KESM INDUSTRIES BERHAD
REG. NO. 197201001376 (13022-A)

A Member of
SUNRIGHT

2023
ANNUAL REPORT

THE WORLD'S LARGEST

INDEPENDENT BURN-IN AND TEST SERVICE PROVIDER

CONTENTS

CHAIRMAN'S STATEMENT

WE ARE COMMITTED TO DELIVERING SUSTAINABLE VALUE, EMBRACING INNOVATION AND UPHOLDING OUR HIGHEST STANDARDS OF CORPORATE GOVERNANCE IN THE YEARS TO COME.

- INVESTING IN NEW EQUIPMENT TO BE WELL POSITIONED
- CONTRIBUTING TO A MORE ENVIRONMENTALLY RESPONSIBLE AND ENERGY-EFFICIENT ECOSYSTEM
- ALIGNING STRATEGY WITH DYNAMIC CUSTOMERS' EXPANSION INITIATIVES

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS

FY2023 brought a fresh set of persistent challenges. Despite our hopeful outlook last year, we confronted a demanding year which resulted in an inevitable loss. As we gaze ahead, we hold optimism for a positive result in FY2024.

FINANCIAL PERFORMANCE

The Group recorded revenue of RM228.3 million, as compared to RM246.7 million a year ago. A net loss of RM3.1 million was registered, from a net profit of RM1.7 million over the same period. Loss per share was 7.3 sen, from earnings per share of 3.9 sen.

It is reassuring to note that in the last quarter of FY2023, the Group underwent a turnaround, paving the way for a promising start to the new fiscal year, driven by improvements in the automotive market.

We fortified our balance sheet, ensuring robust cash reserves in preparation to align our strategy with dynamic customers' expansion initiatives featured in multiple public announcements in Malaysia.

OUR FOCUS: FOSTERING CONTINUOUS GROWTH

In the midst of this challenging environment, we forged ahead with our planned RM143 million investments in new equipment to support microcontrollers used in advanced driver-assistance systems and sensors in tyre pressure management systems, etc., and we are pleased to see the beginning of fruitful results. These investments also cater to our customers in the consumer market. The acquired equipment have been substantially installed and we are well positioned for the gradual transition to mass production of new applications.

OUR VISION: CENTERED ON EV

The electric vehicle (EV) market stands as a dynamic and transformative landscape that holds substantial promise for KESM. With increasing awareness of environmental concerns and a growing emphasis on reducing carbon emissions, consumers and governments alike are embracing EV as a pivotal solution.

With a favourable market demand for EV, KESM remains committed to cultivating a skilled workforce and continuously investing in equipment, positioning ourselves for growth.

We will continue to implement comprehensive programs dedicated to fostering sustainability, exemplifying our dedication to responsible and ethical practices as we partner with automotive semiconductor manufacturers, providing them with solutions that not only enhance performance but also contribute to a more environmentally responsible and energy-efficient ecosystem.

DIVIDEND

In light of the challenges we have faced, we propose to continue with the distribution of a first and final tax-exempt dividend of 6 sen, to be approved at the forthcoming Annual General Meeting on 11 January 2024.

RETIRING DIRECTORS

We bid farewell to Tuan Haji Zakariah Bin Yet and Mr. Yong Chee Hou. They have been indispensable pillars of our organization, bringing their visionary leadership to our boardroom discussions. We extend our gratitude for their valuable contributions and wish them a retirement filled with fulfilment.

A WARM WELCOME TO NEW DIRECTORS

We are pleased to extend a warm welcome to our new directors, Dato' Dr. Suhazimah Binti Dzazali and Mr. Kua Choh Leang. Their professional and diverse expertise makes them valuable additions to our leadership team. We are confident that their insights will play a pivotal role in steering KESM towards continued success as we collectively navigate the dynamic landscapes of our industry.

APPRECIATION

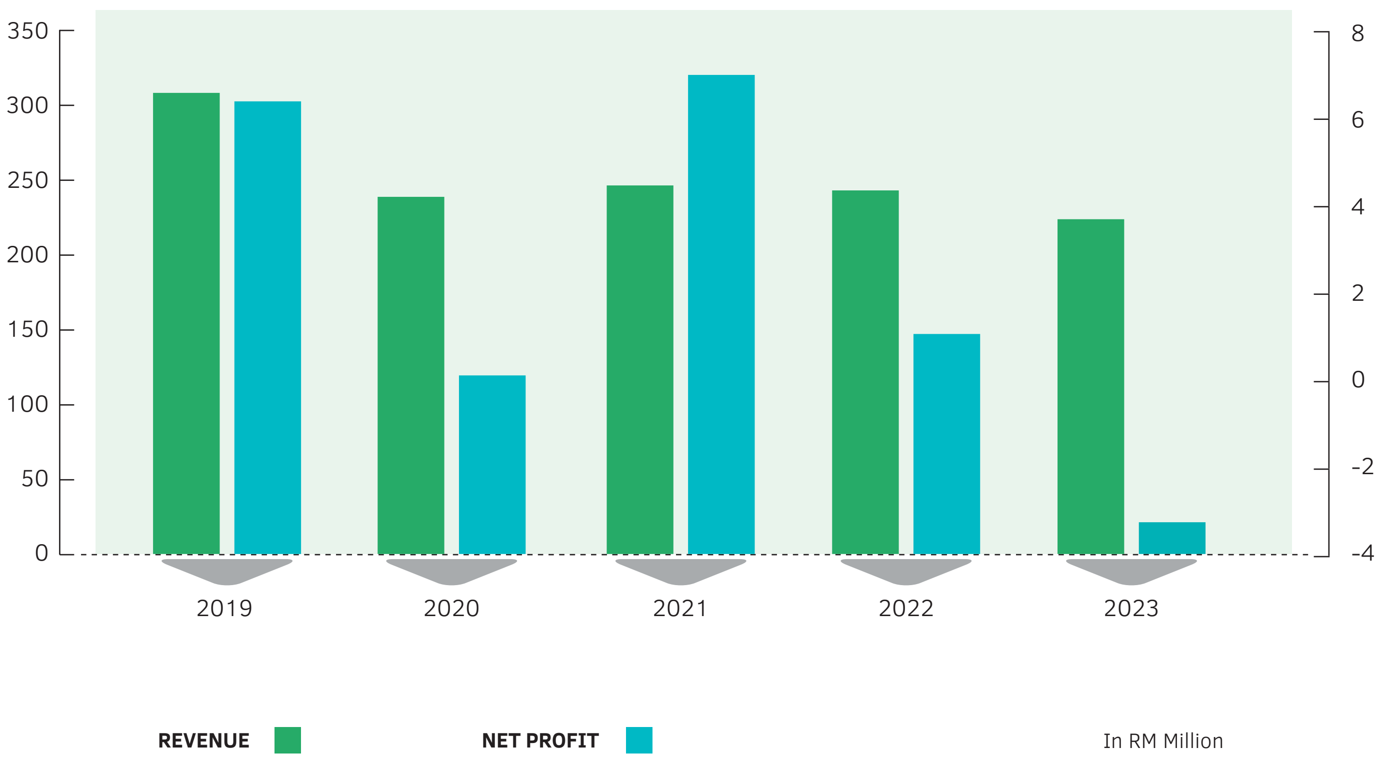
We extend our sincere gratitude to our shareholders for their unwavering trust and steadfast support. We are committed to delivering sustainable value, embracing innovation and upholding our highest standards of corporate governance in the years to come. Thank you for being an integral part of our journey and we look forward to forging an even brighter future together.

SAMUEL LIM SYN SOO
Executive Chairman & Chief Executive Officer
21 September 2023

MANAGEMENT DISCUSSION AND ANALYSIS

5-YEAR FINANCIAL HIGHLIGHTS

Financial Year Ended 31 July (RM '000)	2019	2020	2021	2022	2023
Revenue	307,375	240,976	248,257	246,736	228,283
Profit/(Loss) Before Tax	9,508	5,679	11,025	4,232	(2,218)
Net Profit/(Loss) Attributable To Owners of the Company	6,276	96	7,335	1,666	(3,130)
Total Equity Attributable To Owners of the Company	359,145	356,274	363,404	362,358	354,745
Basic Earnings/(Loss) Per Share (sen)	14.6	0.2	17.1	3.9	(7.3)
Dividend Per Share (sen)	9.0	7.5	9.0	7.5	6.0



MANAGEMENT DISCUSSION AND ANALYSIS

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 Sdn. Bhd. to undertake the "burn-in" business in Bayan Lepas Free Industrial Zone, Penang.

KESM, listed 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.

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.

In 2021, a factory was set up in Malacca to support future growth in burn-in and test of automotive chips.

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

Today, the Group serves leading automotive semiconductor manufacturers, supported by a workforce of about 2,000 in 4 locations. We ship close to 800 million of automotive semiconductors to the top automotive chip manufacturers.

OUR BUSINESS

KESM provides burn-in and testing 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'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 lower by 7%, from RM246.7 million in the preceding year, to RM228.3 million for the current financial year ended 31 July 2023. This was largely attributable to the absence of revenue from EMS which was scaled down, and reduced volumes for burn-in and testing services.

Interest income was higher by 11%, from RM3.7 million to RM4.2 million, following higher interest rates on fixed deposits placed.

Other income was lower by 10%, from RM5.7 million to RM5.1 million, mainly due to lower gain on disposal of machinery and test equipment and spares of RM0.4 million, and absence of net foreign exchange gain of RM0.4 million; partially offset by higher net fair value gain on investment securities of RM0.4 million.

Raw materials and consumables used and changes in inventories of finished goods and work-in-progress decreased by 26%, from RM24.7 million to RM18.3 million, in line with the reduced EMS activities.

MANAGEMENT DISCUSSION AND ANALYSIS

Depreciation of property, plant and equipment was lower by 23%, from RM51.5 million to RM39.6 million, as certain machinery and test equipment were fully depreciated.

Finance costs increased by RM1.4 million, from RM0.6 million to RM2.1 million, following increased borrowings to fund capital expenditure.

Other expenses were higher by 5%, from RM79.4 million to RM83.7 million, largely attributable to higher utility costs by RM6.9 million; partially offset by a write-back of inventories of RM0.7 million from a write-down of inventories of RM1.4 million and lower repair and maintenance costs by RM0.4 million.

Consequently, the Group reported a loss before tax of RM2.2 million in the current financial year, from a profit before tax of RM4.2 million in the preceding year.

REVIEW OF FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Property, plant and equipment increased by 5%, from RM170.6 million as at 31 July 2022 to RM179.6 million as at 31 July 2023. The increase was primarily due to net additions of RM49.4 million, offset by depreciation charge of RM39.6 million.

Deferred tax assets increased by 24%, from RM4.4 million to RM5.5 million, as a result of higher deductible temporary differences arising from unutilised tax benefits.

Current trade and other receivables were higher by 10%, from RM48.3 million to RM53.2 million. This was largely due to improved sales in the reporting quarter under review as compared to the previous fourth quarter ended 31 July 2022.

Investment securities were lower by 13%, from RM12.4 million to RM10.8 million, as a result of net disposal of investment securities of RM3.5 million, offset by net fair value gain of RM1.8 million.

Cash and short-term deposits improved by 27%, from RM176.9 million to RM223.9 million, which represented the net cash inflows from both operating activities and loans and borrowings.

The Group's loans and borrowings increased by RM66.4 million, from RM27.3 million to RM93.7 million, primarily due to net increase in bank loans of RM67.1 million.

Deferred tax liabilities increased by 18%, from RM5.3 million to RM6.3 million, as a result of higher taxable temporary differences arising from the utilisation of capital allowances.

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 the Asia Pacific.

FY2023 was a challenging year for the Group. The slower-than-expected recovery from the effects of the COVID-19 pandemic, geopolitical tensions and the on-going wars created uncertainties for the semiconductor industry. The most significant near-term impact on our performance was the declines in our customers' loadings which resulted in our reduced revenues.

Our operation teams were committed to face these challenges and worked relentlessly in ensuring our factories remained operational. Cost saving measures and "built-to-capacity readiness" were put in place to minimise this impact.

The Group also faced challenges like labour shortages. The competition for highly skilled employees in our industry is increasingly intense and increased labour costs hindered us from effective staff retention. We remained agile in our manpower deployment and work towards normalization to match the cyclical production capacities.

We continued to focus on burn-in and test activities as demand for automotive chips remained relatively healthy as compared to non-automotive segments.

The Group has set its goal to accelerate automated processes. Milestones in automating several manual processes and analysing production data to improve device performances have been on-going.

We have also begun doing our part in green efforts by installing environmentally friendly solar panel installations for energy saving. Our plan towards digitalization and automation will drive operational excellence amid burgeoning headwinds from rising energy and labour costs.

Our continuing efforts with plans to ensure that our facilities are fully cleaned, disinfected and equipped with essentials to maintain safe conditions for our employees as well as our customers alike from risks connected to COVID-19, including exposure and transmission.

MANAGEMENT DISCUSSION AND ANALYSIS

RISKS

The global semiconductor industry is projected to decline more than 12.3% to US$525.9 billion in 2023. This downturn was influenced by the interplay of factors that collectively re-shaped its landscape. As the global economy experienced a slowdown, reduced consumer spendings and declining business investments impacted the demand for electronic devices, thereby affecting the need for semiconductors.

The cyclical and highly capital-intensive nature of the semiconductor industry coupled with rapid technological shifts which obsolete our customers' products will continue to accentuate risks in our business.

We have the financial and operational flexibility to react swiftly and to positively position the Group to navigate through this period of extreme uncertainty.

KESM intends to mitigate this by collaborating closely with our customers at their new product introduction stage with careful allocation of our capital investments in support of customers' manufacturing capacities. Also, KESM builds our production capacities based on customers' planned demands. In the last 2 years, the Group invested RM143 million on advanced equipment to improve capabilities to support our key customers' growth plan, whilst discretionary expenditures will be carefully managed.

We have facilities in Malaysia and China and our revenues come from services from these locations, which are exposed to political, social and economic conditions. The continuing trade barriers between the USA and China, the effects of the COVID-19 pandemic, economic contraction and the Russia and Ukraine war may affect our growth plans.

KESM serves leading automotive semiconductor manufacturers, 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 targets.

From time to time, we face risks related to cybersecurity threats, attempts to gain unauthorized access through the Internet or introductions of malicious software to our IT systems. Our IT infrastructure includes products and services provided by third parties to strengthen and reinforce the security of our systems and proprietary or confidential information.

PROSPECTS & OUTLOOK

All these factors dominated KESM's performance for FY2023. However, moving forward, prospective signs may be in sight. We are seeing improvement in customers' forecasts which were previously impacted by the supply chain disruptions. In the last quarter of the FY2023, the Group had turnaround and is looking forward to an improving performance.

Amid operating in challenging environment, KESM maintained close relationships with customers through extensive negotiations and alignments with suppliers to navigate and remain agile in the face of volatility.

As economic headwinds persist, weak end-market electronics demand spreads from consumers to businesses, stagnating the personal computer, tablet and smartphone markets. In parallel, the automotive and the industrial semiconductor markets will continue to achieve growth. The automotive semiconductor market is forecast grow 13.8%, reaching US$76.9 billion in 2023. The automotive industry is moving toward increased electrification and autonomous driving capabilities. These shifts drive the demand for advanced semiconductor components like power management integrated circuits, sensors and microprocessors. Continued advancements in electric vehicles "EV" and self-driving technology could lead to a growing need for specialized automotive semiconductors.

The proliferation of connected vehicles and in-car infotainment systems were driving the demand for semiconductors that enable seamless communication and data processing within vehicles. The prospects could see further innovations in vehicle connectivity, requiring more advanced semiconductor solutions.

DIVIDEND POLICY

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.

BOARD OF DIRECTORS

MR SAMUEL LIM SYN SOO
Aged 69, 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 13 January 2022.

Mr Lim is Founder, Executive Chairman and Chief Executive Officer of the Company and Sunright Limited in Singapore, a company listed on the Mainboard 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 66, Singaporean
Executive Director*

Mr Kenneth Tan was first appointed to the Board on 20 January 1992 and was last re-elected on 12 January 2023.

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*

BOARD OF DIRECTORS

MS LIM MEE ING
Aged 72, Singaporean
Non-Independent
Non-Executive Director

Ms Lim was first appointed to the Board on 19 February 1990 and was last re-elected on 12 January 2023. 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.

MR KUA CHOH LEANG
Aged 59, Malaysian
Senior Independent
Non-Executive Director

Mr Kua was first appointed to the Board on 1 May 2023. He is the Senior Independent Director and Chairman of the Audit Committee and Nominating Committee.

Mr Kua began his career in 1984 with Ernst & Young, Malaysia, holding various positions and was a partner from 2009 till his retirement in 2019. His 35 years of experience saw him auditing and providing business advisory to many companies in various industries.

