080	86,519	5,461	16,125

For the financial year ended 31 July 2021

	Note	Group 2021 RM'000	Group 2020 RM'000	Company 2021 RM'000	Company 2020 RM'000
Investing activities					
(Increase)/decrease in short-term deposits with maturity more than three months		(4,391)	(21,783)	(1,300)	3,500
Purchase of investment securities		(2,926)	(5,152)	(2,926)	(5,152)
Proceeds from disposal of investment securities		945	1,126	945	1,126
Dividend income		184	169	184	169
Purchase of property, plant and equipment	11	(43,775)	(12,415)	(13,625)	(603)
Proceeds from disposal of property, plant and equipment		7,939	9,888	–	–
Net cash flows used in investing activities		(42,024)	(28,167)	(16,722)	(960)
Financing activities					
Repayment of principal portion of lease liabilities		(3,615)	(6,184)	(2,249)	(4,404)
Repayment of bank loans		(21,649)	(48,180)	(1,143)	–
Proceeds from bank loans		12,837	8,026	7,758	–
Dividends paid on ordinary shares		(3,226)	(3,871)	(3,226)	(3,871)
Net cash flows (used in)/from financing activities		(15,653)	(50,209)	1,140	(8,275)
Net (decrease)/increase in cash and cash equivalents		(20,597)	8,143	(10,121)	6,890
Effect of exchange rate changes on cash and cash equivalents		1,471	172	–	–
Cash and cash equivalents at beginning of the year		84,694	76,379	28,556	21,666
Cash and cash equivalents at end of the year	16	65,568	84,694	18,435	28,556

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

1. Corporate information

KESM Industries Berhad ("the Company") is a public limited liability company incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Company is located at 802, 8th Floor, Block C, Kelana Square, No. 17, Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia.

The principal activities of the Company are investment holding and provision of semiconductor burn-in services. There have been no significant changes in the nature of these activities during the year. The principal activities and other details of the subsidiaries are disclosed in Note 13.

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

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

2. Summary of significant accounting policies

2.1 Basis of preparation

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

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

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

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that on 1 August 2020, the Group and the Company adopted the following new and amended MFRS mandatory for annual financial periods beginning on or after 1 January 2020.

Description	**Effective for annual periods beginning on or after**
Amendments to MFRS 3: Business Combinations (Definition of a Business)	1 January 2020
Amendments to MFRS 7: Financial Instruments: Disclosures (Interest Rate Benchmark Reform)	1 January 2020
Amendments to MFRS 9: Financial Instruments (Interest Rate Benchmark Reform)	1 January 2020
Amendments to MFRS 101: Presentation of Financial Statements (Definition of Material)	1 January 2020
Amendments to MFRS 108: Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Material)	1 January 2020
Amendments to MFRS 139: Financial Instruments: Recognition and Measurement (Interest Rate Benchmark Reform)	1 January 2020

The adoption of the above standards and interpretations did not have any material effect on the financial performance or position of the Group and of the Company.

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

2.3 Standards issued but not yet effective

The Group and the Company intend to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 7: Financial Instruments: Disclosures (Amendments to Interest Rate Benchmark Reform - Phase 2)	1 January 2021
Amendments to MFRS 9: Financial Instruments (Amendments to Interest Rate Benchmark Reform - Phase 2)	1 January 2021
Amendments to MFRS 16: Leases (Amendments to Interest Rate Benchmark Reform - Phase 2)	1 January 2021
Amendments to MFRS 139: Financial Instruments: Recognition and Measurement (Amendments to Interest Rate Benchmark Reform - Phase 2)	1 January 2021
Amendments to MFRS 16: Leases (COVID-19 Related Rent Concessions beyond 30 June 2021)	1 April 2021
Amendments to MFRS 1: First-time adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2018-2020)	1 January 2022
Amendments to MFRS 3: Business Combinations (Amendments to Reference to the Conceptual Framework)	1 January 2022
Amendments to MFRS 9: Financial Instruments (Annual Improvements to MFRS Standards 2018-2020)	1 January 2022
Amendments to MFRS 116: Property, Plant and Equipment (Proceeds before Intended Use)	1 January 2022
Amendments to MFRS 137: Onerous Contracts (Cost of Fulfilling a Contract)	1 January 2022
Amendments to MFRS 101: Presentation of Financial Statements (Classification of Liabilities as Current or Non-current)	1 January 2023
Amendments to MFRS 101: Presentation of Financial Statements (Disclosure of Accounting Policies)	1 January 2023
Amendments to MFRS 108: Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Accounting Estimates)	1 January 2023
Amendments to MFRS 112: Income Taxes (Deferred Tax related to Assets and Liabilities arising from a Single Transaction)	1 January 2023
Amendments to MFRS 10: Consolidated Financial Statements (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)	Deferred
Amendments to MFRS 128: Investments in Associates and Joint Venture (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)	Deferred

The directors expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application.

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

2.4 Basis of consolidation and business combinations

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied for like transactions and events in similar circumstances. A list of the Company's subsidiaries is shown in Note 13.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

(ii) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at fair value at acquisition date, and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred and included in administrative expenses.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is an asset or liability are recognised in profit or loss.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interests in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

2.5 Functional and foreign currency

The consolidated financial statements are presented in RM, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss.

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

2.5 Functional and foreign currency (cont'd)

(ii) Consolidated financial statements

For consolidation purposes, the assets and liabilities of foreign operations are translated into RM at the rate of exchange ruling at the reporting date and income and expenses are translated at the average exchange rates for the reporting year. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is reclassified to profit or loss.

2.6 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Right-of-use assets are included within the same line item as that within corresponding underlying assets would be presented if they were owned and are accounted for in accordance with Note 2.17. Subsequent to recognition, all items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

When significant parts of property, plant and equipment are required to be replaced in intervals, the Group and the Company recognise such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation, except for right-of-use assets which is depreciated in accordance with Note 2.17, is computed on a straight-line basis over the estimated useful lives of the assets as follows:

-	Buildings	3 - 20 years
-	Leasehold land	60 - 99 years
-	Renovation	5 years
-	Plant, machinery and test equipment	5 years
-	Motor vehicles	5 years
-	Office equipment, furniture and fittings and computers	3 - 10 years

Freehold land has an unlimited useful life and therefore is not depreciated. Certain assets are stated at cost and are not depreciated as these assets are not available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each reporting date, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

2.7 Impairment of non-financial assets

The Group and the Company assess at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group and the Company make an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

2.7 Impairment of non-financial assets (cont'd)

The Group and the Company base their impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's and of the Company's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of four years. For longer periods, a long-term growth rate is calculated and applied to projected future cash flows after the fourth year.

Impairment losses are recognised in profit or loss. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

2.8 Subsidiaries

A subsidiary is an entity over which the Group has all the following:

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

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

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

In the Company's separate financial statements, investment in subsidiaries are accounted for at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

2.9 Financial instruments

(i) Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group and the Company become a party to the contractual provisions of the instruments.

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVPL").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's and the Company's business model for managing them.

With the exception of trade receivables that do not contain a significant financing component, the Group and the Company initially measure a financial asset at its fair value plus, transaction costs, in the case of a financial asset not at FVPL.

Trade receivables that do not contain a significant financing component are measured at the transaction price determined under MFRS 15.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

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

2.9 Financial instruments (cont'd)

(i) Financial assets (cont'd)

Initial recognition and measurement (cont'd)

The Group's and the Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, that is the date that the Group and the Company commit to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in two categories:

(a) Financial assets at amortised cost

The Group and the Company measure financial assets at amortised cost if both of the following conditions are met:

(i) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

(ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

(b) Financial assets at fair value through profit or loss

Financial assets at FVPL include financial assets held for trading. Financial assets held for trading comprise investment securities, derivatives and financial assets acquired principally for the purpose of selling or repurchasing them in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Gains or losses arising from changes in fair value of the financial assets are recognised in profit or loss. Net gains or net losses on financial assets at FVPL do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at FVPL are recognised separately in profit or loss as part of other expenses or other income.

Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income for debt instruments is recognised in profit or loss.

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

2.9 Financial instruments (cont'd)

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's and the Company's financial liabilities include trade and other payables and loans and borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depend on their classification as follows:

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing them in the near term. This category includes derivative financial instruments entered into by the Group and the Company that are not designated as hedging instruments in hedge relationships as defined by MFRS 9.

Gains or losses on liabilities held for trading are recognised in profit or loss.

(b) Financial liabilities at amortised cost

After initial recognition, other financial liabilities, including loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

This category generally applies to trade and other payables, and loans and borrowings. Financial liabilities are classified as current liabilities, except for those having repayment date later than 12 months after the reporting date which are classified as non-current.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

2.10 Impairment of financial assets

The Group and the Company recognise an allowance for expected credit losses ("ECL") for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group and the Company expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

2.10 Impairment of financial assets (cont'd)

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a '12-month ECL'). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a 'lifetime ECL').