He currently sits on the Board of BGMC International Ltd, a company listed on the stock exchange of Hong Kong.

Mr Kua is a member of Malaysian Institute of Certified Public Accountants and Malaysian Institute of Accountants.

Mr Kua holds a Higher School Certificate from TARC College.

BOARD OF DIRECTORS

DATO' DR. SUHAZIMAH BINTI DZAZALI
Aged 60, Malaysian
Independent Non-Executive Director

Dato' Dr. Suhazimah was first appointed to the Board on 1 May 2023. She is a member of the Audit Committee and Nominating Committee.

Dato' Dr. Suhazimah has over 35 years of working experience in public services related to Information and Communications Technology ("ICT"). She held senior and top management positions throughout her career, notably her position as Deputy Director-General (ICT) which carries the responsibility of the Government Chief Information Officer (GCIO) in the Malaysian Administrative Modernization and Management Planning Unit (MAMPU) at the Prime Minister's Department from 2014 and retired from public service in October 2020.

Dato' Dr. Suhazimah currently sits on the Board of Pertama Digital Berhad, a Main Market Listed Company and Cyber Security Malaysia, which is the National Cyber Security Specialist agency under the purview of the Ministry of Communication and Digital. She is also an Honorary Member of Business Continuity Institute.

Dato' Dr. Suhazimah graduated with a Master of Science and a Bachelor of Science in Computer Science from Northrop University, California, USA, as well as a Doctorate in Information Security Management from University of Malaya. She obtained the Certified Disaster Recovery Professional qualification from the EC Council, USA, in 2010. In 2013, she received the Special Award on Cyber Security Professional of the Year, from CSM-ACE 2013, coordinated by MOSTI, Cyber Security Malaysia and National Security Council.

OTHER INFORMATION ON DIRECTORS

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 or potential conflict of interest, including interest in any competing business, that they have with the Company or its subsidiaries.

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 2023.

4. DETAILS OF ATTENDANCE AT BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 JULY 2023

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*	4 out of 4	100
Mr Yong Chee Hou*	4 out of 4	100
Mr Kua Choh Leang**	2 out of 2	100
Dato' Dr. Suhazimah Binti Dzazali**	2 out of 2	100

* *Resigned on 1 June 2023*
** *Appointed on 1 May 2023*

CORPORATE INFORMATION

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)

Mr Kua Choh Leang
(Senior Independent Non-Executive Director)

Dato' Dr. Suhazimah Binti Dzazali
(Independent Non-Executive Director)

AUDIT COMMITTEE

Mr Kua Choh Leang
(Chairman)

Dato' Dr. Suhazimah Binti Dzazali
(Member)

Ms Lim Mee Ing
(Member)

NOMINATING COMMITTEE

Mr Kua Choh Leang
(Chairman)

Dato' Dr. Suhazimah Binti Dzazali
(Member)

Ms Lim Mee Ing
(Member)

COMPANY SECRETARY

Ms Leong Oi Wah
(MAICSA 7023802)

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SHARE REGISTRAR

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(Registration No. 199601006647 (378993-D))
11th Floor, Menara Symphony
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MALAYSIA
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Fax: 603-7890 4670
Email:
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Chartered Accountants
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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

OTHER INFORMATION

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 2023 or entered into since the end of the previous financial year.

SUSTAINABILITY REPORT

ABOUT KESM INDUSTRIES BERHAD

[GRI 2-1, 2-6]

Headquartered in Malaysia with operating facilities within Asia, KESM Industries Berhad and its subsidiaries ("KESMI" or the "Group") 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 provides high quality service excellence to our customers.

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. KESMI provides innovative and value-adding solutions to our customer products whilst our customers focus on their core competencies. We also adopt internationally recognised certifications and quality standards in our manufacturing processes, thus providing equivalent outcomes required by our customers end markets.

ABOUT THE REPORT

[GRI 2-2, 2-3, 2-5]

Our sixth annual Sustainability Report covers the sustainability policies and practices of KESMI entities in Malaysia[1] and China[2], from the period of 1 August 2022 to 31 July 2023 ("FY2023"). Where applicable, historical performance data is also included for comparative purposes[3].

This report has been prepared with reference to the Global Reporting Initiative ("GRI") Standards 2021. 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.

This year, using a phased approach, KESMI is disclosing its first Task Force on Climate-related Financial Disclosures ("TCFD") Report to embrace the TCFD recommendations and better manage climate risks and opportunities.

STATEMENT OF ASSURANCE

Assurance undertaken

In strengthening the credibility of the Sustainability Report, selected aspects/parts of this Sustainability Report for the period from 1 August 2022 to 31 July 2023, have been subjected to an internal review by outsourced internal auditor and have been approved by KESMI's Audit Committee.

Subject matter

The subject matters covered by the internal review include the following indicators:

Sustainability matters	Indicators
Anti-corruption	• Total number and percentage of employees who have received trainings and communicated on anti-corruption by employee category • Total number of business partners who have communicated on anti-corruption policies
Supply chain management	• Proportion of spending on local suppliers
Health and safety	• Number of work-related injuries and ill-health, including fatalities
Labour practices and standards	• Total and average hours of training by gender and employee category
Economic performance	• Economic value generated, distributed and retained
Energy management	• Total energy consumption
Emissions management	• Scope 1 and 2 emissions in tonnes of CO2e

1 KESM Industries Berhad, KESP Sdn. Bhd. and KESM Test (M) Sdn. Bhd.
2 KESM Industries (Tianjin) Co., Ltd
3 Our comparative data includes performance data from electronic manufacturing services ("EMS") which was scaled down in FY2022.

SUSTAINABILITY REPORT

Scope

The boundary of the internal review includes the Group's operations in Malaysia.

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

OUR SUSTAINABILITY COMMITMENT AND GOVERNANCE

[GRI 2-12, 2-13, 2-14, 2-16, 2-17, 2-22]

KESMI is firmly committed to sustainability, a commitment that guides our business. This dedication to sustainability is integrated throughout all levels of the Group, influencing both our business conduct and our responses to the evolving risks and opportunities in the semiconductor and electronics manufacturing industry.

Our established sustainability governance structure helps facilitate the management and oversight of this agenda. The Board and Executive Directors of KESMI are responsible for reviewing and approving KESMI's direction for sustainability policy and programmes, and ensuring that sustainability is integrated into the strategic direction of the Group and its operations. To achieve this, the Board continuously ensures an effective governance framework for sustainability within the Group.

The Board sets up a sustainability committee, comprising the Corporate Controller and Divisional Plant Manager, to drive and implement the sustainability policies and practices of KESMI, champion sustainability KPIs, monitor its sustainability-related performance and eventually provide periodic updates to the Board for review and approval.

To ensure effective integration of sustainability across the Group, the Board is committed to reviewing and assessing material information, enhancing their knowledge and ability to provide quality and professional reviews, and ensuring that sustainability risks and opportunities are incorporated into KESMI's strategic directions. Likewise, senior management is guided by sustainability KPIs benchmarked against industry practices, considering economic, environmental, social, and governance-related risks and opportunities, where applicable.

KESMI recognises that it is of utmost importance for board members to have sufficient understanding and knowledge of sustainability issues to effectively discharge the above duties and carry out their role of sustainability governance. Directors attend sustainability related trainings to equip themselves with knowledge on enhanced sustainability reporting requirements and sustainability matters such as corporate sustainability, climate risks and human rights. These ongoing trainings help widen their sustainability knowledge and keep abreast with the latest regulatory development and any emerging topics.

STAKEHOLDER ENGAGEMENT

[GRI 2-29]

KESMI values the relationships we have built with our key stakeholders. We recognise the need to understand their concerns and expectations. Using various platforms, we continue to maintain regular engagement with stakeholders, especially those who are identified to cause significant impacts or those who could potentially be significantly affected 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, 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

SUSTAINABILITY REPORT

	Stakeholder's expectations	Stakeholder management	Engagement platforms	Frequency of management
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
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

SUSTAINABILITY REPORT

MATERIALITY ASSESSMENT

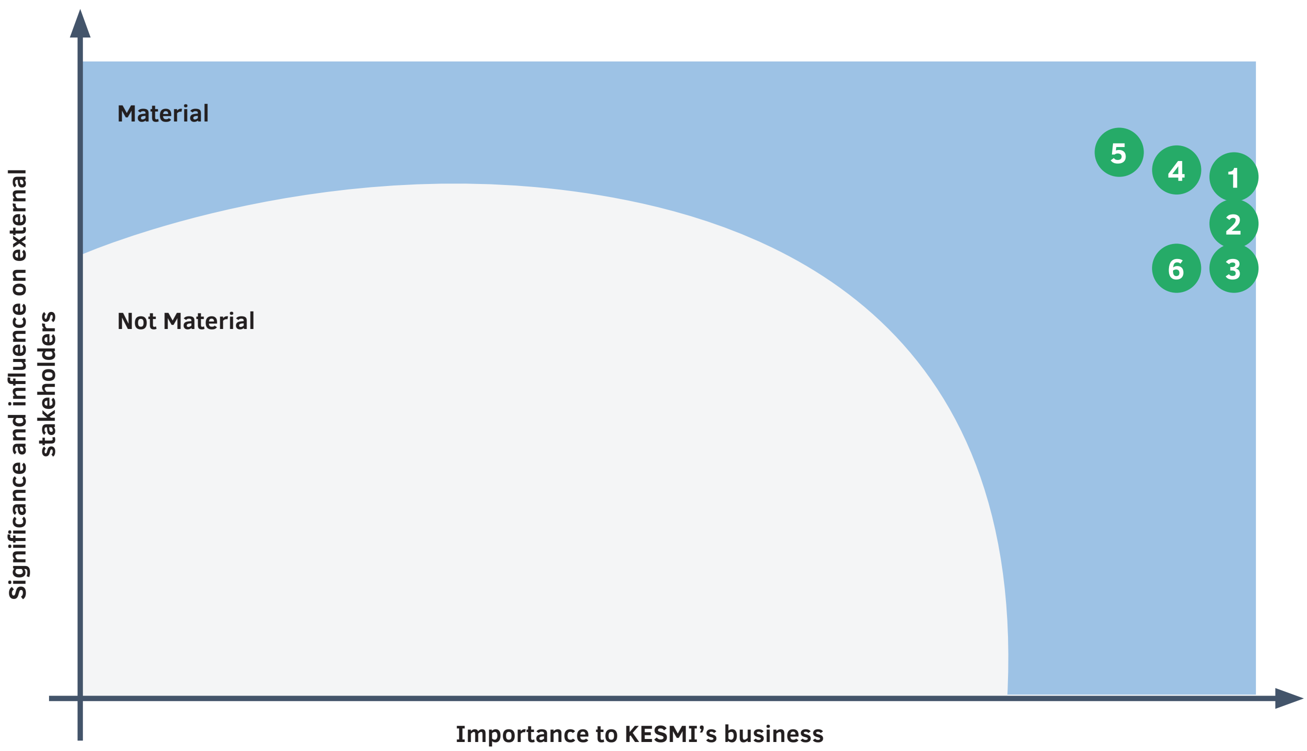
[GRI 3-1, 3-2]

On an annual basis, KESMI reviews the material matters to ensure their continued relevance amidst global and industry's environmental, social and governance ("ESG") trends. In FY2023, the Board has 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. For matters currently not deemed material to KESMI, we have strict management systems and internal controls that enable us to carry out our ongoing commitment to enhancing our ESG impacts and reducing 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, market landscape, regulatory requirements and leading sustainability practices.
2	**Prioritisation** Through an unbiased and anonymous voting exercise, these sustainability matters were prioritised based on the significance of the impact of each issue, considering both the perspectives of internal and external stakeholders.
3	**Validation** The results of the exercise were mapped into a materiality matrix, which was approved by the Board.
4	**Assessment/Review** In FY2023, a review of the material matters was conducted. It was concluded that the existing six identified material matters remained relevant for reporting. KESMI will continue to conduct annual reviews of its material matters to ensure that it continues to consider critical sustainability matters relevant to its business across the years.

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



SUSTAINABILITY REPORT

	Material Matters	Description	Corresponding GRI
1	Corporate governance and business ethics	Adherence to responsible business practices in terms of anti-corruption and corporate governance	GRI 205: Anti-Corruption
2	Regulatory compliance	Compliance with all regulatory requirements, including environmental, labour, health and safety regulations	GRI 2-27: Compliance with Laws and Regulations
3	Economic performance	Sustaining economic growth through responsible supply chain management and contribution of economic value	GRI 201: Economic Performance GRI 204: Procurement Practices
4	Energy and carbon footprint	Efficient use of energy to minimise carbon footprint from our operations	GRI 302: Energy GRI 305: Emissions
5	Occupational health and safety	Protecting the physical and mental well-being of all employees and workers	GRI 403: Occupational Health and Safety
6	Fair employment practices	Equal opportunities and treatment for all employees and workers	GRI 401: Employment GRI 404: Training and Education GRI 405: Diversity and Equal Opportunity GRI 406: Non-discrimination

BUILDING AN ETHICAL CULTURE

[GRI 2-4, 3-3, 2-23, 2-24, 205-1, 205-2, 205-3]

Prioritising ethical conduct and strong corporate governance practices not only establishes long-term partnerships and confidence among stakeholders such as investors, customers, and employees, but also contributes to environmental protection and social development.

Conversely, inadequate corporate governance and ethical failures can result in reputational harm, legal ramifications, and harmful effects on the environment and society. Pursuing ethical excellence is critical for KESMI to be a responsible corporate citizen and positively contribute to the larger global community.

KESMI understands that long-term success is directly tied to its integrity and the ethical foundations of its business. We integrate our values and ethical beliefs throughout our value chain and our operations. To our reputation as well as the trust earned from our stakeholders, KESMI implements a zero-tolerance policy for any form of unethical business practices, including fraud, bribery and corruption.

Our Code of Conduct (the “Code”) contains the business policies that govern our approach to ethics, outlined within it are our values, principles, and expectations. The Code takes reference from the Responsible Business Alliance (“RBA”) Code of Conduct, and has been approved by the Board. It also undergoes regular review by the management to ensure that the policies within remain relevant and aligned with our ethical principles. More information on our governance approach with regards to the Code can be found in our Corporate Governance Overview Statement.

In FY2023, a total of 794 (92%) employees received training and communications on anti-corruption policies across Malaysia and China. Separately, all employees will receive communication on anti-corruption policies upon joining the company.

SUSTAINABILITY REPORT

Responsible Business Alliance ("RBA") Code of Conduct

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 in place a Whistleblower policy, which applies to all directors and employees as well as third parties such as suppliers, contractors, sub-contractors, and agents. This policy, alongside internal controls, operating procedures and governance policies intended to detect and prevent or deter improper conduct, is intended to encourage employees to report any potential improprieties (e.g. wrongdoing or misconduct), as well as protect their identity. The objectives of the policy are as follows: • To encourage employees to confidently raise genuine concerns about possible improprieties • Provide ways for employees to raise concerns and receive feedback on any actions taken as a result • Reassure employees that they will be protected from possible reprisals or victimisation
Grievance Handling Policy	The Grievance Handling Policy and the accompanying grievance mechanism procedure were formulated to strengthen industrial efficiency and stability in performance. They ensure that 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	KESMI's Business Ethics Policy ensures our integrity and reliability as an organisation. To minimise conflicts of interest or coercion of any kind from external sources, our employees are prohibited from associating with illegal cartel activities, illicit price-fixing, deception and undesirable social behaviour, as well as 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 'fair deal' basis. All employees shall impress upon business partners on the high business ethics, 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.

SUSTAINABILITY REPORT

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

FY2023		Employee Category		
		Direct Labour	Exempt/ Non-Exempt	Manager
Total number required to receive communication and training		**238**	**573**	**56**
Total number and percentage of employees who were communicated on policies		**206 (87%)**	**532 (93%)**	**56 (100%)**
Total number and percentage of employees who received training		**206 (87%)**	**532 (93%)**	**56 (100%)**
Malaysia	Communicated to	187	409	42
	Received training	187	409	42
China	Communicated to	19	123	14
	Received training	19	123	14

FY2022[4]		Employee Category		
		Direct Labour	Exempt/ Non-Exempt	Manager
Total number required to receive communication and training		**228**	**539**	**54**
Total number and percentage of employees who were communicated on policies		**228 (100%)**	**539 (100%)**	**54 (100%)**
Total number and percentage of employees who received training		**47 (21%)**	**196 (36%)**	**18 (33%)**
Malaysia	Communicated to	208	410	41
	Received training	27	67	5
China	Communicated to	20	129	13
	Received training	20	129	13

[4] The number of employees in each employee category were restated due to a reclassification between the employee categories.

SUSTAINABILITY REPORT

FY2021		Employee Category		
		Direct Labour	Exempt/ Non-Exempt	Manager
Total number required to receive communication and training		**165**	**598**	**50**
Total number and percentage of employees who were communicated on policies		**165 (100%)**	**598 (100%)**	**50 (100%)**
Total number and percentage of employees who received training		**77 (47%)**	**234 (39%)**	**21 (42%)**
Malaysia	Communicated to	145	471	38
	Received training	57	107	9
China	Communicated to	20	127	12
	Received training	20	127	12

	Business Partners[5]		
	FY2021	FY2022	FY2023
Total number of business partners who were communicated on policies	**76**	**118**	**103**
Malaysia	-	34	19
China	76	84	84

All directors representing the governance body of KESMI have previously received communications on the organisation's anti-corruption policies, and further ad-hoc trainings for the Board will be carried out as and when deemed necessary.

Our operations across Malaysia and China have been assessed for risks related to corruption. During the year, there were no cases of corruption brought against KESMI or its employees, a record we have consistently maintained to date and will continue to uphold.

Focus Area	Perpetual Target	FY2023 Performance
Ethical Business Conduct	0 confirmed cases of corruption within KESMI	Achieved

[5] Business partners include customers, suppliers and contractors. We are currently working to populate the list of all business partners and will progressively disclose the percentage of business partners who received communication on anti-corruption policies in the future.

SUSTAINABILITY REPORT

DATA PRIVACY AND SECURITY

[GRI 418-1]

In an era where technology is continually evolving and enhancing our workplace dynamics, fostering efficient and effective collaboration, it is paramount that we, at KESMI, steadfastly tackle the escalating threats and potential risks posed by cyber-attacks. KESMI is committed to protect the private information and personal data of our customers, suppliers, and employees.

Our cybersecurity measures are meticulously designed to ensure legal and appropriate sharing of information. We treat all data with extreme care, ensuring its confidentiality and upholding its integrity at all times.

The following outlines the key controls for safeguarding data privacy:

- Protect our technology resources and assets with encryption, firewalls and antivirus software.
- Sign non-disclosure agreements between KESMI and its contractors, suppliers and customers.
- Regularly communicate to all employees to reinforce their understanding and foster consistent compliance with the Personal Data Protection Act in Malaysia and the Personal Information Protection Law in China.

With regard to customer privacy and data protection, there were no fines or complaints received from outside parties or regulatory bodies. We have no record of instances concerning data breaches or complaints received from external stakeholders.

ENSURING STRICT COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

[GRI 3-3, 2-27]

Ensuring compliance with all relevant laws and regulations is a key concern for KESMI. We respect the laws of all the countries in which we operate, including relevant environmental and socioeconomic regulations. Compliance with the laws and regulations is inextricably linked with the long-term success of KESMI's business, as it encourages stakeholder and investor trust, while also reflecting the long-term integrity and viability of our operations. Nonetheless, the failure to comply with the respective ESG regulations could also lead to negative consequences, including legal and financial penalties, environmental harm to ecosystems, and potential worker exploitation compromising human rights and ethical principles.

In line with our emphasis on compliance, our policies are constantly updated to reflect any changes in regulatory requirements. Furthermore, adherence to any standards of behaviour outlined in the Code is required by our employees.

Focus Area	Perpetual Target	FY2023 Performance
Regulatory Compliance	0 confirmed cases[6] of non-compliance with environmental laws and regulations	Achieved
	0 confirmed cases of non-compliance with socioeconomic laws and regulations	Achieved

[6] Confirmed cases refer to reported cases that have material impact to the operations of KESMI.

SUSTAINABILITY REPORT

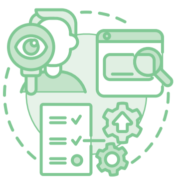
SUSTAINING ECONOMIC PERFORMANCE
[GRI 3-3]

Managing Supply Chains Responsibly
[GRI 2-6, 204-1]

Due to the nature of our services, KESMI regularly handles purchases with 3TG metals, which can sometimes be from controversial sources. Our engagement with suppliers that practise responsible management of sourcing greatly reduces our exposure to a supply chain with potential sustainability risks, such as exposure to human rights and environmental issues, including forced labour, child labour, corruption, and pollution. Through minimising the risks of such issues arising within its value chain, KESMI protects itself from possible litigation and remediation costs. Additionally, a robust and ethical supply chain ensures KESMI's ability to provide products and services with the high quality standards that we promise to our customers.

KESMI's Purchasing Policy and Procedures govern the screening, selection and management of our suppliers. Our robust Three-Step Supply Chain Management Process outlines the necessary steps for the sourcing and selection of new items, delivery follow-up, receiving, to inspection of goods and payments.

Figure 3: 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.	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.

SUSTAINABILITY REPORT

Figure 4: 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.

One of the main ways for us to improve risk management and operating efficiency is the local sourcing of products and services. As such, local sourcing has become one of the pillars of our sustainability strategy. Obtaining products locally allows us to support economies, while also meeting our environmental and social objectives by minimising our carbon footprint.

As part of our sustainability efforts, KESMI has consistently ensured that at least 50% of its purchases are sourced locally. In FY2023, 82% of our procurement spending was used to purchase supplies locally in Malaysia and China, where we operate.

Focus Area	Perpetual Target	FY2023 Performance
Responsible Supply Chain Management	At least 50% of all purchases are sourced locally[7]	Achieved

[7] Local purchases refer to purchases made (except for production machineries) from locally registered companies, which supply trade and non-trade goods and services.

SUSTAINABILITY REPORT

Contributing Direct Economic Value
[GRI 201-1]

In FY2023, KESMI generated approximately RM228 million in total revenue, reflecting a decrease of RM19 million or 7.7%, from RM247 million in the previous financial year. The net economic value distribution of RM6 million was mainly due to lower revenue attributed to reduced demand for services due to market weakness. In addition, the global economy is facing significant headwinds, including high inflation, rising interest rates and higher energy costs, which have impacted our production costs and that of our partners who support our operations.

Despite these challenges, we maintain a positive business outlook 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 FY2021 to FY2023

	FY2021	FY2022	FY2023
Economic Value Generated (RM' million)			
Revenue	248	247	228
Other income from financial investments	6	6	12
Sales of assets	8	2	3
Economic Value Distributed (RM' million)			
Operating costs[8]	(146)	(199)	(147)
Employee wages and benefits	(94)	(96)	(96)
Payments to providers of capital	(4)	(4)	(5)
Payments to governments	(8)	(3)	(1)
Economic Value Retained (RM' million)			
	10	(47)	(6)
For further details on our economic performance, please refer to the following sections in our Annual Report: Financial Statements, Chairman's Statement and Management Discussion and Analysis.			

[8] Operating costs include cash payments made outside the organisation for material cost, purchase of property, plant and equipment and other expenses.

SUSTAINABILITY REPORT

DEVELOP AN ENGAGED WORKFORCE AND FAIR WORKPLACE

KESMI's Board Profile
[GRI 405-1]

KESMI recognises that diversity in an organisation is a strength. The various different backgrounds of our employees afford them many different viewpoints, allowing them to bring new perspectives to our company. We also recognise that diversity has to be implemented at all levels, including at the highest level of governance: the Board as well as Senior Management.

Figure 5: KESMI's Board Composition[9]

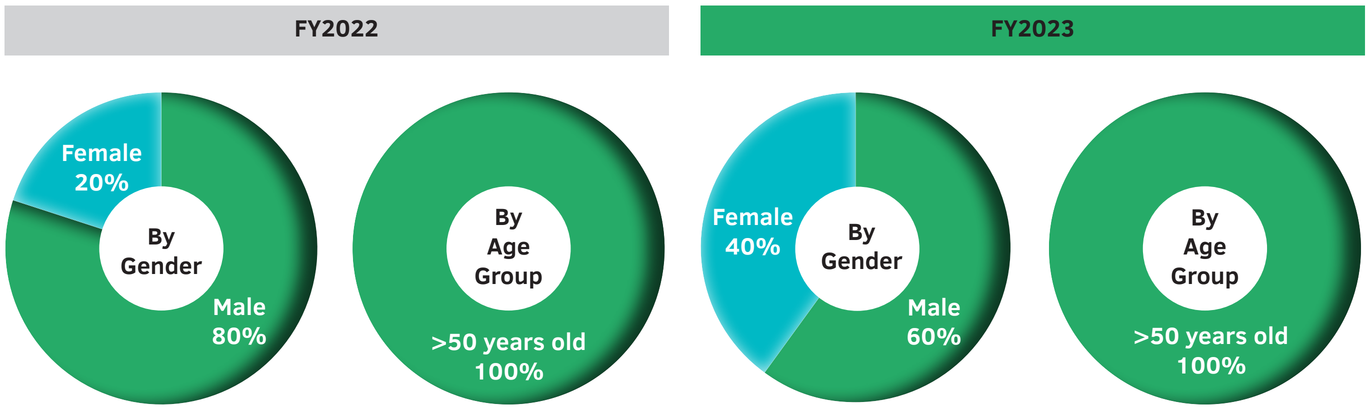
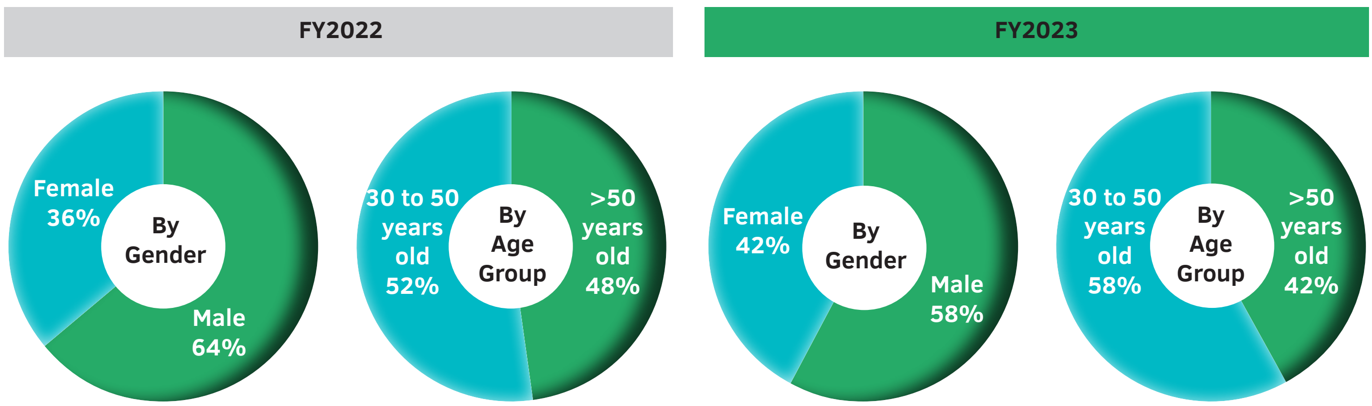


Figure 6: KESMI's Senior Management Composition[10]



For more information on board diversity and composition, please refer to our Corporate Governance Overview Statement.

9 This was a new disclosure effective from FY2022.
10 This was a new disclosure effective from FY2022. Hence, the Group was unable to obtain past year data due to data collection constraints from certain operations.

SUSTAINABILITY REPORT

KESMI's Employee and Worker Profile
[GRI 2-7, 2-8, 401-1, 405-1]

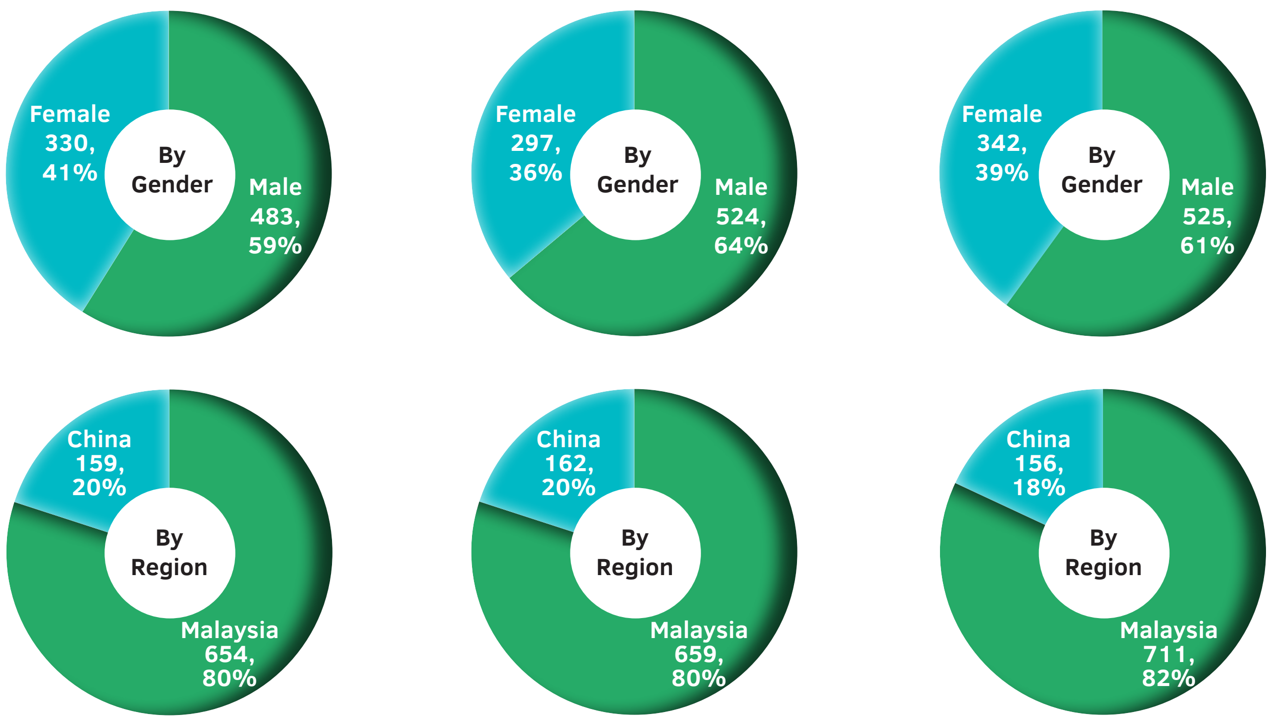
In FY2023, KESMI's workforce comprised 867 employees and 1,168 workers across Malaysia and China, reflecting a 6% increase and 1% decrease from FY2022 respectively, as we aimed to support higher production levels in our operations.

KESMI remains committed to developing our employees to their fullest potential and we employ 100% of our employees are on permanent contracts, and the majority of them are employed full-time. KESMI also places strong emphasis on maintaining diversity and inclusivity in our workforce, and ensuring 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 7: KESMI's Employee Demographics by Gender and Region

FY2021 Total: 813 Employees	FY2022 Total: 821 Employees	FY2023 Total: 867 Employees



SUSTAINABILITY REPORT

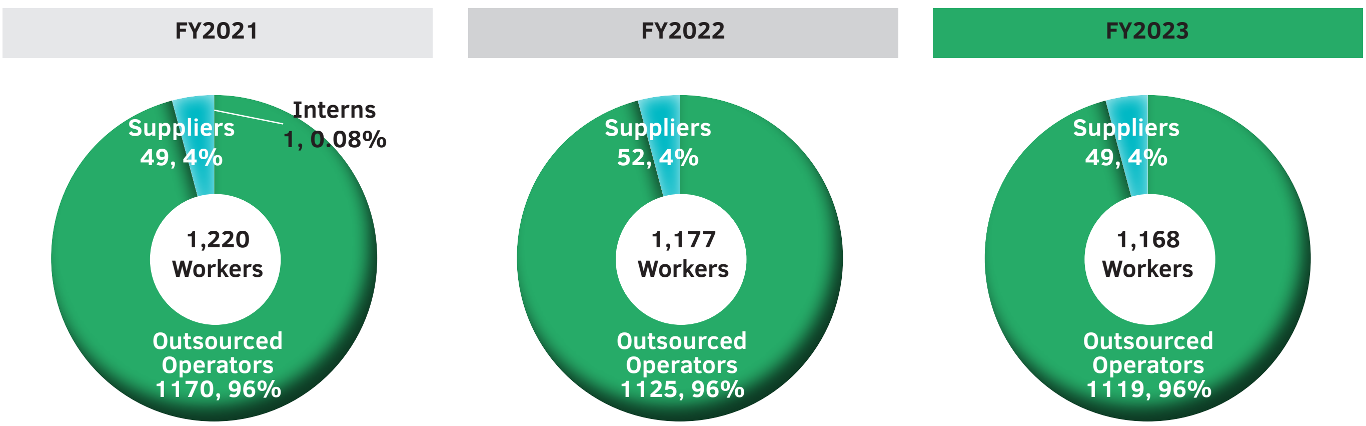
Table 5: Breakdown of employees by contract (permanent or temporary), gender and region