For trade receivables, the Group and the Company apply a simplified approach in calculating ECLs. Therefore, the Group and the Company do not track changes in credit risk, but instead recognise a loss allowance based on lifetime ECLs at each reporting date. The Group and the Company have established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group and the Company may consider a financial asset to be in default when internal or external information indicates that the Group and the Company are unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group and the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.11 Offsetting of financial instruments

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

2.12 Cash and cash equivalents

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

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

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

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

(iii) work-in-progress and finished goods - cost of direct materials and labour, and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a first-in first-out basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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

2.14 Provisions

Provisions are recognised when the Group and the Company have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.15 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.16 Employee benefits

(i) Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group and of the Company. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group and the Company pay fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

(iii) Defined benefit plan

The Group's obligations under the defined benefit retirement benefit plan are estimated and determined based on the amount of benefit that eligible employees have earned in return for their service in the current and prior years. That benefit is discounted using the projected unit credit method in order to determine its present value. The discount rate is the market yield at the reporting date on high quality corporate bonds or government bonds. The amount recognised in the statement of financial position represents the present value of the defined benefit obligations.

Net interest is calculated by applying the discount rate to the net defined benefit liability. The Group recognises the service costs in the net defined benefit obligations under 'Employee benefits expense' and net interest under 'Finance costs' in profit or loss.

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

2.17 Leases

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

(i) As a lessee

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

Right-of-use assets

The Group and the Company recognise right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. If ownership of the leased asset transfers to the Group and the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

Depreciation of right-of-use assets is computed on a straight-line basis over the estimated useful lives or lease terms of assets as follows:

-	Buildings	3 - 5 years
-	Leasehold land	60 - 99 years
-	Plant, machinery and test equipment	5 years
-	Motor vehicles	5 years

The right-of-use assets are also subject to impairment. The accounting policy for impairment is disclosed in Note 2.7. The Group's and the Company's right-of-use assets are disclosed in Note 12.

Lease liabilities

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

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

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

2.17 Leases (cont'd)

(i) As a lessee (cont'd)

Short-term leases and leases of low-value assets

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

(ii) As a lessor

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

2.18 Revenue

Revenue is measured based on the consideration specified in a contract with a customer and exclude amounts collected on behalf of third parties. The Group and the Company recognise revenue when or as they transfer control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

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

(ii) the entity's performance creates or enhances an asset (for example, work-in-progress) that the customer controls as the asset is created or enhanced; or

(iii) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time.

(i) Sale of goods

Revenue is recognised when the goods are delivered to the customers and all criteria for acceptance have been satisfied.

Revenue is measured at the consideration promised in the contract with customers, less discounts and rebates.

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

2.18 Revenue (cont'd)

(ii) Rendering of services

Revenue is recognised when the performance obligation is satisfied at a point in time, that is upon the performance of services to the customers, which coincides with their acceptance.

The amount of revenue recognised is based on the estimated transaction price, which comprises the contractual price, net of the estimated volume discounts. Based on the Group's and the Company's experience with similar types of contracts, variable consideration is typically constrained and is included in the transaction only to the extent that it is a highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(iii) Judgement and methods used in estimating revenue

In estimating the variable consideration, the Group uses the expected value method to predict the volume and early payment discounts and product returns, by the different product types based on historical experiences with the customers.

Management has exercised judgement in applying the constraint on the estimated variable consideration that can be included in the transaction price. For volume and early payment discounts, management determines that a portion of the estimated variable consideration is subject to the constraint as, based on past experience with the customers, it is highly probable that a reversal in the cumulative amount of revenue recognised will occur, and therefore will not be recognised as revenue. For product returns, management considers its historical experience and evidence from other similar contracts to develop an estimate of variable consideration for expected returns using the expected value method.

(iv) Contract liabilities

A contract liability is recognised when the Group has not yet performed under the contract but has received advanced payments from the customers. Contract liabilities are recognised as revenue when the Group performs under the contract.

(v) Others

(a) Interest income

Interest income is recognised using the effective interest method.

(b) Dividend income

Dividend income is recognised when the Group's and the Company's right to receive payment is established.

(c) Rental income

Rental income is accounted for on a straight-line basis over the lease terms and is included in other income in the statements of profit or loss and other comprehensive income due to its operating nature.

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

2.19 Taxes

(i) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

(a) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investment in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

(a) where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of deductible temporary differences associated with investment in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

2.19 Taxes (cont'd)

(ii) Deferred tax (cont'd)

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(iii) Sales and service tax ("SST")

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

(a) where the SST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

(b) receivables and payables that are stated with the amount of SST included.

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

2.20 Share capital and share issuance expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2.21 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures are shown in Note 28.

2.22 Contingencies

A contingent liability is:

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

(ii) a present obligation that arises from past events but is not recognised because:

  (a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

  (b) the amount of the obligation cannot be measured with sufficient reliability.

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

2.22 Contingencies (cont'd)

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group and of the Company.

Contingent liabilities and assets are not recognised on the statement of financial position of the Group and of the Company, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

2.23 Current versus non-current classification

The Group and the Company present assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

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

(ii) held primarily for the purpose of trading;

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

(iv) cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets, including deferred tax assets are classified as non-current.

A liability is current when:

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

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

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

(iv) there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group and the Company classify all other liabilities, including deferred tax liabilities as non-current.

3. Significant accounting estimates and judgements

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

3.1 Judgements made in applying accounting policies

There are no significant judgements made by management in the application of accounting policies of the Group and of the Company that have a significant effect on the financial statements.

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

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below. The Group and the Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group and of the Company. Such changes are reflected in the assumptions when they occur.

(i) Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available in the future to recover these deferred tax assets. Significant management judgement and estimation are required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, including expectations for future market outlooks. The carrying amounts of the Group's and the Company's deferred tax assets at reporting date were RM3,398,000 (2020: RM3,513,000) and RM1,100,000 (2020: RM804,000) respectively. Further details are disclosed in Note 20.

(ii) Impairment of property, plant and equipment

The Group assesses whether there are any indicators of impairment for property, plant and equipment at each reporting date. Property, plant and equipment are tested for impairment when there are indicators that the carrying amounts may not be recoverable. If such indicators exist, the recoverable amount (i.e. higher of fair value less costs to sell and value in use) of the assets is estimated to determine the amount of impairment loss. The fair value less costs to sell calculation is based on available data from recent sales transactions.

The value in use calculations is using discounted cash flow analysis with certain key parameters such as discount rate and growth rate. Management believes that the aforesaid variables are unlikely to materially result in the carrying amount of property, plant and equipment exceeding their recoverable amounts. The carrying amount of the Group's property, plant and equipment at the reporting date is disclosed in Note 11.

(iii) Impairment of investment in subsidiaries

The recoverable amounts of investment in subsidiaries are determined based on value in use calculations, using a discounted cash flow model. The recoverable amounts are based on, amongst other variables, the discount rate used for the discounted cash flow model and long term growth rate used. Management believes that the aforesaid variables are unlikely to materially result in the carrying value of the subsidiaries exceeding its recoverable amounts.

The carrying amount of the Company's investment in subsidiaries at the reporting date was RM79,250,000 (2020: RM79,250,000).

(iv) Useful lives of plant, machinery and test equipment

The cost of plant, machinery and test equipment is depreciated on a straight-line basis over the assets estimated economic useful lives. Management estimates the useful lives of these plant, machinery and test equipment to be 5 years. These are common life expectancies applied in the semiconductor industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore, future depreciation charges could be revised. The carrying amount of the Group's and the Company's plant and equipment at the reporting date is disclosed in Note 11.

4. Revenue

(i) Disaggregation of revenue

	Group		Company	
	2021	2020	2021	2020
	RM'000	RM'000	RM'000	RM'000
Types of goods and services				
Sale of goods	31,910	18,207	–	–
Rendering of services	216,347	222,769	57,179	59,367
	248,257	240,976	57,179	59,367
Geographical markets				
Malaysia	185,961	179,715	54,340	57,077
People's Republic of China ("PRC")	50,275	46,602	–	–
Others	12,021	14,659	2,839	2,290
	248,257	240,976	57,179	59,367

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

(ii) Contract liabilities

	Group	
	2021	2020
	RM'000	RM'000
Contract liabilities	1,375	41

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

Significant changes in contract liabilities are explained as follows:

	Group	
	2021	2020
	RM'000	RM'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	41	525

5. Interest income

	Group		Company	
	2021	2020	2021	2020
	RM'000	RM'000	RM'000	RM'000
Interest income from:				
- Deposits with licensed banks	4,009	6,158	1,292	2,175
- Loan to a subsidiary	–	–	50	17
	4,009	6,158	1,342	2,192

6. Employee benefits expense

		Group		Company	
	Note	2021	2020	2021	2020
		RM'000	RM'000	RM'000	RM'000
Employee benefits expense (including directors):					
- Wages, salaries and bonuses		81,106	81,258	29,067	28,917
- Contributions to defined contribution plan		2,802	2,913	1,019	1,054
- Social security contributions		4,539	3,811	155	157
- Defined benefit obligations	22	245	264	–	–
- Other benefits		5,047	4,516	1,143	1,064
		93,739	92,762	31,384	31,192

7. Finance costs

		Group		Company	
	Note	2021	2020	2021	2020
		RM'000	RM'000	RM'000	RM'000
Interest expense on:					
- Bank loans		464	1,729	130	–
- Lease liabilities	12	311	559	144	253
- Defined benefit obligations	22	106	83	–	–
		881	2,371	274	253