Region	FY2021					FY2022					FY2023				
	Employment Type				Total	Employment Type				Total	Employment Type				Total
	Permanent Contract		Temporary Contract			Permanent Contract		Temporary Contract			Permanent Contract		Temporary Contract		
	Male	Female	Male	Female		Male	Female	Male	Female		Male	Female	Male	Female	
Malaysia	371	231	7	45	654	416	225	-	18	659	423	288	-	-	711
China	105	54	-	-	159	108	54	-	-	162	102	54	-	-	156
Total	476	285	7	45	813	524	279	-	18	821	525	342	-	-	867
	761		52			803		18			867		-		

Table 6: Breakdown of employees by employment type (full-time and part-time), gender and region

Region	FY2021					FY2022					FY2023				
	Employment Type				Total	Employment Type				Total	Employment Type				Total
	Full-time		Part-time			Full-time		Part-time			Full-time		Part-time		
	Male	Female	Male	Female		Male	Female	Male	Female		Male	Female	Male	Female	
Malaysia	378	269	-	7	654	416	231	-	12	659	423	288	-	-	711
China	105	54	-	-	159	108	54	-	-	162	102	54	-	-	156
Total	483	323	-	7	813	524	285	-	12	821	525	342	-	-	867
	806		7			809		12			867		-		

Figure 8: KESMI's Worker Demographics



SUSTAINABILITY REPORT

Table 7: Breakdown of employees by employee category, gender and age group

FY2023	Employee Category					
	Direct Labour		Exempt/Non-Exempt		Manager	
By Gender						
Male	78	33%	411	72%	36	64%
Female	160	67%	162	28%	20	36%
By Age Group						
< 30 years old	157	66%	169	29%	-	-
30-50 years old	76	32%	354	62%	39	70%
> 50 years old	5	2%	50	9%	17	30%

FY2022	Employee Category					
	Direct Labour		Exempt/Non-Exempt		Manager	
By Gender						
Male	111	49%	379	70%	34	63%
Female	117	51%	160	30%	20	37%
By Age Group						
< 30 years old	154	67%	173	32%	-	-
30-50 years old	72	32%	325	60%	37	69%
> 50 years old	2	1%	41	8%	17	31%

FY2021	Employee Category					
	Direct Labour		Exempt/Non-Exempt		Manager	
By Gender						
Male	30	18%	422	71%	31	62%
Female	135	82%	176	29%	19	38%
By Age Group						
< 30 years old	95	58%	194	32%	2	4%
30-50 years old	66	40%	357	60%	34	68%
> 50 years old	4	2%	47	8%	14	28%

SUSTAINABILITY REPORT

In FY2023, we hired a total of 427 new employees, with a turnover of 381 employees. We are cognizant of the continued unpredictability of the job market in these times and will continue to monitor these statistics closely.

Figure 9: Total Number of New Hires by Gender, Age Group and Region

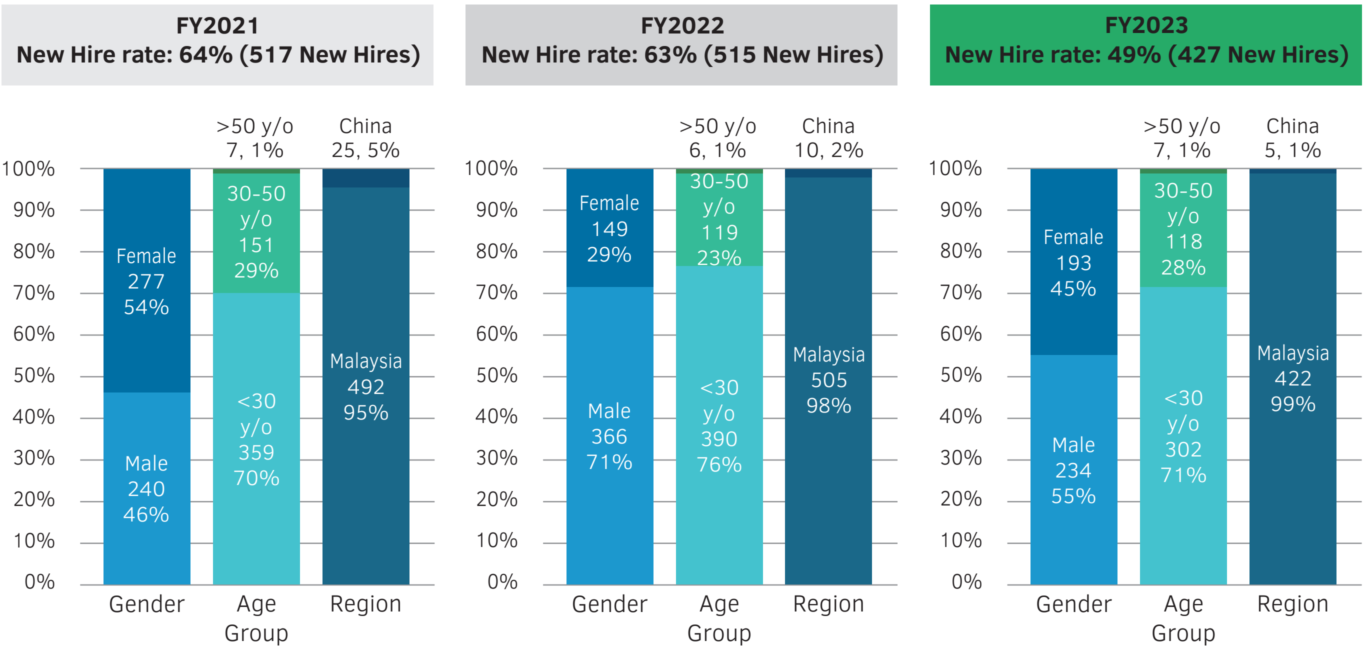
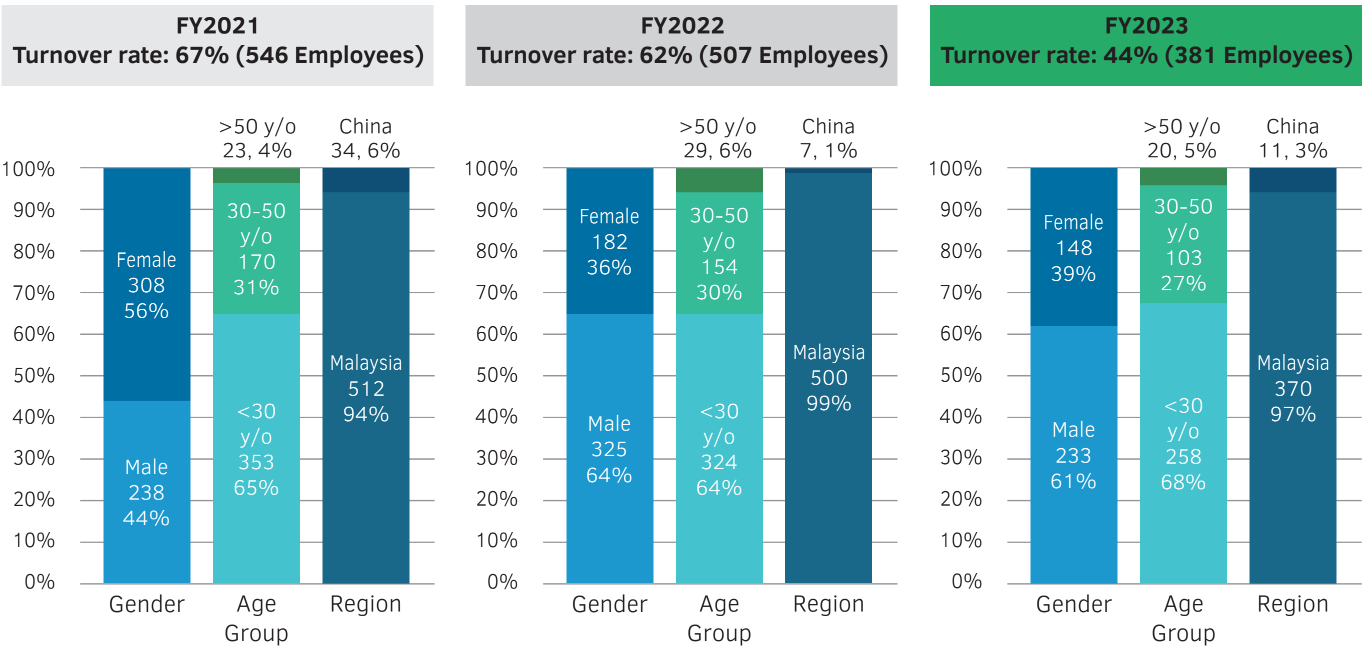


Figure 10: Total Number of Turnover by Gender, Age Group and Region



SUSTAINABILITY REPORT

Fair Employment Practices
[GRI 3-3, 2-23, 2-24, 2-25, 2-26, 406-1]

Prioritising fair and equitable treatment, equal opportunities, competitive wages and fostering a positive work environment can result in a more engaged and productive workforce while contributing to societal development and a positive company reputation. Conversely, unfair employment practices such as labour exploitation or discrimination may result in workforce dissatisfaction, legal and reputational risks, and violations of human rights. KESMI believes that fair employment practices are essential for the well-being of employees, the success of the company, and its positive contributions to the broader society.

KESMI acknowledges that our greatest asset is our human capital. Our employees and workers possess an accumulated pool of knowledge that is invaluable to us. As such, it is imperative for us to ensure good relations with our workforce. We strive to gather feedback from, and understand the needs of our employees, allowing us to develop measures and policies to ensure their continued physical and mental well-being. These policies are readily available and accessible to all employees in our organisation-wide shared folders.

KESMI also makes no compromise on fairness within our organisation. All decisions on advancement and compensation are made purely based on merit. We have zero tolerance for any instances of preferential treatment, and we take strong action in the case of any such occurrence.

Table 8: KESMI's policies on fair employment and well-being of employees and workers

Name of Policy	Policy Description
Recruitment and Selection Policy	KESMI's hiring practices are merit-based and non-discriminatory. Our recruitment 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	In line with our commitment to understand employee concerns, all employees are encouraged to voice their concerns through the feedback channels provided. KESMI also has in place 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 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 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 our employees and will not hesitate to suspend, dismiss or report rogue employees to the relevant authorities. This policy is also available in Mandarin Chinese for the ease of understanding and benefit of employees at our China facility. In FY2023, there were no substantiated complaints concerning human rights violations.

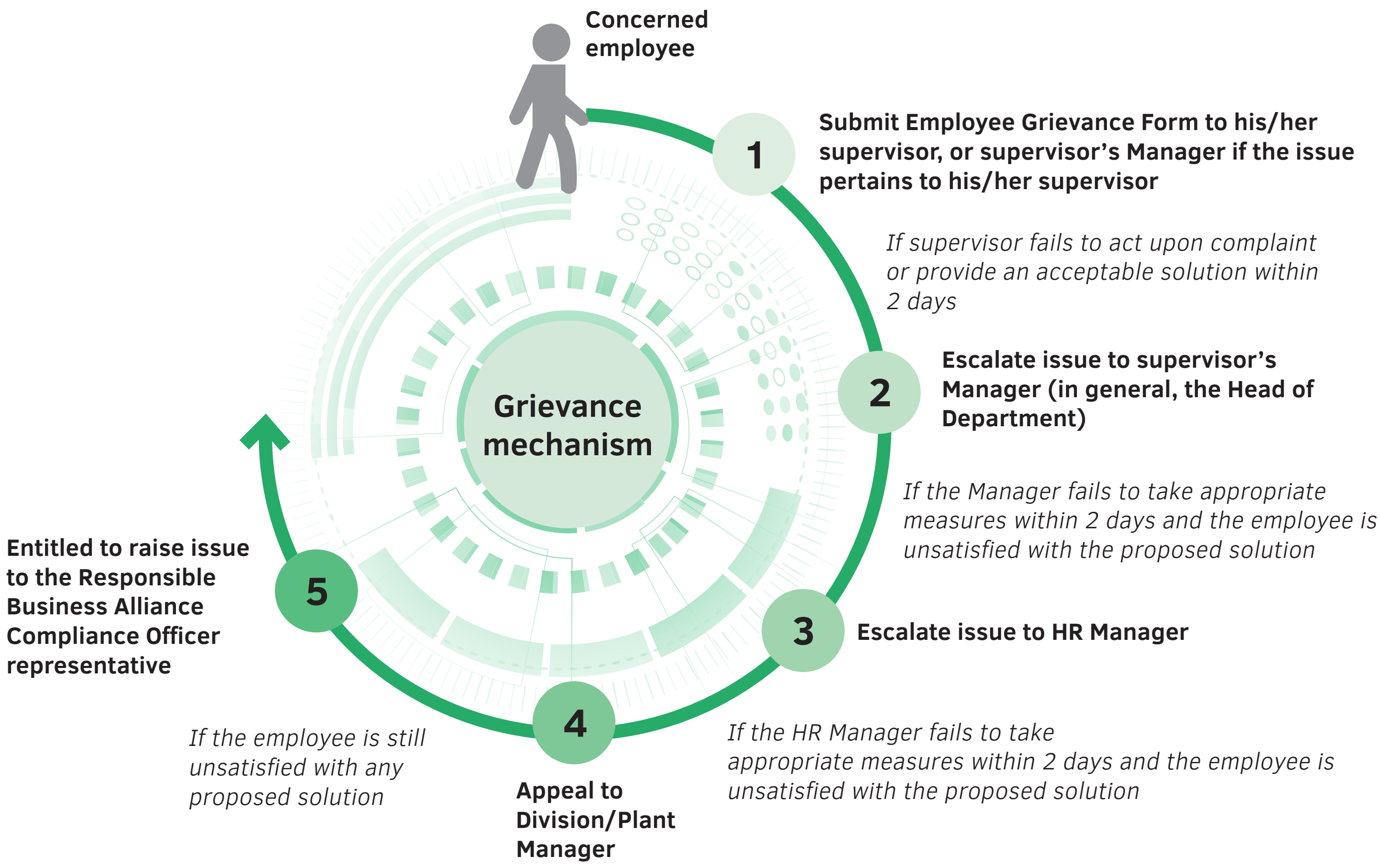
SUSTAINABILITY REPORT

Name of Policy	Policy Description
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 employees covers medical benefits, public holidays, service awards, annual salary review, gifts on occasions, etc.

KESMI's fair employment practices extend throughout our operations, meaning we also practise fairness in our dealings with our outsourced workers. We conduct quarterly audits on any contractor that provides large numbers of outsourced workers to our operations; audits include a review of worker pay slips to ensure timely and fair compensation. Monthly audits are also conducted on the accommodations furnished to our foreign workers by external vendors, and audit reports will be provided to KESMI upon request. No significant findings have been raised from these audits to date.

As part of our commitment to build a culture of ongoing feedback in KESMI, the HR department conducts regular dialogue sessions to receive any grievances, concerns and feedback raised by our employees and workers. Furthermore, as part of our formalised employee grievance mechanism (see Figure 11) employees who feel unfairly treated or are experiencing any workplace discrimination to approach their supervisor or use our HR feedback channel, and these issues may be escalated as needed in order to ensure that they are fully resolved.

Figure 11: KESMI's Employee Grievance Mechanism



In FY2023, no substantiated complaints were received from our employees regarding unfair or discriminatory employment practices within KESMI.

SUSTAINABILITY REPORT

Employee Engagement and Training
[GRI 2-4, 404-1]

To improve employee welfare and well-being, KESMI has introduced measures and activities to demonstrate appreciation to our staff. Creating positive experiences at the workplace is likely to have a positive impact on employee productivity, work quality, and retention. With the lifting of safe distancing measures, we resume these recreational activities for our staff, including sports and bonding activities.

Figure 12: Team bonding sessions

We continue the "perfect attendance incentive" programme, whereby any employee in the production area with perfect attendance record would be entered into a lucky draw for cash prizes and other rewards.

It is also important to us that our employees are allowed to upskill themselves and remain relevant. In FY2023, our employees underwent an average of 25.7 hours of training covering topics that develop their soft skills as well as technical topics on equipment and machinery safety, purchasing management and knowledge on the various ISO standards. The breakdown of the training hours can be found below.

Table 9: Breakdown of training hours by gender and employee category[11]

	FY2022		FY2023	
	Total training hours	**Average training hours**	**Total training hours**	**Average training hours**
By Gender				
Male	10,390	19.8	13,265	25.3
Female	10,163	34.2	9,008	26.3
By Employee Category				
Direct Labour	5,114	22.4	5,717	24.0
Exempt/Non-Exempt	14,703	27.3	14,438	25.2
Manager	736	13.6	2,118	37.8

[11] This was a new disclosure effective from FY2022. Hence, the Group was unable to obtain past year data due to data collection constraints from certain operations. Data in FY2022 has also been restated due to a refinement in data collection methodology to limit it to employees only and exclude workers.

SUSTAINABILITY REPORT

Figure 13: Training sessions for employees

Our Training Department continues to hold training sessions for our operators and technicians. Ensuring the quality of our staff also helps to ensure that they deliver quality products to our customers.

Focus Area	Perpetual Target	FY2023 Performance
Fair Employment Practices	0 complaints from employees to regulatory authorities pertaining to unfair or discriminatory employment practices	Achieved

FOSTERING A SAFETY CULTURE

[GRI 3-3, 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-7, 403-9, 403-10]

Establishing effective management of occupational health and safety plays a pivotal role in promoting a safe and healthy working environment enhancing employee morale and job satisfaction, leading to increased productivity and efficiency. A safer workplace will also decrease the danger of work-related accidents, lessen the likelihood of employee absenteeism, and reduce turnover, resulting in a more stable and skilled staff, which can support the sector and company's economic growth. On the other hand, insufficient safety precautions could harm employees' health and well-being, raise the possibility of workplace accidents, and severely harm KESMI's reputation, affecting our ability to attract talent and do business.

KESMI has implemented a Health and Safety Policy, outlining our objectives and approach towards ensuring the health and well-being of our staff[12] in the workplace. This policy includes the procedures, guidelines and best practices that our staff must adhere to in order to mitigate health and safety risks in the workplace. Our Occupational Health and Safety Management System ("OHSMS"), which our subsidiaries are also required to comply with, is developed with reference to local safety regulations and covers all workers in our operating locations.

Hazard Identification and Risk Assessment

Identifying and minimising hazards is a key part of our Health and Safety approach. Hazard identification is carried out through monthly safety walks, and any hazards identified along with any proposed mitigation measures, are then evaluated during the monthly safety meeting. KESMI's safety policies and guidelines contain a list of identified hazards, as well as steps and procedures for our staff, which when adhered to, minimise the risks posed to our staff. Some of the hazards identified include:

- Cuts from handling sharp blade edges
- Slip, trip or fall
- Fire risks
- Vehicles
- Slippery floors

Other identified risks include exposure to chemicals from airborne tin resulting from soldering activities as well as manual handling activities. While the risks from these sources are determined to be low, KESMI has still implemented monitoring systems in its facilities to ensure that any chemical exposure is kept to a minimum.

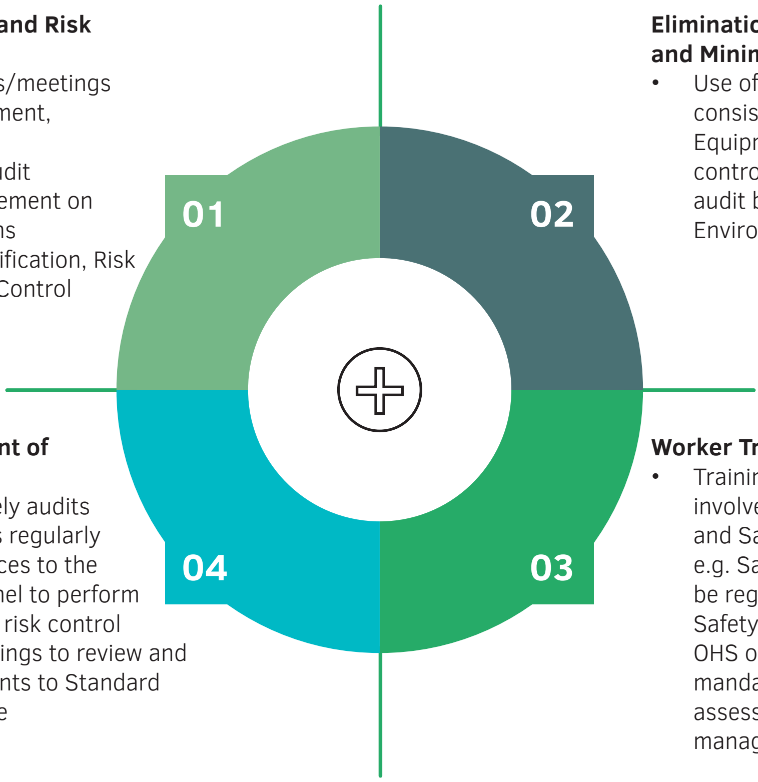
Our safety personnel are regularly trained and updated with the latest safety practices to ensure that risks are properly identified and controlled. Operators are briefed by the Head Supervisor before every work shift, to stress the importance of adhering to safety protocols. This contributes to the overall effectiveness of the OHSMS, which is essential in safeguarding the health of our staff.

[12] Covering employees and workers.

SUSTAINABILITY REPORT

Figure 14 elaborates on the systematic process established to identify and eliminate hazards, towards continued improvement 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 and materials
- 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, Health and Environment committee

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

Continual Improvement of OHSMS
- Methodical and timely audits
- Review programmes 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

Incident Investigation

In line with our Health and Safety approach, KESMI has implemented a systematic process that enables quick identification and remediation of hazardous situations that occur. Operators who discover a work hazard or believe that they have been placed in an unsafe working environment, are required to immediately voice their concerns to their supervisor.

Supervisors are then expected to assess the situation and rectify potential safety issues before allowing their operators to resume work. Once the hazard has been dealt with, the Safety, Health and Environment ("SHE") committee will launch an investigation and generate a report of the incident. Follow-up actions will be taken by the relevant stakeholders.

KESMI's Code of Conduct protects any staff who report hazards from receiving backlash in any form. This encourages constant mindfulness around safety and safeguards the collective health and safety of our staff.

Occupational Health Services and Promotion of Worker Health

KESMI has identified several related potential occupational health hazards present in our operating sites. As a supplement to the mandatory physical health check-up for all new employees, we provide specific occupational health services for each employee role and the specific related hazards; annual medical check-ups for employees and workers handling chemicals, as well as annual audiometric check-ups for those working at high noise areas.

SUSTAINABILITY REPORT

First aid treatment is provided for the affected personnel for any minor injuries that occur, and transportation to the nearest hospital is immediately arranged for more severe injuries. As part of our OHSMS, we engage only certified service providers who are required to comply with all international and national OHS standards and regulations. Bearing in mind that we operate in multiple jurisdictions, we have made the OHS readily available in several languages. We also engage our staff through surveys and rating systems that help us to evaluate the effectiveness of our OHSMS, which allows us to constantly improve the quality.

For the continued well-being of our staff, we provide services such as annual health screenings and consultations at company-approved clinics. Voluntary blood tests and indoor/outdoor activities are also organised for our staff with external providers during working hours. We collect feedback from our staff at the end of each activity so that we can gauge its success and find ways to improve our programmes for the following year.

Worker Participation and Training

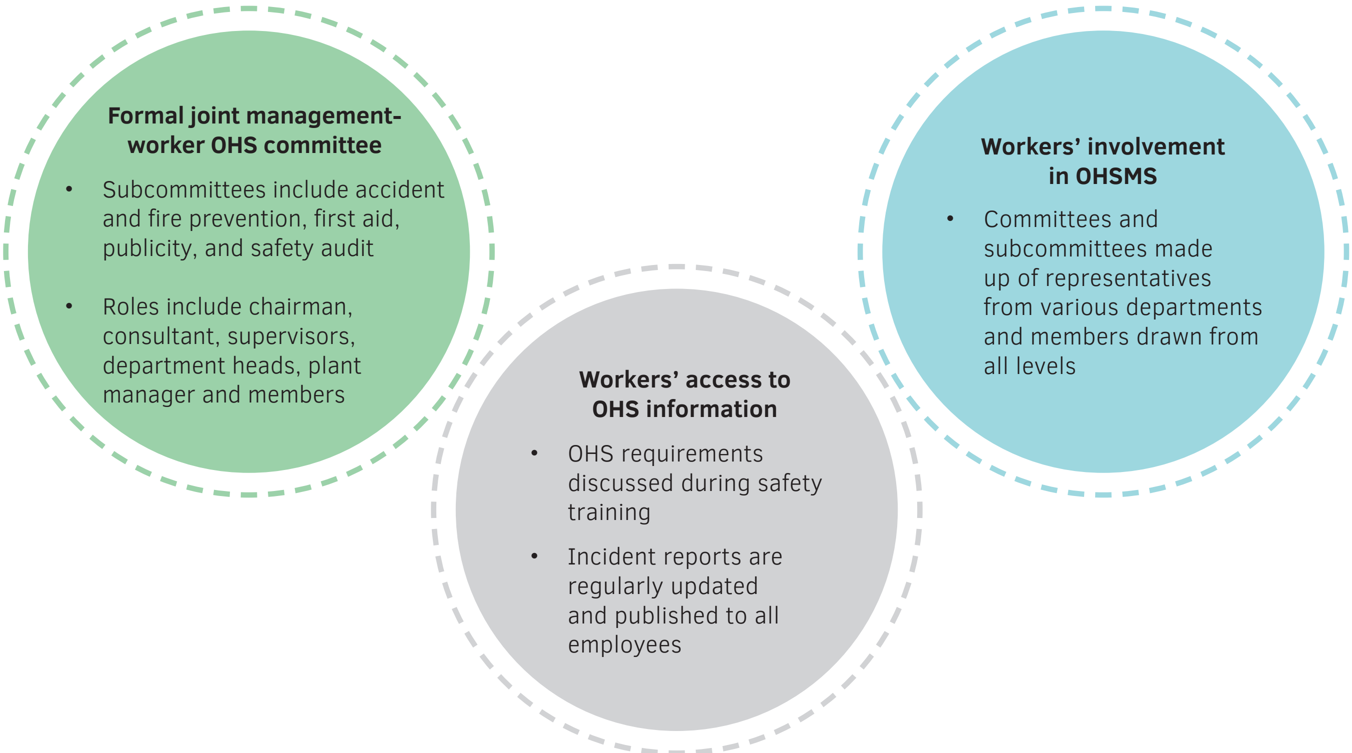
The effectiveness of our OHS policies and programmes are enhanced by the active involvement of our staff. Our employees are provided with OHS training such as training for management staff, first aid and CPR training for designated workers, as well as safety training for all operations staff annually. For operators exposed to specific hazards (e.g. chemicals), they are given the appropriate hazard-specific training.

Table 10: Breakdown of employees trained on health and safety standards[13]

	FY2023
Malaysia	700
China	156
Total	**856**

A formal joint management-worker SHE committee has also been established to engage our workers in OHS consultation and communication process. The committee is involved in the development and regular review of the safety and health programmes, as well as in promoting safety awareness throughout the organisation.

Figure 15: Worker Participation, Consultation and Communication on OHS



[13] This is a new disclosure in FY2023. Hence, the Group is unable to obtain past year data due to data collection constraints from certain operations.

SUSTAINABILITY REPORT

KESMI has taken proactive steps, guided by government-mandated advisories, to protect the health and well-being of our stakeholders and employees, implementing relevant measures to ensure a safe workplace for all.

In FY2023, KESMI recorded zero fatalities or recordable injuries for both employees and workers.

Table 11: Breakdown of work-related injuries for all employees and workers

EMPLOYEES	**FY2021**		**FY2022**		**FY2023**	
Number of man-hours worked	1,881,639		1,913,660		1,945,257	
Number and rate of fatalities as a result of work-related injuries	-	-	-	-	-	-
Number and rate of high-consequence work-related injuries	-	-	-	-	-	-
Number and rate of recordable work-related injuries	-	-	1	0.52	-	-
Lost time injury rate	-		0.52		-	
Main types of work-related injuries	Not applicable		Cut and lacerations from machinery		Not applicable	

WORKERS	**FY2021**		**FY2022**		**FY2023**	
Number of man-hours worked	3,293,927		3,199,339		2,879,744	
Number and rate of fatalities as a result of work-related injuries	-	-	-	-	-	-
Number and rate of high-consequence work-related injuries	-	-	1	0.31	-	-
Number and rate of recordable work-related injuries	-	-	-	-	-	-
Lost time injury rate	-		0.31		-	
Main types of work-related injuries	Not applicable		Cut and lacerations from machinery		Not applicable	

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Table 12: Breakdown of work-related ill-health for all employees and workers

EMPLOYEES	FY2021	FY2022	FY2023
Number of fatalities as a result of work-related ill-health	-	-	-
Number of recordable work-related ill-health	-	-	-
Main types of work-related ill-health	Not applicable	Not applicable	Not applicable

WORKERS	FY2021	FY2022	FY2023
Number of fatalities as a result of work-related ill-health	-	-	-
Number of recordable work-related ill-health	-	-	-
Main types of work-related ill-health	Not applicable	Not applicable	Not applicable

Focus Area	Perpetual Target	FY2023 Performance
Occupational Health and Safety	0 work-related fatalities and injuries	• 0 work-related fatalities and injuries

PROTECTING THE ENVIRONMENT

Energy and Carbon Footprint
[GRI 2-4, 3-3, 302-1, 302-3, 305-1, 305-2, 305-4]

Efforts to prioritise energy efficiency and carbon reduction not only benefits the company through cost savings and regulatory compliance but also contributes to environmental conservation, climate change mitigation and sustainable development. However, the lack of adequate measures to manage our carbon footprint could result in environmental problems, including air pollution, which can also negatively impact local communities and human health.

KESMI acknowledges our responsibility towards the environment. Now more than ever, with the rising global spotlight on climate issues, we view it as crucial to ensure the environmental sustainability of our business. Our operations are guided by the Environmental Management System (certified to ISO 14001:2015) as well as other relevant local Energy Policies. Our Code of Conduct also codifies our expectations regarding certain environmental standards such as resource conservation, dealing with hazardous substances, wastewater and solid waste, and air emissions.

In FY2023, total energy consumption comprised of fuel consumption and electricity consumption, amounted to 278,927.3 GJ, a 3% increase from 269,949.0 GJ in FY2022. Of this total consumption, mobile combustion included mobile gasoline as the main fossil fuel used, along with a minimal amount of diesel, accounted for 397.0 GJ in FY2023, a decrease of 16% from the previous year due to reduced consumption. The electricity consumption increased by 4% to 278,530.3 GJ primarily attributed to the absence of plant shutdown due to lockdown regulation in China in prior year, coupled with the resumption of business activity following the lifting of COVID-19 related measures in current year.

SUSTAINABILITY REPORT

Figure 16: KESMI's Total Energy Consumption (GJ) and Intensity (GJ/thousand units of production)

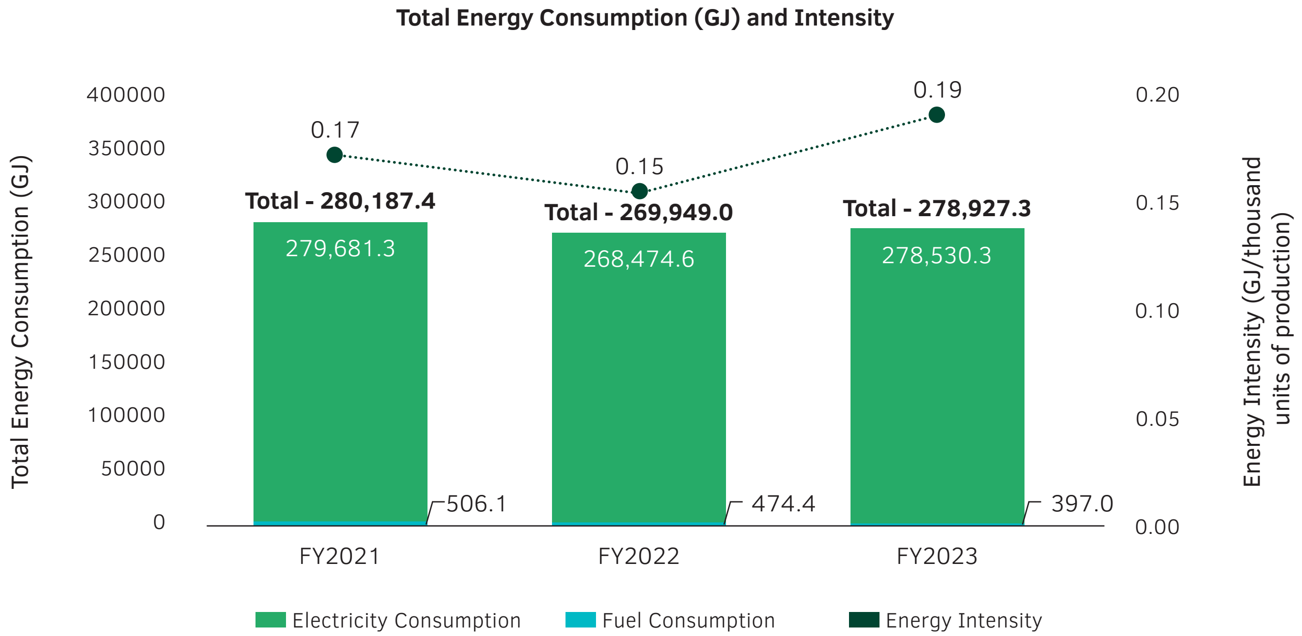


Figure 17: KESMI's Fuel Consumption from non-renewable sources

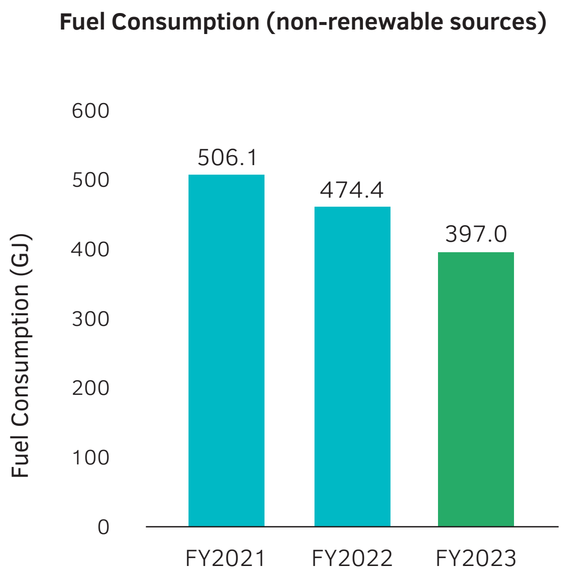
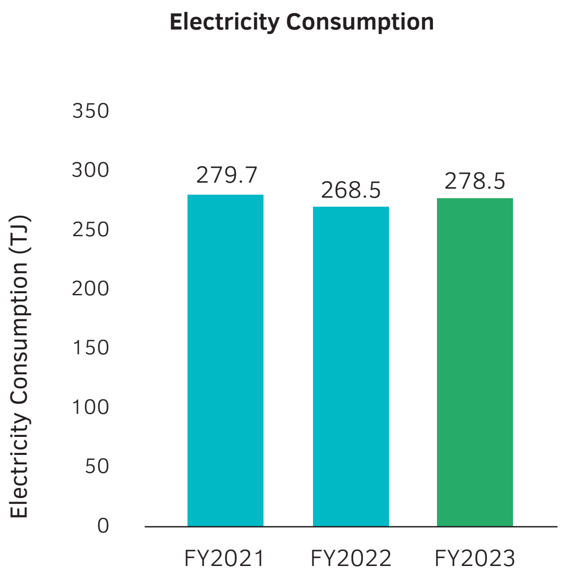