8. Profit/(loss) before tax

	Group		Company	
	2021	2020	2021	2020
	RM'000	RM'000	RM'000	RM'000
Profit/(loss) before tax is arrived at:				
After charging:				
Auditors' remunerations				
- statutory audit	410	408	115	131
- non-audit services	125	91	125	91
Directors' remuneration	1,831	1,719	1,711	1,679
Rental expenses	234	544	–	454
Utilities	28,568	31,657	9,835	11,298
Repairs and maintenance	18,418	17,649	3,191	3,578
Impairment of trade receivables	–	144	–	–
Net fair value loss on investment securities	–	1,842	–	1,842
Write-down of inventories	134	1,462	–	–
Net foreign exchange loss	–	–	14	53
and crediting:				
Net gain on disposal of property, plant and equipment	7,860	9,063	–	–
Net fair value gain on investment securities	3,329	–	3,329	–
Rental income from a subsidiary	–	–	1,467	1,381
Net foreign exchange gain	110	13	–	–
COVID-19 related government reliefs	241	1,927	–	124

Information on directors' remuneration is as follows:

	Group		Company	
	2021	2020	2021	2020
	RM'000	RM'000	RM'000	RM'000
Directors' remuneration				
In respect of the Company's directors:				
Executive:				
- Fees	203	123	103	103
- Salaries and other emoluments	1,418	1,386	1,418	1,386
	1,621	1,509	1,521	1,489
Non-executive:				
- Fees	183	183	163	163
- Allowances	27	27	27	27
	210	210	190	190
Total directors' remuneration	1,831	1,719	1,711	1,679

9. Income tax expense

(i) Major components of income tax expense

The major components of income tax expense for the years ended 31 July 2021 and 2020 are:

	Group		Company	
	2021	2020	2021	2020
	RM'000	RM'000	RM'000	RM'000
Current income tax:				
- Malaysian income tax	1,983	7,578	375	526
- (Over)/under provision in prior years	(10)	42	–	23
	1,973	7,620	375	549
Deferred tax (Note 20):				
- Origination and reversal of temporary differences	1,674	(1,960)	(306)	(392)
- Under/(over) provision in prior years	43	(77)	10	(57)
	1,717	(2,037)	(296)	(449)
Income tax expense recognised in profit or loss	3,690	5,583	79	100

The reconciliation between tax expense and product of accounting profit/(loss) multiplied by the applicable corporate tax rate for the years ended 31 July 2021 and 2020 is as follows:

	Group	
	2021	2020
	RM'000	RM'000
Profit before tax	11,025	5,679
Tax at Malaysian statutory tax rate of 24% (2020: 24%)	2,646	1,363
Adjustments:		
Effect of different tax rate on foreign expense	(53)	(83)
Income not subject to tax	(968)	(597)
Non-deductible expenses	191	1,028
Utilisation of previously unrecognised tax benefits	(4)	(528)
Deferred tax asset not recognised on unutilised business losses and other deductible temporary differences	1,845	4,435
(Over)/under provision of income tax expense in prior years	(10)	42
Under/(over) provision of deferred tax in prior years	43	(77)
Income tax expense recognised in profit or loss	3,690	5,583

9. Income tax expense (cont'd)

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

	Company	
	2021	2020
	RM'000	RM'000
Profit/(loss) before tax	2,497	(1,900)
Tax at Malaysian statutory tax rate of 24% (2020: 24%)	599	(456)
Adjustments:		
Income not subject to tax	(735)	(40)
Non-deductible expenses	205	630
Under provision of income tax expense in prior years	–	23
Under/(over) provision of deferred tax in prior years	10	(57)
Income tax expense recognised in profit or loss	79	100

Domestic current income tax is calculated at the Malaysian statutory tax rate of 24% (2020: 24%) of the estimated assessable profit/(loss) for the year.

Taxation for other jurisdiction is calculated at the prevailing rate of the respective jurisdictions.

The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

10. Earnings per share

Basic earnings per share amounts are calculated by dividing profit net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	Number of shares	
	2021	2020
	'000	'000
Weighted average number of ordinary shares for basic earnings per share calculation	43,015	43,015
Basic earnings per share	17.1 sen	0.2 sen

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

There has been no other transaction involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

11. Property, plant and equipment

Group	Buildings RM'000	Freehold land RM'000	Leasehold land RM'000	Renovation* RM'000	Plant, machinery and test equipment* RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers* RM'000	Total RM'000
At 31 July 2021								
At Cost								
At 1 August 2020	29,515	1,111	5,089	34,781	820,172	1,589	10,973	903,230
Additions	6,095	–	2,686	736	41,608	–	948	52,073
Disposals	–	–	–	–	(37,472)	–	(887)	(38,359)
Modification	(1,888)	–	–	–	–	–	–	(1,888)
Write off	–	–	–	(21)	(3,524)	–	(105)	(3,650)
Exchange differences	416	–	–	2,324	14,387	8	288	17,423
At 31 July 2021	34,138	1,111	7,775	37,820	835,171	1,597	11,217	928,829
Accumulated depreciation								
At 1 August 2020	22,441	–	1,840	30,060	710,985	1,195	9,248	775,769
Depreciation charge for the year	2,738	–	106	2,220	51,933	222	529	57,748
Disposals	–	–	–	–	(37,422)	–	(858)	(38,280)
Modification	(567)	–	–	–	–	–	–	(567)
Write off	–	–	–	(21)	(3,524)	–	(105)	(3,650)
Exchange differences	143	–	–	2,139	12,931	6	259	15,478
At 31 July 2021	24,755	–	1,946	34,398	734,903	1,423	9,073	806,498
Net carrying amount	9,383	1,111	5,829	3,422	100,268	174	2,144	122,331

* Included in the net carrying amounts of the Group's 'Renovation', 'Plant, machinery and test equipment' and 'Office equipment, furniture and fittings and computers' of RM399,000, RM9,193,000 and RM385,000 respectively, were assets which are not depreciated as they were not available for use. Plant, machinery and test equipment were not available for use as they were under testing phase.

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

Group	Buildings RM'000	Freehold land RM'000	Leasehold land RM'000	Renovation RM'000	Plant, machinery and test equipment* RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers* RM'000	Total RM'000
At 31 July 2020								
At Cost								
At 1 August 2019	27,382	1,111	5,089	34,382	821,599	1,714	10,972	902,249
Additions	3,073	–	–	506	15,955	–	570	20,104
Disposals	(990)	–	–	–	(14,907)	(126)	–	(16,023)
Write off	–	–	–	(380)	(4,127)	–	(606)	(5,113)
Exchange differences	50	–	–	273	1,652	1	37	2,013
At 31 July 2020	29,515	1,111	5,089	34,781	820,172	1,589	10,973	903,230
Accumulated depreciation								
At 1 August 2019	20,811	–	1,756	27,801	671,037	1,027	9,112	731,544
Depreciation charge for the year	2,583	–	84	2,390	56,696	262	712	62,727
Disposals	(969)	–	–	–	(14,133)	(96)	–	(15,198)
Write off	–	–	–	(380)	(4,126)	–	(606)	(5,112)
Exchange differences	16	–	–	249	1,511	2	30	1,808
At 31 July 2020	22,441	–	1,840	30,060	710,985	1,195	9,248	775,769
Net carrying amount	7,074	1,111	3,249	4,721	109,187	394	1,725	127,461

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

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

Company	Buildings RM'000	Freehold land RM'000	Leasehold land RM'000	Renovation* RM'000	Plant, machinery and test equipment* RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers RM'000	Total RM'000
At 31 July 2021								
At Cost								
At 1 August 2020	13,869	1,111	2,389	2,780	132,991	975	4,091	158,206
Additions	6,095	–	2,686	598	5,808	–	262	15,449
Write off	–	–	–	(21)	(3,306)	–	(64)	(3,391)
At 31 July 2021	19,964	1,111	5,075	3,357	135,493	975	4,289	170,264
Accumulated depreciation								
At 1 August 2020	10,705	–	813	2,093	116,801	684	3,533	134,629
Depreciation charge for the year	1,786	–	41	297	6,583	165	207	9,079
Write off	–	–	–	(21)	(3,306)	–	(64)	(3,391)
At 31 July 2021	12,491	–	854	2,369	120,078	849	3,676	140,317
Net carrying amount	7,473	1,111	4,221	988	15,415	126	613	29,947

* Included in the net carrying amounts of the Company's 'Renovation' and 'Plant, machinery and test equipment' of RM399,000 and RM2,282,000 respectively, were assets which are not depreciated as they were not available for use. Plant, machinery and test equipment were not available for use as they were under testing phase.

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

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

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

(i) Additions

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

	Note	Group 2021 RM'000	Group 2020 RM'000	Company 2021 RM'000	Company 2020 RM'000
Cash payments		43,775	12,415	13,625	603
Lease liabilities	12	1,161	4,570	1,161	4,570
Other payables	21	7,137	3,119	663	402
		52,073	20,104	15,449	5,575

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

12. Leases

As a lessee

Buildings

The Group and the Company have lease contracts for offices and factories used in its operations, and accommodations for workers. These leases have contract terms of 3 to 5 years (2020: 2 to 5 years), and do not contain variable lease payments. The Group's and the Company's obligation under its leases are secured by the lessor's title to the leased assets.

Leasehold land

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

Plant, machinery and test equipment and motor vehicles

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

Short-term leases and leases of low-value assets

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

(a) Right-of-use assets

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

Group	Buildings RM'000	Leasehold land RM'000	Plant, machinery and test equipment RM'000	Motor vehicles RM'000	Total RM'000
At 31 July 2021					
At 1 August 2020	6,742	3,249	2,767	133	12,891
Additions during the year	1,161	2,686	–	–	3,847
Modification during the year	(1,321)	–	–	–	(1,321)
Depreciation	(2,366)	(106)	(489)	(15)	(2,976)
Transfer out upon lease expiry	–	–	(1,401)	(118)	(1,519)
Exchange differences	275	–	–	–	275
At 31 July 2021	4,491	5,829	877	–	11,197
At 31 July 2020					
At 1 August 2019	5,857	3,333	5,190	452	14,832
Additions during the year	3,073	–	1,404	–	4,477
Depreciation	(2,223)	(84)	(1,474)	(111)	(3,892)
Transfer out upon lease expiry	–	–	(2,353)	(208)	(2,561)
Exchange differences	35	–	–	–	35
At 31 July 2020	6,742	3,249	2,767	133	12,891

12. Leases (cont'd)

As a lessee (cont'd)

(a) Right-of-use assets (cont'd)

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

Company	Buildings RM'000	Leasehold land RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Total RM'000
At 31 July 2021					
At 1 August 2020	2,831	1,576	2,061	133	6,601
Additions during the year	1,161	2,686	–	–	3,847
Depreciation	(1,412)	(41)	(328)	(15)	(1,796)
Transfer out upon lease expiry	–	–	(856)	(118)	(974)
At 31 July 2021	2,580	4,221	877	–	7,678
At 31 July 2020					
At 1 August 2019	761	1,596	4,284	452	7,093
Additions during the year	3,073	–	1,404	–	4,477
Depreciation	(1,003)	(20)	(1,274)	(111)	(2,408)
Transfer out upon lease expiry	–	–	(2,353)	(208)	(2,561)
At 31 July 2020	2,831	1,576	2,061	133	6,601

(b) Lease liabilities

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

	Note	Group 2021 RM'000	Group 2020 RM'000	Company 2021 RM'000	Company 2020 RM'000
As at 1 August		8,223	9,784	3,878	3,712
Additions		1,161	4,570	1,161	4,570
Modification		(1,368)	–	–	–
Accretion of interest		311	559	144	253
Payments		(3,926)	(6,743)	(2,393)	(4,657)
Exchange differences		325	53	–	–
As at 31 July		4,726	8,223	2,790	3,878
Current	19	2,380	3,736	1,562	2,218
Non-current	19	2,346	4,487	1,228	1,660

12. Leases (cont'd)

As a lessee (cont'd)

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

The following are the amounts recognised in profit or loss:

		Group		Company	
	Note	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Depreciation expense of right-of-use assets		2,976	3,892	1,796	2,408
Interest expense on lease liabilities	7	311	559	144	253
Lease expense relating to short-term lease		186	576	126	576
Lease expense relating to low-value assets		124	123	16	20
Total amount recognised in profit or loss		3,597	5,150	2,082	3,257

The Group and the Company had total cash outflows for leases of RM4,236,000 and RM2,535,000 (2020: RM7,442,000 and RM5,253,000), respectively, in the current financial year.

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

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

	Within five years RM'000	More than five years RM'000	Total RM'000
2021			
Extension option expected not to be exercised	3,630	–	3,630
2020			
Extension option expected not to be exercised	4,181	470	4,651

12. Leases (cont'd)

As a lessor

(a) An immediate lessor

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

(b) An intermediate lessor

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

Income from subleasing the factory and accommodations for workers recognised during the financial year was RM1,467,000 (2020: RM1,381,000).

13. Investment in subsidiaries

	Company	
	2021 RM'000	2020 RM'000
Unquoted shares, at cost	79,250	79,250

Composition of the Group

The Company has the following investments in subsidiaries:

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest 2021 %	Proportion of ownership interest 2020 %
KESP Sdn. Bhd.*	Malaysia	Provision of semiconductor burn-in services and electronic manufacturing services	100	100
KESM Test (M) Sdn. Bhd.*	Malaysia	Provision of semiconductor testing services	100	100
KESM Industries (Tianjin) Co., Ltd^	PRC	Provision of semiconductor burn-in and testing services	100	100

* Audited by Ernst & Young PLT, Malaysia.
^ Audited by Ernst & Young, China, for the purpose of Group consolidation.

14. Inventories

	Group 2021 RM'000	Group 2020 RM'000	Company 2021 RM'000	Company 2020 RM'000
At cost				
Raw materials	5,957	3,945	–	–
Consumables	666	648	120	187
Work-in-progress	42	323	–	–
Finished goods	1,179	1,139	–	–
	7,844	6,055	120	187

During the financial year, the Group wrote down RM134,000 (2020: RM1,462,000) of inventories which were recognised in 'Other expenses' line item in the statements of profit or loss and other comprehensive income.

15. Trade and other receivables

	Note	Group 2021 RM'000	Group 2020 RM'000	Company 2021 RM'000	Company 2020 RM'000
Non-current					
Other receivable					
Refundable deposits		664	667	403	302
Current					
Trade receivables					
Third parties		45,608	32,956	10,562	10,786
Amount due from a related company		–	87	–	–
		45,608	33,043	10,562	10,786
Less: Allowance for impairment		(144)	(144)	–	–
		45,464	32,899	10,562	10,786
Current					
Other receivables					
Refundable deposits		148	204	121	179
Sundry receivables		1,181	1,233	365	443
Loan to a subsidiary		–	–	1,000	–
Amounts due from subsidiaries		–	–	1,239	1,193
Amounts due from related companies		8	15	7	13
		1,337	1,452	2,732	1,828
Total current trade and other receivables		46,801	34,351	13,294	12,614
Total trade and other receivables		47,465	35,018	13,697	12,916
Add: Cash and short-term deposits	16	215,368	230,103	65,735	74,556
Total financial assets carried at amortised cost		262,833	265,121	79,432	87,472

15. Trade and other receivables (cont'd)

(i) Trade receivables

Trade receivables, including amounts due from a related company, are non-interest bearing and are generally on 30 to 90 days (2020: 30 to 90 days) terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Ageing analysis of trade receivables

The ageing analysis of the Group's and of the Company's trade receivables are as follows:

	Group		Company	
	2021	2020	2021	2020
	RM'000	RM'000	RM'000	RM'000
Neither past due nor impaired	43,421	31,165	10,453	10,592
Past due not impaired				
- 1 to 60 days	2,043	1,734	109	194
Impaired	144	144	–	–
	45,608	33,043	10,562	10,786

Receivables that are past due but not impaired

The Group's and the Company's trade receivables which are past due but not impaired, amounting to RM2,043,000 (2020: RM1,734,000) and RM109,000 (2020: RM194,000) respectively, are unsecured.

These amounts have been assessed as collectible as they are due from customers which are still in active trade with the Group and the Company.

Receivables that are impaired

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

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

	Group	
	2021	2020
	RM'000	RM'000
At beginning of the year	144	–
Charge to profit or loss	–	144
At end of the year	144	144

During the financial year, there is no impairment loss (2020: RM144,000) recognised in profit or loss of the Group.

15. Trade and other receivables (cont'd)

(ii) Related company receivables

Loans to a subsidiary bore interest rate of 3.6% (2020: 4.8%) per annum, was unsecured and had been partially repaid during the current financial year.

Amounts due from subsidiaries are non-trade in nature, unsecured, non-interest bearing and are repayable on demand.

Amounts due from related companies are non-trade in nature, unsecured, non-interest bearing and repayable on demand. Related companies refer to its ultimate holding company, Sunright Limited and its subsidiaries.

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

	Group		Company	
	2021	2020	2021	2020
	RM'000	RM'000	RM'000	RM'000
United States Dollar	5,106	1,986	866	897
Ringgit Malaysia	27,220	24,007	12,831	12,019
Renminbi	15,139	8,715	–	–
Others	–	310	–	–
	47,465	35,018	13,697	12,916

16. Cash and short-term deposits

	Group		Company	
	2021	2020	2021	2020
	RM'000	RM'000	RM'000	RM'000
Cash at banks and on hand	30,240	29,510	5,107	5,216
Deposits with licensed banks	185,128	200,593	60,628	69,340
Cash and short-term deposits	215,368	230,103	65,735	74,556
Less: Bank deposits with maturity more than three months	(149,800)	(145,409)	(47,300)	(46,000)
Cash and cash equivalents	65,568	84,694	18,435	28,556

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

	Group		Company	
	2021	2020	2021	2020
	RM'000	RM'000	RM'000	RM'000
United States Dollar	4,994	3,190	1,209	612
Ringgit Malaysia	197,776	208,909	64,526	73,944
Renminbi	12,598	18,004	–	–
	215,368	230,103	65,735	74,556

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits, other than those with maturity more than three months, are made for varying periods of between seven days and three months (2020: between six days and three months), depending on the immediate cash requirements of the Group and of the Company, and earn interests at the respective short-term deposit rates. The weighted average effective interest rates of short-term deposits as at 31 July 2021 for the Group and the Company were 2.0% (2020: 2.5%) and 2.0% (2020: 2.5%) per annum respectively.