Figure 18: KESMI's Electricity Consumption



SUSTAINABILITY REPORT

Figure 19: KESMI's Scope 1 Emissions[14] (tCO2e) and Scope 1 Intensity (tCO2e/million units of production)

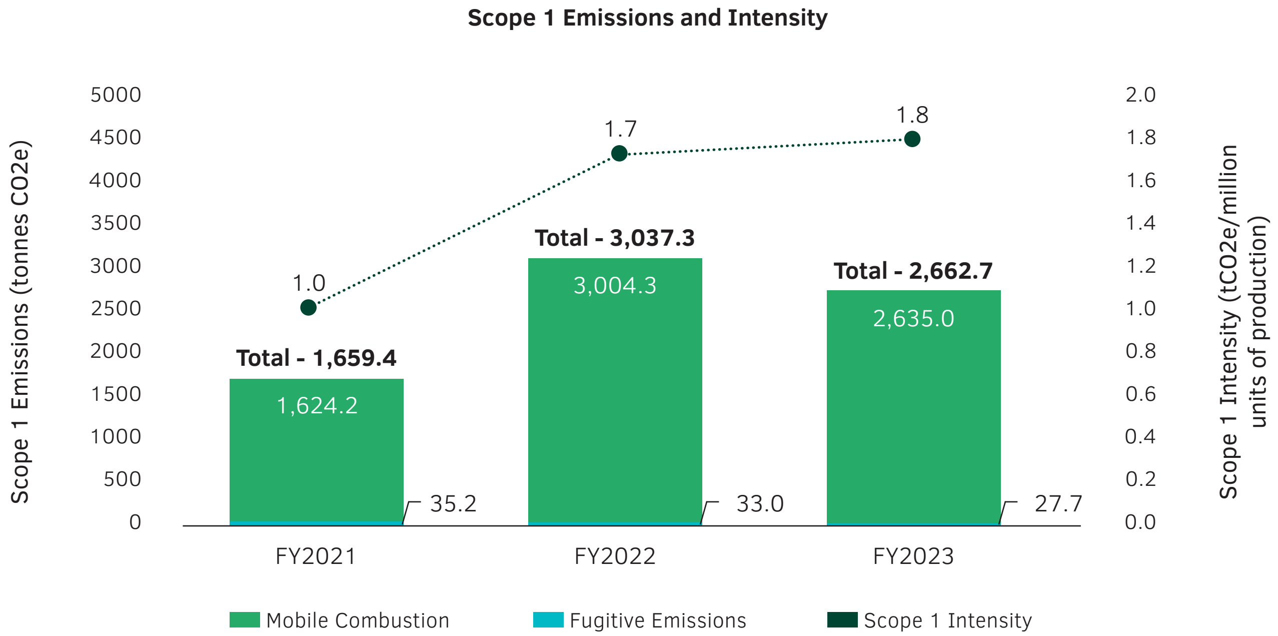
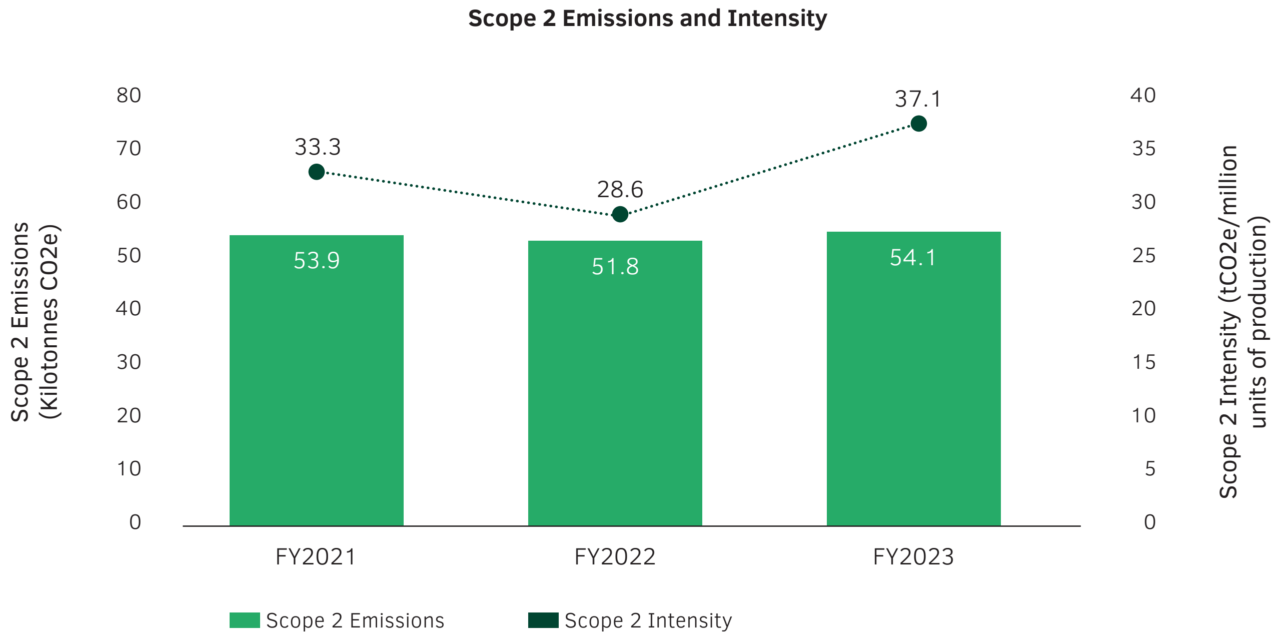


Figure 20: KESMI's Scope 2 (Indirect) Emissions[15] (ktCO2e) and Scope 2 Intensity (tCO2e/million units of production)



[14] Scope 1 fugitive emissions are due to leakage of other greenhouse gas from residential and commercial air conditioning including heat pumps, and medium and large commercial refrigeration. Past two years data were restated due to improvements in data availability, which resulted in an increase in emissions.

[15] The Electricity Grid Emissions Factors ("GEF") used in the calculation of Scope 2 emissions have been obtained from the Institute for Global Environmental Strategies ("IGES") 2023 database.

SUSTAINABILITY REPORT

Our Scope 1 emissions experienced a significant increase from FY2021 to FY2022, rising from 1,659.4 tonnes CO2e to 3,037.3 tonnes CO2e. This increase was primarily due to a plant expansion. In FY2023, there was a 12% decrease, down to 2,662.7 tonnes CO2e, due to reduced consumption. On the other hand, our Scope 2 emissions have increased by 4% to 54.1 kilotonnes CO2e primarily attributed to the absence of plant shutdown due to lockdown regulation in China in prior year, coupled with the resumption of business activity following the lifting of COVID-19 related measures in current year. Nonetheless, an increase in intensity values were observed for both Scope 1 and 2 mainly due to the lower production quantity from prior years which affected the overall energy efficiency and operational productivity.

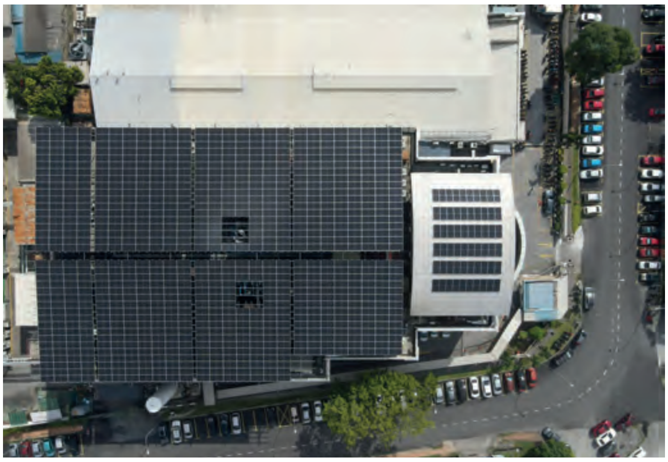
KESMI will continue to closely monitor our energy consumption, perpetually nurturing of a culture of electricity conservation and the implementation of initiatives, aimed at reducing our environmental footprint.

Focus Area	Perpetual Target	FY2023 Performance
Energy Consumption	2% reduction in year-on-year electricity consumption	4% increase

In addition to our commitment to reducing energy consumption, KESMI is actively exploring the potential of affordable renewable energy sources in the country where we operate.

During the year, KESMI procured 797 MWh of renewable energy for one of our facilities in Malaysia through the Green Electricity Tariff program, an initiative by the Malaysian Government aimed at offering the choice of green electricity derived from renewable energy sources.

Figure 21: Rooftop solar panel system



Highlight: Solar Installation

KESMI has recently installed a rooftop solar panel system in one of its facilities in Malaysia, projected to generate approximately 650 MWh per year of renewable energy to our operation. This is equivalent to approximately 0.42 kilotonnes CO2e per year.

By supplying roughly 0.8% of our electricity consumption, the installation will contribute to a reduction in our Scope 2 emissions. Additionally, KESMI anticipates saving approximately RM341,000 per year in operating costs as a result of this initiative.

SUSTAINABILITY REPORT

METHODOLOGY

This section details definitions, methodologies and data boundaries otherwise not already specified, applied to the sustainability performance data disclosed in our sustainability report. They are made with reference to GRI Standards Glossary 2021, internationally recognised standards and the reporting guidance set out in the respective GRI topic-specific disclosures. The GRI topic-specific disclosures covered are listed out in the GRI Content Index of this report.

Employee and Worker

Employee is defined as an individual who is in an employment relationship with the Group, according to its national law. KESMI's employee profile can be broadly broken down by employee level as defined below:

Direct Labour: Operators and inspectors
Exempt/Non-Exempt: Technicians and executives
Manager: All levels of managers including senior management and above
Senior Management: Head of Departments and above

Worker is defined as an individual whose work, or workplace, is controlled by the Group. KESMI's workers include outsourced operators and suppliers (including outsourced service providers), such as cleaners, who are directly involved in daily production activities.

Employee New Hire and Turnover

The rate of new hires takes the total number of new hires over the total number of employees as at 31 July 2023, expressed as a percentage. Likewise, the rate of turnover takes the total number of turnovers over the total number of employees as at 31 July 2023, expressed as a percentage.

Training hours

Average training hours per employee takes the total training hours for the financial year over the total number of employees recorded as at 31 July 2023.

Occupational Health and Safety

According to the International Labour Organization, an occupational accident is an unexpected and unplanned occurrence, including acts of violence, arising out of or in connection with work which results in one or more workers incurring a personal injury, disease or death. The coverage for occupational accident cases includes employees and workers at all KESMI operations.

With reference to GRI 403: Occupational Health and Safety Standard, the different types of occupational accidents are defined as follows:

- High consequence work-related injuries are work-related injuries that result in a fatality or in an injury from which the worker cannot, does not, or is not expected to recover fully to pre-injury health status within 6 months.
- Work-related injury is an injury that results in any of the following: death, days away from work, hospitalization, medical treatment beyond first aid, or loss of consciousness.
- Work-related ill-health indicates damage to health and includes diseases, illnesses, and disorders.

Recordable work-related injury rates and recordable high consequence work-related injury rates are calculated based on 1,000,000 hours worked, using the formula of the total number of injuries divided by the number of hours worked multiplied by 1,000,000. Lost time injury rate accounts for incidents that resulted in at least one day of missed work calculated based on 1,000,000 hours worked. The number of hours worked refers to the total estimated working hours based on standard hours of work, taking into account entitlements to periods of paid leave of absence from work.

Non-compliance incidents

Such incidents refer to non-compliance with social, economic and environmental laws and/or regulations applicable to the Group, brought through dispute resolution mechanisms and/or resulting in:

- Significant fines
- Non-monetary sanctions

Energy consumption and Greenhouse Gas ("GHG") emission data

Energy consumption and GHG emissions data covers operations in Malaysia and China. The total energy consumption is expressed in joule ("J") or multiples while emissions are expressed in tonnes of CO2 ("tonnes CO2e" or "tCO2e") or multiples for Scope 1 and 2 emissions respectively.

For petrol and diesel, CO2, methane ("CH4") and nitrous oxide ("N2O") were included in the GHG calculation. Default emissions factors were sourced from the 2006 IPCC Guidelines for National Greenhouse Gas Inventories while the global warming potential ("GWP") values were sourced from the 2014 IPCC Fifth Assessment Report ("AR5") and the 2007 IPCC Fourth Assessment Report ("AR4") for relevant gases disclosed.

The Electricity Grid Emissions Factors ("GEF") used in the calculation of Scope 2 emissions for FY2023, FY2022 and FY2021 have been obtained from the Institute for Global Environmental Strategies ("IGES") 2023 database. The emission factors for China (North China Grid) and Malaysia were last updated in 2019 and 2017 respectively.

Energy and GHG Emission Intensity Ratios

Energy and GHG emission intensity ratios are expressed in tCO2e / unit of production or multiples. The organisation-specific metric (the denominator) used was production quantity. The type of energy included in the intensity ratio only includes fuel and electricity consumption within the organisation while the type of GHG emissions included in the intensity ratios only includes Scope 1 and 2 emissions.

SUSTAINABILITY REPORT

GRI CONTENT INDEX

Statement of use	KESMI has reported in accordance with the GRI Standards for the period from 1 August 2022 to 31 July 2023.
GRI 1 used	GRI 1: Foundation 2021
Applicable GRI Sector Standard(s)	No applicable sector standards

Disclosure		**Reference(s) or Reasons for Omission**
Material Topic: General Disclosures		
Organisational Profile		
2-1	Organisational details	About KESM Industries Berhad (page 14)
2-2	Entities included in the organisation's sustainability reporting	About the Report (pages 14-15)
2-3	Reporting period, frequency and contact point	About the Report (pages 14-15)
2-4	Restatements of information	Building an Ethical Culture (pages 18-21) Employee Engagement and Training (pages 33-34) Protecting the Environment (pages 38-41)
2-5	External assurance	About the Report (pages 14-15)
2-6	Activities, value chain and other business relationships	About KESM Industries Berhad (page 14) and Managing Supply Chains Responsibly (pages 23-24)
2-7	Employees	KESMI's Employee and Worker Profile (pages 27-30)
2-8	Workers who are not employees	KESMI's Employee and Worker Profile (pages 27-30)
2-9	Governance structure and composition	Corporate Governance Overview Statement (pages 56-66)
2-10	Nomination and selection of the highest governance body	Corporate Governance Overview Statement (pages 56-66)
2-11	Chair of the highest governance body	Corporate Governance Overview Statement (pages 56-66)
2-12	Role of the highest governance body in overseeing the management of impacts	Our Sustainability Commitment and Governance (page 15)
2-13	Delegation of responsibility for managing impacts	Our Sustainability Commitment and Governance (page 15)
2-14	Role of the highest governance body in sustainability reporting	Our Sustainability Commitment and Governance (page 15)
2-15	Conflicts of interest	Details on conflict of interest can be found in the Board Charter and Code of Conduct and Ethics publicly available on KESM Industries Berhad's website.
2-16	Communication of critical concerns	0 substantiated cases reported.
2-17	Collective knowledge of the highest governance body	Our Sustainability Commitment and Governance (page 15)

SUSTAINABILITY REPORT

Disclosure		Reference(s) or Reasons for Omission
2-18	Evaluation of the performance of the highest governance body	Details can be found in the Corporate Governance Report publicly available on KESM Industries Berhad's website.
2-19	Remuneration policies	Corporate Governance Overview Statement (pages 56-66) However, current remuneration policies do not incorporate the objectives and performance of governance bodies in relation to the management of the organisation's impacts on the economy, environment, and people.
2-20	Process to determine remuneration	Corporate Governance Overview Statement (pages 56-66)
2-21	Annual total compensation ratio	KESMI is unable to disclose the information due to confidentiality constraints.
2-22	Statement on sustainable development strategy	Our Sustainability Commitment and Governance (page 15)
2-23	Policy commitments	Building an Ethical Culture (pages 18-21) and Fair Employment Practices (pages 31-32)
2-24	Embedding policy commitments	Building an Ethical Culture (pages 18-21) and Fair Employment Practices (pages 31-32)
2-25	Processes to remediate negative impacts	Fair Employment Practices (pages 31-32)
2-26	Mechanisms for seeking advice and raising concerns	Fair Employment Practices (pages 31-32)
2-27	Compliance with laws and regulations	Ensuring Strict Compliance with Applicable Laws and Regulations (page 22)
2-28	Membership associations	Malaysian Employers Federation, The Free Trade Zone, Penang Companies' Association
2-29	Approach to stakeholder engagement	Stakeholder Engagement (pages 15-16)
2-30	Collective bargaining agreements	None of our employees are covered by collective bargaining agreements. Nonetheless, our employees in China are covered under the All-China Federation of Trade Unions ("ACFTU"), a national federation of work organisations that represents the interests and safeguards the rights of workers in China. KESMI respects the rights of its employees to join or form a labour union.
Material Topic – Management Approach		
3-1	Process to determine material topics	Materiality Assessment (pages 17-18)
3-2	List of material topics	Materiality Assessment (pages 17-18)

SUSTAINABILITY REPORT

Disclosure		Reference(s) or Reasons for Omission
Material Topic: Ethical Business Conduct		
Anti-Corruption		
3-3	Management of material topics	Building an Ethical Culture (pages 18-21)
205-1	Operations assessed for risks related to corruption	Building an Ethical Culture (pages 18-21)
205-2	Communication and training about anti-corruption policies and procedures	Building an Ethical Culture (pages 18-21)
205-3	Confirmed incidents of corruption and actions taken	Building an Ethical Culture (pages 18-21)
Material Topic: Regulatory Compliance		
General Disclosures - Compliance		
3-3	Management of material topics	Ensuring Strict Compliance with Applicable Laws and Regulations (page 22)
2-27	Compliance with environmental laws and regulations	Ensuring Strict Compliance with Applicable Laws and Regulations (page 22)
Material Topic: Economic Performance		
Economic Performance and Procurement Practices		
3-3	Management of material topics	Sustaining Economic Performance (pages 23-25)
201-1	Direct economic value generated and distributed	Contributing Direct Economic Value (page 25)
204-1	Proportion of spending on local suppliers	Managing Supply Chains Responsibly (pages 23-24)
Material Topic: Fair Employment Practices		
Employment and Non-Discrimination		
3-3	Management of material topics	Fair Employment Practices (pages 31-32)
401-1	New employee hire and employee turnover	KESMI's Employee and Worker Profile (pages 27-30)
404-1	Average hours of training per year per employee	Employee Engagement and Training (pages 33-34)
405-1	Diversity of governance bodies and employees	Develop an Engaged Workforce and Fair Workplace (pages 26-30)
406-1	Incidents of discrimination and corrective actions taken	Fair Employment Practices (pages 31-32)

SUSTAINABILITY REPORT

Disclosure		Reference(s) or Reasons for Omission
Material Topic: Energy and Carbon Footprint		
Energy Consumption and Emissions		
3-3	Management of material topics	Protecting the Environment (pages 38-41)
302-1	Energy consumption within the organisation	Protecting the Environment (pages 38-41)
302-3	Energy intensity	Protecting the Environment (pages 38-41)
305-1	Direct (Scope 1) GHG emissions	Protecting the Environment (pages 38-41)
305-2	Energy indirect (Scope 2) GHG emissions	Protecting the Environment (pages 38-41)
305-4	GHG emissions intensity	Protecting the Environment (pages 38-41)
Material Topic: Occupational Health and Safety		
Occupational Health and Safety (2018)		
3-3	Management of material topics	Fostering a Safety Culture (pages 34-38)
403-1	Occupational health and safety management system	Fostering a Safety Culture (pages 34-38)
403-2	Hazard identification, risk assessment, and incident investigation	Fostering a Safety Culture (pages 34-38)
403-3	Occupational health services	Fostering a Safety Culture (pages 34-38)
403-4	Worker participation, consultation, and communication on occupational health and safety	Fostering a Safety Culture (pages 34-38)
403-5	Worker training on occupational health and safety	Fostering a Safety Culture (pages 34-38)
403-6	Promotion of worker health	Fostering a Safety Culture (pages 34-38)
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Fostering a Safety Culture (pages 34-38)
403-9	Work-related injuries	Fostering a Safety Culture (pages 34-38)
403-10	Work-related ill-health	Fostering a Safety Culture (pages 34-38)
Customer Privacy		
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Data Privacy and Security (page 22)

SUSTAINABILITY REPORT

Taskforce on Climate-related Financial Disclosures ("TCFD") Content Index

KESMI extended efforts in environmental sustainability; addressing climate-related risks and opportunities in this year's sustainability report. We strive to update disclosures with reference to the TCFD recommendations through a phased approach.

<table>
<tr><th>TCFD Recommendations</th><th>Our Approach</th><th>Page Reference</th></tr>
<tr><td colspan="3">Governance:
Disclose organisation's governance around climate-related risks and opportunities</td></tr>
<tr><td>Describe the Board's oversight of climate-related risks and opportunities</td><td rowspan="2">The Board, assisted by the Audit Committee ("AC") overseas 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 Board recognises its obligation to maintain a sound risk management framework and internal control systems, which includes developing an adequate risk management and control framework and periodically reviewing its effectiveness, appropriateness, and integrity.

The Group has put in place a 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 Group's internal control procedures also encompass a series of standard operating practice manuals and business process manuals, which serve as guidance for proper measures to be undertaken, and are subject to regular review, enhancement and improvement.</td><td rowspan="2">Our Sustainability Commitment and Governance (page 15)

Corporate Governance Overview Statement (pages 56-66)

Statement on Risk Management and Internal Control (pages 67-69)</td></tr>
<tr><td>Describe management's role in assessing and managing climate-related risks and opportunities</td></tr>
<tr><td colspan="3">Strategy:
Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material</td></tr>
<tr><td>Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term</td><td>The table below highlights the climate-related risks and opportunities most material to KESMI. A phased approach will be adopted to disclose more details and quantifiable impacts on the identified climate-related risks, opportunities, and relevant mitigation measures in subsequent reports.</td><td></td></tr>
</table>

SUSTAINABILITY REPORT

TCFD Recommendations	Our Approach	Page Reference
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	Transition Risks Transition risks are generally associated to the transition to a low-carbon economy, which might involve governmental changes, disruptive technological advances, and changes in customer and investor preferences.	

Risk Type	Risk Description	Potential Impacts	Adaptation or Mitigation Measures
Policy and legal	Current and emerging climate-reporting regulations for listed firms	Increased resources and potential cost to implement processes to ensure compliance with climate-reporting regulations.	Continue to work closely with the stakeholders and consultants to keep abreast of all sustainability reporting developments and regulations.
Reputation	Increasing stakeholder expectations in relation to climate change and emissions	Failure to meet the increasing stakeholder expectations in relation to climate change and emissions may pose a reputational risk, potentially leading to diminished investor confidence, reduced company valuations, and challenges in retaining skilled workforce.	Engage key stakeholders, including customers and investors to understand and address their concerns to meet or exceed their ESG expectations.

SUSTAINABILITY REPORT

<table>
<tr><th>TCFD Recommendations</th><th>Our Approach</th><th>Page Reference</th></tr>
<tr><td></td><td>
<u>Physical Risks</u>
Arising from the impact of weather events and widespread environmental changes, physical risks can include increased severity and variability of extreme weather events such as rising sea levels and changes in temperature and precipitation patterns.
<table>
<tr><th>Risk Type</th><th>Risk Description</th><th>Potential Impacts</th><th>Adaptation or Mitigation Measures</th></tr>
<tr><td>Acute</td><td>Increased intensity and frequency of storms and floods</td><td>• Physical damage or impairment of assets
• Increased insurance costs</td><td>• Review insurance coverage
• Conduct regular maintenance and enhancement of infrastructure</td></tr>
<tr><td>Chronic</td><td>Change in average temperature</td><td>• Increased cooling demand for production facilities
• Potential disruptions to operations due to workforce absenteeism from heat-related health stresses</td><td>• Regular review of operational procedures to ensure staff are coping with the increasing temperatures by conducting work environmental evaluation to identify areas that reduce heat exposures, health assessment, etc.
• Regular maintenance of air conditioning systems
• Explore additional measures to minimise heat absorption of buildings or more efficient air conditioning systems
• Integrate lush greenery around the production facilities to provide cooling shade</td></tr>
</table>
</td><td></td></tr>
</table>

SUSTAINABILITY REPORT

TCFD Recommendations	Our Approach	Page Reference
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	On a phased approach, KESMI will conduct and incorporate climate scenario analysis in the subsequent years.	
Risk management: Describe how the organisation identifies, assesses, and manages climate-related risks		
Describe the organisation's processes for identifying and assessing climate-related risks	The Group has an Enterprise Risk Management ("ERM") framework that guides the identification, evaluation and management of significant risks faced by the Group in its current business environment including financial, operational, compliance and information technology risks. In FY2023, KESMI conducted a high-level qualitative assessment to identify and assess the potential impacts of climate-related risks and opportunities on its operations. Identified climate-related issues are assessed based on the likelihood of occurrence and the severity of the potential impacts as guided by the Group's risk assessment matrix. The prioritisation of risks also takes into account the Group's resources, objectives, risk tolerance, control policies and mitigation measures. The respective business units responsible for the identified climate-related issues are also engaged to review the register in order to assess and provide insights on the risk rating and impact on their operations and business. Ultimately, the risk register is updated every quarter to evaluate the relevance and adequacy of the identified risks and its accompanying adaptation and mitigation measures. As part of our phased implementation approach, KESMI strives to improve its identification and review process in the subsequent years to better account for potential implications from the evolving nature of external factors such as existing and emerging regulatory requirements related to climate change. KESMI recognises that working towards our sustainability goals will necessitate the development of sustainability competencies throughout our organisation. As a result, we will work towards introducing training and development programs for staff and Board members to build awareness on the topic of climate-related risks and to prepare business units on the management of this topic.	Statement on Risk Management and Internal Control (pages 67-69)
Describe the organisation's processes for managing climate-related risks		
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management		

SUSTAINABILITY REPORT

TCFD Recommendations	Our Approach	Page Reference
Metrics and targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material		
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	In our sustainability report, we track, measure, and report on our environmental performance, including energy consumption and intensity, GHG emissions and intensity (for total, Scope 1, Scope 2). Monitoring and reporting these metrics assist us in identifying areas with high climate-related risks, allowing us to direct our efforts in those areas.	Energy and Carbon Footprint (pages 38-41)
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas ("GHG") emissions, and the related risks	KESMI has measured and disclosed our Scope 1 and 2 emissions in this report. Moving forward, KESMI is also looking to disclose on selected Scope 3 categories most significant to the business.	
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	KESMI has set a perpetual target for electricity consumption to have 2% reduction in year-on-year electricity consumption. We will continue to monitor our performance and targets to evaluate if targets need to be reviewed whenever applicable and practicable.	

AUDIT COMMITTEE'S REPORT

The Audit Committee ("the Committee") is pleased to present its report for the financial year ended 31 July 2023 ("FY2023").

COMPOSITION

The Committee members during FY2023 comprised of the following directors:-

Chairman	:	Mr Kua Choh Leang*	*Senior Independent Non-Executive Director*
		Tuan Haji Zakariah Bin Yet#	*Senior Independent Non-Executive Director*
Members	:	Dato' Dr. Suhazimah Binti Dzazali*	*Independent Non-Executive Director*
		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 FY2023. 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
Mr Kua Choh Leang*	1
Dato' Dr. Suhazimah Binti Dzazali*	1
Tuan Haji Zakariah Bin Yet#	4
Mr Yong Chee Hou#	4
Ms Lim Mee Ing	5

* Appointed on 1 June 2023
\# Resigned on 1 June 2023

AUDIT COMMITTEE'S REPORT

SUMMARY OF THE WORK OF THE COMMITTEE

During FY2023, the Committee: -

Financial Reporting

1. reviewed with the external auditors their audit for the financial year ended 31 July 2022 ("FY2022") 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 significant accounting and audit 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. was briefed by the external auditors on areas relating to amendments to International Ethics Standards Board for Accountants Code of Ethics (pre-concurrence requirement of non-assurance services), Bursa Securities Malaysia Berhad's ("Bursa Securities") enhanced sustainability reporting requirements and financial reporting developments;

3. reviewed and recommended the audited financial statements of the Company and of the Group for FY2022 to the Board's approval; and

4. reviewed the unaudited quarterly results of the Group and recommended to the Board for approval.

External Audit

1. reviewed the external auditors' report on the Statement on Risk Management and Internal Control in respect of FY2022 to ascertain that the disclosures are consistent with the Company's established systems of risk management and internal control prior to Board's approval;

2. assessed the independence, performance and competency of the external auditors;

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

4. reviewed the audit plan for FY2023 with the external auditors with focus on the audit engagement team, areas of audit emphasis and impairment assessment, key audit matters, audit scoping and audit timeline; and

5. met with the external auditors twice in FY2023 without the presence of Executive Board members and senior management to seek clarifications 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.

AUDIT COMMITTEE'S REPORT

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 Statement by Audit Committee in the Circular to Shareholders in relation to the:-

   (i) proposed renewal of the existing shareholders' mandate for RRPT of a revenue or trading nature; and

   (ii) proposed new shareholders' mandate for additional 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 FY2022 and presented it to the Board for approval.

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

3. reviewed the Related Party Transaction Policy and Guidelines 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:-

   - Human Resource Management
   - Energy Consumption Management
   - RRPT
   - Revenue Management
   - General Information Technology Control

   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 RM75,000.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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 on Corporate Governance 2021 ("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 2023 ("FY2023"). 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 ("CG Report") prescribed by Bursa Securities. 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/ as well as on Bursa Securities' website at www.bursamalaysia.com, to obtain a comprehensive view of the adherence of the Company to the MCCG during FY2023.

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 senior management staff ("Senior Management") by ensuring that they possess the necessary skills and experience; and

vi. oversight of investor relations and shareholders 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 Senior Management, and with the stakeholders of the Company. He is supported by the Executive Director ("ED"), who is responsible for the execution of the decisions made by the Board and the day-to-day operations of the Group.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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 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 ("IDs") 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.

Currently the Board Chairman is not a member of any Board Committees. However, he has been invited to attend Board Committees' meetings as the Board Committees are of the view his presence is helpful to facilitate them to leverage on his deep knowledge and accumulated experience which will aid them in more productive and effective deliberations. His presence in such meetings has not affected their independent and objective functioning.

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 FY2023, 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 corporate 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.

A Board meeting pack which contains the notice of meeting, the minutes of the previous meetings and relevant meetings papers comprising reports, financial statements and other information relating to the agendas, is circulated to the Board, and the Board Committees, a week or so prior to the meetings. In this manner, Directors are able 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.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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 Senior Management, and different Board 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 FY2023, the Board had adopted revisions to the Board Charter, to align it with the amended MMLR.

The Board Charter is publicly available 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 behaviour 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 is publicly available on the Company's website at www.kesmi.com. There were no whistleblowing reports received during FY2023.

Governance of Sustainability

The Board maintains structural oversight over sustainability governance, including strategies, priorities and targets whilst Senior Management is responsible for operational execution. Stakeholders are informed of the Group's sustainability matters through the Sustainability Report included in this Annual Report. The Board also keeps itself apprised with sustainability developments through briefings provided by the Sustainability consultant.