Cash and short-term deposits of RM12,598,000 (2020: RM18,004,000) held in PRC are subject to local exchange control restrictions. These regulations place restriction on the amount of currency being exported other than through dividends and trade-related transactions.

17. Share capital

	Group/Company			
	Number of ordinary shares		Amount	
	2021	2020	2021	2020
	'000	'000	RM'000	RM'000
Issued and fully paid ordinary shares:				
At beginning/end of the year	43,015	43,015	43,678	43,678

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Company's residual assets.

18. Reserves

	Note	Group		Company	
		2021	2020	2021	2020
		RM'000	RM'000	RM'000	RM'000
Distributable:					
Retained earnings	(i)	299,672	295,817	142,284	143,737
Non-distributable:					
Foreign currency translation reserve	(ii)	13,185	9,910	–	–
Statutory reserve fund	(iii)	4,629	4,629	–	–
Merger relief reserve	(iv)	–	–	1,215	1,215
Capital reserve	(v)	2,240	2,240	–	–
		319,726	312,596	143,499	144,952

(i) Retained earnings

The Company may distribute dividends out of its entire retained earnings as at 31 July 2021 under the single tier system.

18. Reserves (cont'd)

(ii) Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operation whose functional currency is different from that of the Group's presentation currency.

(iii) Statutory reserve fund

In accordance with the Foreign Enterprise Law applicable to the subsidiary in the PRC, the subsidiary is required to make an appropriation to a Statutory Reserve Fund ("SRF"). At least 10% of the statutory after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of SRF reaches 50% of the subsidiary's registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiary. The SRF is not available for dividend distribution to shareholders.

(iv) Merger relief reserve

Merger relief reserve represents the excess of consideration paid over the share capital of the acquired subsidiary.

(v) Capital reserve

Capital reserve represents the shares of subsidiaries received by the Company arising from bonus issue.

19. Loans and borrowings

		Group		Company	
	Maturity year	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Current					
Lease liabilities (Note 12)		2,380	3,736	1,562	2,218
Bank loans	2022	5,037	17,342	2,586	–
		7,417	21,078	4,148	2,218
Non-current					
Lease liabilities (Note 12)		2,346	4,487	1,228	1,660
Bank loans	2024	4,029	–	4,029	–
		6,375	4,487	5,257	1,660
Total loans and borrowings		13,792	25,565	9,405	3,878

(i) Bank loans

Bank loans of RM2,451,000 (2020: RM6,618,000) for the Group are secured by corporate guarantee provided by the Company.

The bank loans bore interests between 3.6% and 5.2% (2020: between 3.5% and 5.5%) per annum during the current financial year.

19. Loans and borrowings (cont'd)

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

	1 August 2020	Cash flows	Non-cash items Addition	Non-cash items Modification	Non-cash items Others	31 July 2021
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group						
Bank loans						
- Current	17,342	(21,649)	–	–	9,344	5,037
- Non-current	–	12,837	–	–	(8,808)	4,029
Lease liabilities						
- Current	3,736	(3,615)	–	(444)	2,703	2,380
- Non-current	4,487	–	1,161	(924)	(2,378)	2,346
Total	25,565	(12,427)	1,161	(1,368)	861	13,792
Company						
Bank loans						
- Current	–	(1,143)	–	–	3,729	2,586
- Non-current	–	7,758	–	–	(3,729)	4,029
Lease liabilities						
- Current	2,218	(2,249)	–	–	1,593	1,562
- Non-current	1,660	–	1,161	–	(1,593)	1,228
Total	3,878	(2,249)	1,161	–	–	2,790

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

19. Loans and borrowings (cont'd)

The 'Others' column relates to the reclassification of non-current portion of loans and borrowings including obligations under finance leases due to passage of time. Remaining amount relates to foreign exchange movement.

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

	Group		Company	
	2021	2020	2021	2020
	RM'000	RM'000	RM'000	RM'000
Renminbi	4,387	10,546	–	–
Ringgit Malaysia	9,405	15,019	9,405	3,878
	13,792	25,565	9,405	3,878

20. Deferred tax (assets)/liabilities

		Group		Company	
	Note	2021	2020	2021	2020
		RM'000	RM'000	RM'000	RM'000
At beginning of the year		(2,425)	(368)	(804)	(355)
Recognised in profit or loss	9	1,717	(2,037)	(296)	(449)
Exchange differences		(162)	(20)	–	–
At end of the year		(870)	(2,425)	(1,100)	(804)
Presented after appropriate offsetting as follows:					
Deferred tax assets		(3,398)	(3,513)	(1,100)	(804)
Deferred tax liabilities		2,528	1,088	–	–
		(870)	(2,425)	(1,100)	(804)

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax liabilities of the Group

	Property, plant and equipment	Others	Total
	RM'000	RM'000	RM'000
At 31 July 2019	4,787	5	4,792
Recognised in profit or loss	(2,350)	(5)	(2,355)
At 31 July 2020	2,437	–	2,437
Recognised in profit or loss	1,721	2	1,723
At 31 July 2021	4,158	2	4,160

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

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows: (cont'd)

Deferred tax assets of the Group

	Property, plant and equipment RM'000	Others* RM'000	Total RM'000
At 31 July 2019	(455)	(4,705)	(5,160)
Recognised in profit or loss	(297)	615	318
Exchange differences	–	(20)	(20)
At 31 July 2020	(752)	(4,110)	(4,862)
Recognised in profit or loss	526	(532)	(6)
Exchange differences	–	(162)	(162)
At 31 July 2021	(226)	(4,804)	(5,030)
Net			(870)

Deferred tax liabilities of the Company

	Property, plant and equipment RM'000
At 31 July 2019	82
Recognised in profit or loss	(82)
At 31 July 2020/31 July 2021	–

Deferred tax assets of the Company

	Property, plant and equipment RM'000	Others* RM'000	Total RM'000
At 31 July 2019	–	(437)	(437)
Recognised in profit or loss	(297)	(70)	(367)
At 31 July 2020	(297)	(507)	(804)
Recognised in profit or loss	71	(367)	(296)
At 31 July 2021	(226)	(874)	(1,100)
Deferred tax assets, net	(226)	(874)	(1,100)

* Others comprise other deductible temporary differences and provision.

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

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

	Group	
	2021	2020
	RM'000	RM'000
Unutilised business losses	48,717	40,422
Other deductible temporary differences	28,895	29,520
	77,612	69,942
Deferred tax benefit at 24%, if recognised	18,627	16,786

The availability of the unutilised business losses and other deductible temporary differences for offsetting against future taxable profits of the subsidiaries is subject to the tax laws and legislation of the countries in which the subsidiaries operate. The unutilised business losses of entities in PRC and Malaysia are allowed to be carried forward for a maximum period of five and seven years respectively. Upon expiry of the relevant periods, the unutilised business losses will be disregarded.

21. Trade and other payables

		Group		Company	
	Note	2021	2020	2021	2020
		RM'000	RM'000	RM'000	RM'000
Trade payables					
Third parties		4,096	4,017	–	–
Amounts due to a subsidiary		–	–	32	2,519
Other payables					
Accrued operating expenses		8,104	8,491	4,001	4,147
Sundry payables		7,379	6,489	1,896	1,785
Dividend payable		1,290	645	1,290	645
Balance due for acquisitions of property, plant and equipment	11	7,137	3,119	663	402
Amounts due to ultimate holding company		1,450	1,583	753	728
Amount due to a related company		987	1	977	1
Total trade and other payables		30,443	24,345	9,612	10,227
Add: Loans and borrowings	19	13,792	25,565	9,405	3,878
Total financial liabilities carried at amortised cost		44,235	49,910	19,017	14,105

21. Trade and other payables (cont'd)

(i) Trade payables and sundry payables

Trade payables and sundry payables are non-interest bearing. They are normally settled on 30 to 90 days (2020: 30 to 90 days) terms.

(ii) Related companies payables

Amount due to a subsidiary is trade in nature, unsecured, non-interest bearing and is repayable on demand.

Amounts due to ultimate holding company and a related company are non-trade in nature, unsecured, non-interest bearing and are repayable on demand.

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

	Group		Company	
	2021	2020	2021	2020
	RM'000	RM'000	RM'000	RM'000
United States Dollar	7,947	3,785	1,065	220
Ringgit Malaysia	15,395	13,674	7,823	9,307
Renminbi	5,629	5,108	–	–
Others	1,472	1,778	724	700
	30,443	24,345	9,612	10,227

22. Defined benefit liabilities

The Group operates an unfunded defined benefit plan. The level of benefit provided depends on eligible employees' length of service and their salary in their final years leading up to retirement.

The amount included in the consolidated statement of financial position arising from the Group's liabilities in respect of its defined benefit plan is as follows:

	Group	
	2021	2020
	RM'000	RM'000
Present value of defined benefit obligations, representing defined benefit liabilities	4,362	4,402

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

	2021	2020
Balance at beginning of the year	4,402	3,939
Current service costs	245	264
Interest costs	106	83
Remeasurement loss on defined benefit liabilities		
- Actuarial (gain)/loss arising from changes in financial assumptions	(391)	116
Balance at end of the year	4,362	4,402

22. Defined benefit liabilities (cont'd)

The components of amounts recognised in profit or loss and in other comprehensive income in respect of the defined benefit plan are as follows:

Reported in profit or loss

		Group	
	Note	2021 RM'000	2020 RM'000
Current service costs	6	245	264
Interest costs	7	106	83
		351	347

Reported in other comprehensive income

	Group	
	2021 RM'000	2020 RM'000
Actuarial (gain)/loss arising from changes in financial assumptions	(391)	116

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

	Group	
	2021 %	2020 %
Discount rates	3.4 - 3.8	2.9 - 3.1
Expected rate of future salary increases	4.2	5.0

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

		Group	
	Increase/ (decrease)	2021 RM'000	2020 RM'000
Discount rates	0.25%	(47)	(59)
	(0.25%)	48	60
Expected rate of future salary increases	0.25%	47	58
	(0.25%)	(47)	(58)

The duration of the defined benefit liabilities at the reporting date is 3 to 6 years (2020: 4 to 7 years).

23. Related party transactions

(i) Sales and purchase of goods and services

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group, Company and related parties took place at terms agreed between the parties during the financial year.

	Group		Company	
	2021	2020	2021	2020
	RM'000	RM'000	RM'000	RM'000
Transactions with Sunright Limited, ultimate holding company of the Company, and its subsidiaries				
Management fees charged by Sunright Limited	7,522	7,252	3,344	3,263
Dividend paid/payable to Sunright Limited	1,874	1,562	1,874	1,562
Sales to:				
- KES Systems, Inc.	75	30	–	–
Purchases from:				
- KES Systems & Service (1993) Pte Ltd	565	1,271	556	1,271
- KES Systems, Inc.	4	621	–	–
- KES Systems & Service (Shanghai) Co., Ltd	–	124	–	–
- KEST Systems & Service Ltd	1,372	335	1,359	332

	Company	
	2021	2020
	RM'000	RM'000
Transactions with subsidiaries		
Rental income from a subsidiary	1,467	1,381
Commission income from a subsidiary	1,700	1,603
Interest income on loan to a subsidiary	50	17
Loans to a subsidiary	3,000	–

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

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

(ii) Compensation of key management personnel

The executive directors of the Group and of the Company are the key management personnel of the Group and the Company, whose remuneration are disclosed in Note 8.

24. Capital commitments

Capital expenditure as at the reporting date is as follows:

	Group		Company	
	2021	2020	2021	2020
	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment				
Authorised and contracted for	11,699	4,847	1,756	509

Included in authorised and contracted for was an amount of RM550,000 (2020: Nil) and RM550,000 (2020: Nil) relating to commitments to certain related companies by the Group and the Company respectively.

25. Fair value of assets and liabilities

(i) Fair value hierarchy

The Group and the Company categorise fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 - Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group and the Company can access at the measurement date;
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirely in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

There has been no transfer between levels of fair value measurements during the financial years ended 31 July 2021 and 31 July 2020.

(ii) Assets and liabilities measured at fair value

The following table shows an analysis of each class of assets and liabilities measured at fair value at the reporting date:

	Quoted prices in active markets for identical instruments (Level 1) RM'000
2021	
Group/Company	
Financial assets at fair value through profit or loss	
Investment securities (quoted)	14,182
2020	
Group/Company	
Financial assets at fair value through profit or loss	
Investment securities (quoted)	8,872

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

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

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

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are instruments that are priced to market interest rates on or near the reporting date.

26. Financial risk management objectives and policies

The Group's and the Company's overall risk management programme seeks to minimise potential adverse effects on financial performance of the Group and of the Company that these risks may expose.

The Group and the Company are exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include interest rate risk, foreign currency risk, liquidity risk, credit risk and market price risk. The Board of Directors reviews policies and procedures for the management of these risks. The Audit Committee provides independent oversight to the effectiveness of the risk management process. It is, and has been, throughout the current and previous financial year, the Group's and the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

The following sections provide details regarding the Group's and the Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

There has been no change to the Group's and the Company's exposure to these financial risks or the manner in which they manage and measure the risks.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and of the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group's and the Company's exposure to interest rate risks arises primarily from their loans and borrowings. The Group and the Company obtain additional financing through bank borrowings and leasing arrangements.

The Group's and the Company's interest-bearing financial assets are mainly short-term in nature, where the surplus funds are placed with reputable licensed banks and financial institutions.

The Group's and the Company's policy is to obtain the most favourable interest rates available.

<u>Sensitivity analysis for interest rate risk</u>

At the reporting date, if interest rates had been 25 basis points lower/higher, with all other variables held constant, the Group's and Company's profit/(loss) before tax would have been RM33,000 (2020: RM93,000) and RM8,000 (2020: Nil) higher/lower respectively, arising mainly as a result of lower/higher interest expenses on floating rate loans and borrowings.

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

(ii) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group and the Company have transactional currency exposures arising from sales and purchases that are denominated in currencies other than the respective functional currencies of Group entities, primarily United States Dollar ("USD").

The Group and the Company also hold cash and short-term deposits denominated in foreign currencies (Note 16) for working capital purpose.

The Group is also exposed to currency translation risk arising from the Company's net investment in foreign operation, PRC.

Sensitivity analysis for foreign currency risk

The following table demonstrates the increase/(decrease) in the Group's and the Company's profit/(loss) before tax to a reasonably possible change in USD exchange rate against RM with all other variables held constant:

	Group		Company	
	2021	2020	2021	2020
	RM'000	RM'000	RM'000	RM'000
USD/RM				
- strengthened 1% (2020: 1%)	24	15	10	13
- weakened 1% (2020: 1%)	(24)	(15)	(10)	(13)

(iii) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's cash and short-term deposits, operating cash flows, availability of banking facilities and debt maturity profile are actively managed to ensure adequate working capital requirements and that repayment and funding needs are met. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

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

(iii) Liquidity risk (cont'd)

Analysis of financial instruments by remaining contractual maturities

The tables below summarise the maturity profile of the Group's and of the Company's assets and liabilities at the reporting date based on contractual undiscounted repayment obligations.

	Note	On demand or within one year 2021 RM'000	One to five years 2021 RM'000	Total 2021 RM'000
Group				
Financial assets				
Investment securities		14,182	–	14,182
Trade and other receivables	15	46,801	664	47,465
Cash and short-term deposits	16	215,368	–	215,368
Total undiscounted financial assets		276,351	664	277,015
Financial liabilities				
Trade and other payables	21	(30,443)	–	(30,443)
Loans and borrowings (exclude lease liabilities)		(5,254)	(4,151)	(9,405)
Lease liabilities		(2,558)	(2,419)	(4,977)
Total undiscounted financial liabilities		(38,255)	(6,570)	(44,825)
Total net undiscounted financial assets/(liabilities)		238,096	(5,906)	232,190
Company				
Financial assets				
Investment securities		14,182	–	14,182
Trade and other receivables	15	13,294	403	13,697
Cash and short-term deposits	16	65,735	–	65,735
Total undiscounted financial assets		93,211	403	93,614
Financial liabilities				
Trade and other payables	21	(9,612)	–	(9,612)
Loans and borrowings (exclude lease liabilities)		(2,781)	(4,151)	(6,932)
Lease liabilities		(1,648)	(1,261)	(2,909)
Total undiscounted financial liabilities		(14,041)	(5,412)	(19,453)
Total net undiscounted financial assets/(liabilities)		79,170	(5,009)	74,161

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

(iii) Liquidity risk (cont'd)

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

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

The contractual expiry of the Company's corporate guarantee matures within 4 months (2020: 1 year). This is based on the earliest period in which the corporate guarantee contracts could be called. The maximum amount payable under corporate guarantee contracts are disclosed in Note 19(i).

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

(iv) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including investment securities and cash and short-term deposits), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's and the Company's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group and the Company trade with recognised and creditworthy third parties. It is the Group's and the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivable balances are monitored on an on-going basis with the result that the Group's and the Company's exposure to bad debts is not significant.

<u>Trade receivables</u>

The Group and the Company provide for lifetime ECLs for all trade receivables using a provision matrix. The provision rates are determined based on the Group's and the Company's historical observed default rates analysed in accordance to days past due by customers. The ECLs also incorporate forward looking information.

During the financial year, no impairment loss (2020: RM144,000) was recognised in profit or loss of the Group.

<u>Exposure to credit risk</u>

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by:

(a) the carrying amount of each class of financial assets recognised in the statements of financial position; and

(b) a nominal amount of RM2,451,000 (2020: RM6,618,000) relating to a corporate guarantee provided by the Company to a financial institution for a subsidiary's bank loan.

<u>Credit risk concentration profile</u>

The Group and the Company determine concentrations of credit risk by monitoring the country and industry sector profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's and of the Company's trade receivables at the reporting date is as follows:

Group

	2021		2020	
	RM'000	**% of total**	**RM'000**	**% of total**
By country				
Malaysia	29,265	64	22,612	69
Others*	16,199	36	10,287	31
	45,464	100	32,899	100

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

	2021		2020	
	RM'000	**% of total**	**RM'000**	**% of total**
By industry sectors				
Burn-in, testing and electronic manufacturing services	45,464	100	32,899	100

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

(iv) Credit risk (cont'd)

Credit risk concentration profile (cont'd)

At the reporting date, approximately:

(a) 75% (2020: 80%) of the Group's trade receivables were due from two (2020: five) major customers who are in the automotive semiconductor industry; and

(b) None (2020: less than 1%) of the Group's trade and other receivables were due from related parties.

Company

93% (2020: 92%) of the Company's trade receivables are located in Malaysia.

Financial assets that are either past due or impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group and the Company. Cash and short-term deposits, and investment securities are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Information regarding financial assets that are either past due or impaired is disclosed in Note 15.

(v) Market price risk

Market price risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market prices (other than interest or exchange rates).

The Group and the Company are exposed to market price risk arising from its investments in quoted equity instruments. The quoted equity instruments in Malaysia are listed on the Bursa Malaysia Securities Berhad. These instruments are classified as held for trading. The Group and the Company do not have exposure on commodity price risk.

The Group's and the Company's objective is to manage investment returns and market price risk by investing in companies operating mainly in Malaysia which are publicly traded.

Sensitivity for market price risk

At the reporting date, if the price of the quoted equity instruments had been 5% (2020: 5%) higher/lower, with all other variables held constant, the Group's and the Company's profit before tax would have been RM709,000 (2020: RM444,000) higher/lower, arising as a result of higher/lower fair value gain on investment securities.

27. Capital management

The primary objective of the Group's and the Company's capital management is to ensure that they maintain a strong credit rating and healthy capital ratios in order to support their businesses and maximise shareholders' value.

The Group and the Company manage their capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group and the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial years ended 31 July 2021 and 31 July 2020.

27. Capital management (cont'd)

As disclosed in Note 18, a subsidiary of the Group is required by the Foreign Enterprise Law of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the above-mentioned subsidiary for the financial years ended 31 July 2021 and 31 July 2020.

The Group and the Company will continue to be guided by prudent financial policies of which gearing is an important aspect. The Group and the Company include within net debt, loans and borrowings, less cash and short-term deposits. Capital includes equity attributable to owners of the Company less statutory reserve fund.

		Group		**Company**	
	Note	**2021**	**2020**	**2021**	**2020**
		RM'000	**RM'000**	**RM'000**	**RM'000**
Loans and borrowings	19	13,792	25,565	9,405	3,878
Less: Cash and short-term deposits	16	(215,368)	(230,103)	(65,735)	(74,556)
Net cash		(201,576)	(204,538)	(56,330)	(70,678)
Equity attributable to owners of the Company		363,404	356,274	187,177	188,630
Less: Statutory reserve fund	18	(4,629)	(4,629)	–	–
		358,775	351,645	187,177	188,630

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

28. Segment information

The Group has only one operating segment, burn-in, testing and electronic manufacturing services, which is evaluated regularly by key management in deciding how to allocate resources and in assessing performance of the Group.

Investment holding segment which comprises Group-level corporate services, treasury and investments functions, and consolidation adjustments which are not directly attributable to the burn-in, testing and electronic manufacturing services segment, is not significant to be separately reported and evaluated by management.

<u>Geographical information</u>

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

	Revenue		**Non-current assets**	
	2021	**2020**	**2021**	**2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Malaysia	185,961	179,715	101,213	98,768
PRC	50,275	46,602	21,118	28,693
Others	12,021	14,659	–	–
	248,257	240,976	122,331	127,461

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

28. Segment information (cont'd)

Information about major customers

The Group's customer base includes three (2020: two) customers from burn-in, testing and electronic manufacturing services segment, with whom transactions have exceeded 10% of the Group's revenue. Revenue generated from these customers amounted to approximately RM182,452,000 (2020: RM164,442,000).

29. Dividends

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

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the financial year ended 31 July 2021, of 6 sen on 43,014,500 ordinary shares, amounting to dividend payable of RM2,581,000 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 July 2022.

30. Significant event

COVID-19 Pandemic

The COVID-19 outbreak was initially reported in December 2019 and has since spread globally. On 11 March 2020, the World Health Organisation declared COVID-19 a worldwide pandemic. This pandemic has resulted in countries around the world, including Malaysia and PRC implementing immediate preventive measures to control and minimise the spread of the virus. Some of the measures taken include temporary closure of business, issuance of movement control order within the country, prohibition of crowd gathering, and travel bans. This has led to operational disruptions to businesses.

The Group and the Company have activated their business continuity plan to ensure minimal disruption to their daily operations during this period and the Group and the Company have also implemented additional precautionary measures to control and contain the spread of the virus. The impact of COVID-19 has been considered in the assessments of expected credit losses of financial assets, recoverability of deferred tax assets, impairment of property, plant and equipment and impairment of investment in subsidiaries. There is no material financial impact arising from COVID-19 for the current financial year and as of the date of this report.

31. Authorisation of financial statements for issue

The financial statements for the year ended 31 July 2021 were authorised for issue in accordance with a resolution of the directors on 21 September 2021.

SHAREHOLDERS' INFORMATION

As at 21 September 2021

ANALYSIS OF SHAREHOLDINGS

Total Number of Issued Shares	:	43,014,500
Class of Shares	:	Ordinary Shares
Voting Rights	:	One vote per ordinary share

ANALYSIS BY SIZE OF HOLDINGS

Number of Holders	Holdings	Total Holdings	%
57	Less than 100	491	0.00
1,139	100 to 1,000 shares	634,591	1.48
849	1,001 to 10,000 shares	2,875,618	6.69
162	10,001 to 100,000 shares	4,613,000	10.72
27	100,001 to less than 5% of issued shares	14,065,800	32.70
1	5% and above of issued shares	20,825,000	48.41
2,235	Total	43,014,500	100.00

SUBSTANTIAL SHAREHOLDERS (PER REGISTER OF SUBSTANTIAL SHAREHOLDERS)

	Number of Shares Held			
Name of Shareholders	**Direct**	**%**	**Deemed Interest**	**%**
1. Sunright Limited	20,825,000	48.41	–	–
2. Samuel Lim Syn Soo	–	–	20,825,000*	48.41

DIRECTORS' SHAREHOLDINGS (PER REGISTER OF DIRECTORS' SHAREHOLDING)

SHARES IN THE COMPANY

	Number of Shares Held			
Name of Director	**Direct**	**%**	**Deemed Interest**	**%**
1. Samuel Lim Syn Soo	–	–	20,825,000*	48.41
2. Kenneth Tan Teoh Khoon	–	–	–	–
3. Lim Mee Ing	–	–	–	–
4. Tuan Haji Zakariah Bin Yet	–	–	–	–
5. Yong Chee Hou	–	–	–	–

* Deemed interest by virtue of his substantial shareholding in Sunright Limited

SHARES IN RELATED CORPORATION

The interest of Directors in related companies remains the same as disclosed in the Directors' Report for the year ended 31 July 2021.

THIRTY LARGEST SHAREHOLDERS

	Name of Shareholders	Number of Shares Held	Percentage of Shareholdings
1.	Sunright Limited	20,825,000	48.41
2.	Tan Kong Hong Alex	2,057,500	4.78
3.	Wong Tee Kim @ Wong Tee Fatt	1,550,000	3.60
4.	Amanahraya Trustees Berhad Public Islamic Opportunities Fund	1,001,400	2.33
5.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (Aberislamic)	951,900	2.21
6.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (Nomura)	880,700	2.05
7.	Citigroup Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (LEEF)	812,200	1.89
8.	Tan Ai Leng	800,000	1.86
9.	Citigroup Nominees (Tempatan) Sdn Bhd Urusharta Jamaah Sdn. Bhd. (Aberdeen 2)	646,400	1.50
10.	Amanahraya Trustees Berhad PB Islamic Smallcap Fund	538,600	1.25
11.	Maybank Nominees (Tempatan) Sdn Bhd MTrustee Bhd for Franklin TNB RBTF (EQ) (433141)	533,300	1.24
12.	Tan Jin Tuan	525,000	1.22
13.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (NIAM EQ)	443,400	1.03
14.	Tan Kim Hin	400,000	0.93
15.	Maybank Nominees (Tempatan) Sdn Bhd MTrustee Bhd for Nomura TNB RBTF (EQ) (433137)	360,600	0.84
16.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (MIDF ABSR EQ)	305,100	0.71
17.	Lim Khuan Eng	300,000	0.70
18.	AllianceGroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Yong Loy Huat (7000875)	285,000	0.66
19.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (ABDN EQ ABSR FD)	272,300	0.63
20.	Citigroup Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (LPF)	259,600	0.60
21.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lee Khoon Beng (E-KLG)	227,000	0.53
22.	Maybank Nominees (Tempatan) Sdn Bhd Medical Fund (IFM Nomura) (410223)	174,300	0.41
23.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lim Kong Hwee (E-KPG/SGK)	146,900	0.34
24.	Citigroup Nominees (Tempatan) Sdn Bhd Urusharta Jamaah Sdn. Bhd. (Nomura 2)	131,800	0.31
25.	Malacca Equity Nominees (Tempatan) Sdn Bhd Exempt An for Phillip Capital Management Sdn Bhd	124,300	0.29
26.	HSBC Nominees (Asing) Sdn Bhd BPSS SIN for Aberdeen Standard Malaysian Equity Fund (BPTSSL)	124,100	0.29
27.	Citigroup Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (LGF)	112,400	0.26
28.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for RHB Small Cap Opportunity Unit Trust	102,000	0.24
29.	Amanahraya Trustees Berhad AMITTIKAL	99,100	0.23
30.	CGS-CIMB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lim Chen Yik (Penang-CL)	98,000	0.23
		35,087,900	81.57

NOTICE IS HEREBY GIVEN THAT the Fiftieth Annual General Meeting ("50th AGM") of the Company will be held electronically in its entirety via Remote Participation and Electronic Voting ("RPEV") facilities from the online meeting platform at https://meeting.boardroomlimited.my/ *(Domain Registration No. with MYNIC-D6A357657)* provided by Boardroom Share Registrars Sdn. Bhd. on Thursday, 13 January 2022 at 10:00 a.m. for the following purposes: -

AGENDA

AS ORDINARY BUSINESS

1. To receive the audited financial statements for the financial year ended 31 July 2021 together with the reports of the Directors and of the Auditors thereon.

2. To declare a final tax exempt dividend of 6 sen per share in respect of the financial year ended 31 July 2021. **Resolution 1**

3. To approve payment of Directors' fees and allowances of RM293,000 in respect of the financial year ended 31 July 2021. **Resolution 2** *(Please see Explanatory Note)*

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

   (a) Mr Samuel Lim Syn Soo **Resolution 3**
   (b) Mr Yong Chee Hou **Resolution 4** *(Please see Explanatory Note)*

5. To re-appoint Ernst & Young PLT as the Company's Auditors and to authorise the Board of Directors to fix their remuneration. **Resolution 5**

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions:

6. Continuation in office as Independent Non-Executive Director **Resolution 6** *(Please see Explanatory Note)*

   "THAT Mr Yong Chee Hou who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, be and is hereby allowed to continue in office as an Independent Non-Executive Director of the Company."

7. Continuation in office as Independent Non-Executive Director **Resolution 7** *(Please see Explanatory Note)*

   "THAT Tuan Haji Zakariah Bin Yet who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, be and is hereby allowed to continue in office as an Independent Non-Executive Director of the Company."

8. Proposed renewal of existing shareholders' mandate for recurrent related party transactions of a revenue or trading nature **Resolution 8** *(Please see Explanatory Note)*

"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 27 October 2021 ("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."

9. To transact any other business which may be properly transacted at an Annual General Meeting, due notice of which shall have been previously given in accordance with the Companies Act 2016 and the Company's Constitution.

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

Petaling Jaya
27 October 2021

Notes:

1. A member entitled to attend and vote at the 50th AGM is entitled to appoint proxy/proxies who may but need not be member/members of the Company to attend and vote in his/her stead.

2. When a member appoints two or more proxies the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.

3. The instrument appointing proxy/proxies shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.

4. The instrument appointing proxy/proxies must be deposited at the Share Registrar's Office at Ground Floor or 11th Floor, Menara Symphony, No. 5, Jalan Prof. Khoo Kay Kim, Seksyen 13, 46200 Petaling Jaya, Selangor Darul Ehsan, Malaysia, at least forty-eight (48) hours before the time appointed for holding the 50th AGM or any adjournment thereof. Alternatively, the instrument appointing proxy/proxies can be deposited electronically (for individual shareholders only) through Boardroom Smart Investor Portal at https://investor.boardroomlimited.com/ or via email to bsr.helpdesk@boardroomlimited.com before the cut-off time for the lodgement of the Proxy Form as mentioned above.

5. Depositors whose name appear in the Record of Depositors on 6 January 2022 shall be regarded as member of the Company entitled to attend the 50th AGM or appoint proxy/proxies to attend and vote on his/her/its behalf.

Explanatory Notes To Ordinary Business:

Resolution 2

Payment of Directors' fees and allowances in respect of the financial year ended 31 July 2021 are as follows:

Description	Amount (RM)
Directors' fees	266,000
Allowances (Payable to Non-Executive Directors only)	27,000
Total	293,000

Resolutions 3 and 4

For the purpose of determining the eligibility of the Directors to stand for re-election at the 50th AGM, the Board through its Nominating Committee had assessed Mr Samuel Lim Syn Soo and Mr Yong Chee Hou (collectively "the Retiring Directors"). Please refer to the Board of Directors section in the Annual Report 2021, for more details about them. The Retiring Directors were assessed on their performance and understanding of the Group's businesses. Their active participation at the Board and Board Committee meetings showed that they came well prepared and were effective in the discharge of their responsibilities. No circumstances have arisen in the past year to impair the independent judgement of Mr Yong Chee Hou on matters brought for Board discussion. The Retiring Directors have always acted in the best interests of the Company as a whole.

Based on the above, the Board supports their re-election.

Explanatory Notes To Special Business:

Resolutions 6 and 7

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

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

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

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

Resolution 8

Please refer to the Circular to Shareholders dated 27 October 2021 for more information.

NOTICE IS HEREBY GIVEN that the final tax exempt dividend of 6 sen per share in respect of the financial year ended 31 July 2021, if approved at the forthcoming Annual General Meeting, will be paid on 15 February 2022 to Depositors registered in the Record of Depositors on 20 January 2022. A Depositor shall qualify for entitlement only in respect of:

a) shares transferred into the Depositor's securities accounts before 4.00 p.m. on 20 January 2022, in respect of ordinary transfers; and

b) shares bought on Bursa Malaysia Securities Berhad ("Bursa Securities") on a cum entitlement basis according to the Rules of Bursa Securities.

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

Petaling Jaya
27 October 2021

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KESM INDUSTRIES BERHAD
Registration No. 197201001376 (13022-A)

PROXY FORM

I / We, ______________________________ (Full Name in Block Letters)

NRIC/Passport/Company No. ____________________ of ____________________

______________________________ (Address)

being a member/members of KESM Industries Berhad, hereby appoint

Full Name		NRIC / Passport Number	Proportion of Shareholdings (%)
Address			
Email Address			
Mobile No.			

and / or (delete as appropriate)

Full Name		NRIC / Passport Number	Proportion of Shareholdings (%)
Address			
Email Address			
Mobile No.			

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to attend and vote for me/us on my/our behalf, at the Fiftieth Annual General Meeting ("50th AGM") of the Company to be held electronically in its entirety via Remote Participation and Electronic Voting ("RPEV") facilities from the online meeting platform at https://meeting.boardroomlimited.my/ *(Domain Registration No. with MYNIC-D6A357657)* provided by Boardroom Share Registrars Sdn. Bhd. on Thursday, 13 January 2022 at 10.00 a.m. and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any item arising not summarised below, my/our proxy/proxies may vote or abstain from voting at his/her discretion.

Resolutions	For*	Against*
Ordinary Business		
1. Approval of final dividend		
2. Approval of Directors' fees and allowances		
3. Re-election of Mr Samuel Lim Syn Soo as Director		
4. Re-election of Mr Yong Chee Hou as Director		
5. Re-appointment of Auditors		
Special Business		
6. Approval for continuation in office of Mr Yong Chee Hou as Independent Non-Executive Director		
7. Approval for continuation in office of Tuan Haji Zakariah Bin Yet as Independent Non-Executive Director		
8. Approval for Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature		

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

Signed this __________ day of ______________ 2021/2022

Total Number of Shares Held	
CDS Account Number	

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

Notes: -

1. A member entitled to attend and vote at the 50th AGM is entitled to appoint proxy/proxies who may but need not be a member/members of the Company to attend and vote in his/her stead.
2. When a member appoints two or more proxies the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.
3. The instrument appointing proxy/proxies shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing proxy/proxies must be deposited at the Share Registrar's Office at Ground Floor or 11th Floor, Menara Symphony, No. 5, Jalan Prof. Khoo Kay Kim, Seksyen 13, 46200 Petaling Jaya, Selangor Darul Ehsan, Malaysia, at least forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof. Alternatively, the instrument appointing proxy/proxies can be deposited electronically (for individual shareholders only) through Boardroom Smart Investor Portal at https://investor.boardroomlimited.com/ or via email to bsr.helpdesk@boardroomlimited.com before the cut-off time for the lodgement of the Proxy Form as mentioned above.
5. A Depositor whose name appears in the Record of Depositors on 6 January 2022 shall be regarded as a member of the Company entitled to attend the 50th AGM or appoint proxy/proxies to attend and vote on his/her/its behalf.

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Affix
postage
stamp

The Share Registrar

KESM INDUSTRIES BERHAD
Registration No. 197201001376 (13022-A)
c/o Boardroom Share Registrars Sdn. Bhd.
11th Floor, Menara Symphony
No. 5, Jalan Prof. Khoo Kay Kim
Seksyen 13
46200 Petaling Jaya
Selangor Darul Ehsan
MALAYSIA

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KESM INDUSTRIES BERHAD
REG. NO. 197201001376 (13022-A)

Lot 4, SS 8/4
Sungei Way Free Industrial Zone
47300 Petaling Jaya
Selangor Darul Ehsan Malaysia
Tel : (603) 787-40000
Fax : (603) 787-58558