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 end of FY2023, 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 adopted the best practice of the MCCG to have at least half of the Board to comprise of IDs, the Company has proven that the performance of the Group has not been compromised by a lack of majority of IDs 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 ED of the Company.

Overall, the Directors are bound by their respective fiduciary obligations to act in the best interests 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.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Tenure of Independent Director

Notwithstanding the recommendation of the MCCG relating to the limitation in tenure of IDs, the Board is of the view that the tenure of an ID 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 EDs, undertakes periodical assessments of the independence of its IDs as it believes that the EDs 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 FY2022, 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 having assessed their independence subsequently successfully sought shareholders' approval at the 51st AGM via one-tier voting, to allow them to continue as IDs.

However, pursuant to paragraph 1.01(h) of the MMLR which came into effect on 1 June 2023, the tenure of IDs has been limited to 12 years. The Board took cognizance that Tuan Haji Zakariah Bin Yet and Mr Yong Chee Hou, having served for more than 12 years, shall no longer be considered independent on 1 June 2023. The Nominating Committee ("NC") and the Board embarked on sourcing for suitable candidates who fulfil the independence criteria. Mr Kua Choh Leang and Dato' Dr. Suhazimah Binti Dzazali, were shortlisted and subsequently appointed on 1 May 2023, as IDs. The Board was re-composed following the resignations of Tuan Haji Zakariah Bin Yet and Mr Yong Chee Hou on 1 June 2023. As at 31 July 2023, none of the IDs serves more than nine years.

Appointment and Assessment of Directors and Senior Management

The NC 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 NC are:

(a) reviewing the character, experience, integrity, commitment, competency, probity, qualification and track record of the proposed candidate for appointment or re-election 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 Company has in place a Directors' Fit and Proper Policy to ensure that any person to be appointed or re-elected as a Director shall possess the necessary quality and character, integrity, competency and commitment to discharge the responsibilities properly and effectively. The Policy is publicly available on the website of the Company.

The appointment of Senior Management, who are not Directors, is delegated to the EDs 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 NC and the Board have in FY2023 evaluated the eligibility of the retiring Directors to stand for re-election and had nominated Mr Kenneth Tan Teoh Khoon and Ms Lim Mee Ing for re-election. For the forthcoming AGM in 2024, the NC and the Board have also evaluated the eligibility of the retiring Directors, namely Mr Samuel Lim, Mr Kua Choh Leang and Dato' Dr. Suhazimah Binti Dzazali and nominated their re-election at the upcoming AGM.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Shareholders are provided with detailed information on the retiring Directors who are standing for re-election at the Company's AGM via the Board of Directors' profile. The Board's statement relating to the reasons to support recommendation for their re-election are disclosed in the Explanatory Notes section of the Notice of AGM.

Board Diversity

The Board Diversity Policy is incorporated in the Board Charter. The diversity factors that the NC/Board will take into account amongst other factors when considering Board appointment are ethnicity, gender and age. Nonetheless, the final decision on selection of Board candidates will be based on merit against the criteria set.

The table below gives an overview of the current diversity of the Board:

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

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 informed 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 FY2023, 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.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Directors' Training – Continuing Education Programmes

All the Directors, including the new IDs appointed during the year under review, had fulfilled his/her Mandatory Accreditation Programme ("MAP") Part I obligations prescribed in Practice Note 5 of the MMLR. With regards to MAP II relating to the sustainability and related roles of a Director, the Directors will ensure attendance of the mandatory training by 1 August 2025.

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 corporate management, company secretary and auditors.

During FY2023, all the Directors had attended the following in-house trainings:

Course Title	Dates
Guidebook 3 issued by Bursa Malaysia Securities Berhad on the Public Listed Companies Transformation Programme	21 September 2022
Bursa Malaysia's enhanced sustainability reporting requirements, Financial Reporting developments on amendments to Malaysian Financial Reporting Standards ("MFRS") covering MFRSs 2, 3, 10, 17, 101, 108, 112, 116, 128 and 137, annual improvements to MFRSs 1, 9 and 141, as at 30 June 2022	8 March 2023
Recent developments in regulations and standards on mandatory climate-related disclosures, adopting common set of ESG metrics and internal review of sustainability reporting	8 March 2023
Amendments to Bursa Malaysia Securities Berhad Main Market Listing Requirements to facilitate the Exchange's operations on a surprise holiday dated 3 January 2023	8 March 2023
The Securities Commission Malaysia's Audit Oversight Board Media Releases on Audit Committees must ensure integrity of the Financial Reporting	8 March 2023
Corporate Governance Monitor 2022	8 March 2023
Guidebook 4 and Guidebook 5 on the PLC Transformation Programme issued by Bursa Malaysia Securities Berhad	8 March 2023
Guidance on Management of Cyber Risks issued by Securities Commission Malaysia	8 March 2023
Amendments to Bursa Malaysia Securities Berhad Main Market Listing Requirements in relation to (i) Sustainability Training for Directors dated 7 June 2023, and (ii) Conflict of Interest and Other Areas dated 26 May 2023	13 July 2023

CORPORATE GOVERNANCE OVERVIEW STATEMENT

and some attended the following external trainings:

Course Title	Dates
PLC Transformation Programme Virtual Webinar – Walkthrough of Guidebook 3 on Strengthening Stakeholder Management & Investor Relations, organised by Bursa Malaysia Securities Berhad	6 October 2022
Environmental, Social and Governance (ESG) in Financial Reporting, MICPA Malaysia	1 December 2022
MIA Webinar Series: MFRS/IFRS Technical Update 2022, organised by Malaysian Institute of Accountants	5 December 2022
MIA Webinar Series: Related Party Transactions and Disclosures: MFRS 124 and MPERS S.33, organised by Malaysian Institute of Accountants	6 December 2022
Bursa's Sustainability Reporting Requirements for Listed Companies, organised by BoardRoom Group	20 July 2023

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 ("TOR") 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 NC members during FY2023 comprised of the following directors:

Chairman	:	Mr Kua Choh Leang*	*Senior Independent Non-Executive Director*
		Tuan Haji Zakariah Bin Yet#	*Senior Independent Non-Executive Director*
Members	:	Dato' Dr. Suhazimah Binti Dzazali*	*Independent Non-Executive Director*
		Mr Yong Chee Hou#	*Independent Non-Executive Director*
		Ms Lim Mee Ing	*Non-Independent Non-Executive Director*

* Appointed on 1 June 2023
\# Resigned on 1 June 2023

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

The NC met three times in the FY2023, and had the full attendance of the NC, to:

- review the NC report in respect of FY2022 and presented it to the Board for approval;
- evaluate the eligibility of the retiring Directors and recommended to the Board for approval to table the resolutions for their re-election at the AGM;
- assess and confirm the independence of the IDs and recommended to the Board for approval to table the resolutions for their retention as IDs at the AGM;

CORPORATE GOVERNANCE OVERVIEW STATEMENT

- undertake the necessary evaluations and assessments of the performance of Board, the Board Committees and the individual Directors' fitness and probity;
- evaluate candidates nominated for appointment as IDs and recommended to the Board for approval;
- discuss changes to the composition of the Board Committees and recommended to the Board for approval; and
- recommend revisions to its TOR to the Board for approval.

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. 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, understanding of his/her role and responsibilities, as well as the declaration of fitness and probity by Directors.

From the results of the assessments, the NC was satisfied, and the Board similarly concurred with the NC'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, as well as composes of Directors who fulfill the fit and proper criteria. 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.

In consideration of paragraph 1.01(h) of MMLR which came into effect on 1 June 2023, Mr Kua Choh Leang and Dato' Dr. Suhazimah Binti Dzazali were nominated for appointment as additional IDs on 1 May 2023. Subsequently Tuan Haji Zakariah Bin Yet and Mr Yong Chee Hou, who had served more than 12 years on the Board, resigned as Directors on 1 June 2023 and the Board Committees were re-composed.

III. Remuneration

Directors' and Senior Management Remuneration

The Board itself undertakes the review of remuneration matters of the Board and key Senior Management instead of establishing a separate Remuneration Committee ("RC").

The Board is guided by the Remuneration Policy for Directors and Senior Management, which is available on the Company's website, to review and recommend the remuneration of Directors and key Senior Management to the Board for consideration. The Policy lays down the governing principles, policies and procedures for determining remuneration of Directors and Senior Management of the Group.

The Board will periodically review the policy, with a view to ensuring that the Group's remuneration policies remain competitive and attractive to retain Directors and Senior Management of high calibre with the necessary skills and expertise required for effective management of the Group.

The details of the Directors' remuneration for FY2023 can be found in the Company's Corporate Governance Report under Practice 8.1.

Details on named basis of the top 5 Senior Management 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 these top 5 staff (who are not the EDs) of the Group is about RM2.8 million.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

I. Audit Committee

The 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.

As at the end of FY2023, the AC comprises of three Non-Executive Directors, majority of whom (including the chairman) are independent. The AC is chaired by the Senior Independent Director, who is not the Board Chairman. Although the current chairman of the AC, Mr Kua Choh Leang is a former partner of the incumbent external auditor of the Company, nonetheless he had retired from the audit firm since 30 September 2019, thereby fulfilling the three years cooling-off period recommended in Practice 9.2. 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 members, as well as the training they attended during the FY2023 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 TOR, and is satisfied that the AC has discharged its duties accordingly.

In FY2023, the TOR 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 2024. 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.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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. The key internal audit team comprises of three (3) members i.e. senior consultant, engagement manager and engagement partner.

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 FY2023 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 Company and of the Group, 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 strong relationships with its stakeholders by engaging them on a regular basis through various engagement platforms to keep them informed of all major developments and performance of the Group, as well as to better understand and address their needs and concerns. The Sustainability Report included in this Annual Report provides information on the Company's approach in identifying material stakeholders and methods of engagement with them, which include announcements to Bursa Securities, press releases, general meetings, analyst/investor meetings, etc.

The Company's website also serves as an additional platform for stakeholders and members of the public in general to access up-to-date information about the Group and to reach out to the Company.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

II. Conduct of General Meetings

The Company's general meetings are the principal forum in which shareholders will be able to dialogue and engage interactively with the Board by attending such meetings themselves or otherwise by appointing proxy or corporate representative to attend on their or its behalf respectively. Directors are required to attend the general meetings, unless any Director has a good reason not to. The external auditors are also present at the Company's AGMs to assist the Directors in addressing queries that shareholders may have regarding the audited financial statements.

Annually, shareholders are able to gain greater understanding of the annual financial results, operational performance and overall business outlook of the Group at the Company's AGM from the presentation made by the Executive Chairman/CEO at the meeting, as well as during the questions and answers session.

Shareholders were notified of the AGM through the notice announced to Bursa Securities and publication in a local newspaper and the Company's website. The Company generally provide shareholders with longer than the minimum notice period required. Shareholders were also given the necessary information pertaining to the agenda such as the Annual Report, Corporate Governance Report and the Circular to Shareholders in relation to the Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature via posting on the websites of the Company and Bursa Securities timely for their access.

With the return to normalcy following the lifted restrictions for COVID-19 pandemic, the Company resumed conduct of its 51st AGM held on 12 January 2023 in wholly physical format practiced pre-COVID-19 pandemic. Once again, shareholders, proxies and corporate representatives were able to have direct two-way face-to-face interaction with the Directors during the questions and answers session as well as allowing them to perform "live" voting.

All the Directors except for one director who was quarantined for COVID-19 exposure, the Company Secretary, corporate management staff, including the external auditors were present at the 51st AGM. Shareholders, proxies and corporate representatives were able to engage with the Board "live" to provide feedback and pose questions pertaining to the proposed resolutions. All pertinent questions posed "live" during the meeting were addressed by the EDs and the answers were subsequently posted on the Company's website. Electronic poll voting was conducted for all resolutions. Voting rules and procedures were explained at the beginning of the meeting. The independent scrutineer, Sky Corporate Services Sdn. Bhd., was also present to scrutinise the voting process and verify the poll results. The results of all votes cast for or against each resolution were displayed "live" on-screen at the meeting and also announced after the meeting to Bursa Securities.

This Statement was approved by the Board of Directors dated 21 September 2023.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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 10.0, Practices 10.1 and 10.2 read together with Guidance 10.1 and 10.2 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 2023 ("FY2023").

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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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 respects, 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 2023.

FINANCIAL STATEMENTS & OTHERS

FINANCIAL STATEMENTS

OTHERS

DIRECTORS' REPORT

The directors hereby present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 July 2023.

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
Loss net of tax	(3,130)	(2,240)

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 2022 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 12 January 2023 and paid on 14 February 2023	2,581

At the forthcoming Annual General Meeting, a first and final tax exempt dividend in respect of the financial year ended 31 July 2023, of 6 sen per ordinary share on 43,014,500 ordinary shares amounting to RM2,580,870 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 2024.

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	
Kua Choh Leang*	(Appointed on 1 May 2023)
Dato' Dr. Suhazimah Binti Dzazali*	(Appointed on 1 May 2023)
Tuan Haji Zakariah Bin Yet	(Resigned on 1 June 2023)
Yong Chee Hou	(Resigned on 1 June 2023)

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

DIRECTORS' REPORT

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 1.8.2022	**Acquired**	**Sold**	**At 31.7.2023**
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.

DIRECTORS' REPORT

Other statutory information (cont'd)

(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;

(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.

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.

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 2023.

Samuel Lim Syn Soo

Kenneth Tan Teoh Khoon

STATEMENT BY DIRECTORS

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 82 to 138 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 2023 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 2023.

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 82 to 138 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 Statutory Declarations Act 1960.

Subscribed and solemnly declared by
the abovenamed Kenneth Tan Teoh Khoon
at Kelana Jaya, Selangor on 21 September 2023

Kenneth Tan Teoh Khoon

Before me,
Najmi Dawami Bin Abdul Hamid @ Mohd Akib

INDEPENDENT AUDITORS' REPORT

To the members of KESM Industries Berhad (Incorporated in Malaysia)

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 2023 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 32 to 138.

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 2023, 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.

INDEPENDENT AUDITORS' REPORT

To the members of KESM Industries Berhad (Incorporated in Malaysia)

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 2023, the Group's property, plant and equipment including right-of-use assets amounted to RM179,574,000, representing 37% of its total assets.

The Group is required to perform impairment test of the cash generating units ("CGUs") whenever there is an indication that the CGU may be impaired by comparing the carrying amounts with its recoverable amounts.

The carrying amounts of the net assets of the Group exceeded its market capitalisation and the operating losses recorded for the financial year indicating that the carrying amounts of the Group's property, plant and equipment may be impaired.

The Group has estimated the recoverable amounts of the CGUs based on the higher of the fair value less costs of disposal ("FVLCD") and its value in use ("VIU"). In determining the recoverable amounts using VIU method involves estimating the future cash inflows and outflows that will be derived from the CGUs, and discounting them at an appropriate rate. In determining the recoverable amounts using FVLCD method, management has engaged independent valuers to determine the fair value of certain property, plant and equipment at the reporting date. There is no impairment loss recorded by the Group and the Company.

We have identified this is an area of audit focus given the significant estimates involved in the assessment of the recoverable amounts.

In determining the recoverable amounts 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;

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

c) We evaluated the key assumptions such as sales volume and disposal value of certain plant and equipment, comparing them to the historical data and by corroborating with management's plans, current and future market or economic conditions;

d) We assessed the reasonableness of the discount rate and the appropriateness of 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 recoverable amounts.

In determining the recoverable amounts based on FVLCD, 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 certain property, plant and equipment;

b) We had discussions with the independent valuers to obtain an understanding of the inputs used, amongst others, the recent market transactions and quotation from suppliers and assessed the reasonableness of the inputs used; and

c) We considered the objectivity, independence and expertise of the firms of independent valuers.

In addition, we evaluated the adequacy of the disclosures in the notes to the financial statements.

INDEPENDENT AUDITORS' REPORT

To the members of KESM Industries Berhad (Incorporated in Malaysia)

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 2023, the Group recognised deferred tax assets of RM5,461,000, which mainly comprise unutilised business losses, unabsorbed capital allowances and other deductible temporary differences. 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 assets is a complex process which involves management projection of future taxable profits. We have identified this is an area of audit focus given the significant estimates involved in the projection of future taxable profits.

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 evaluated the key assumptions in the projection of future taxable profits, such as sales volume, by comparing them to historical data, as well as current and future market or economic conditions;

c) We considered management's assumption on timing of utilisation of deductible temporary differences; and

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

Key audit matter in respect of the financial statements of 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 2023, the Company's investment in subsidiaries amounted to RM79,250,000, representing 41% of its total assets. The Company is required to estimate the recoverable amounts of its investment in subsidiaries when there is an indication that such investments may be impaired. For investment in subsidiaries with indicators of impairment, management performed an impairment assessment and estimated the recoverable amounts of the investment in subsidiaries using VIU and FVLCD methods.

In determining the recoverable amounts using VIU method, management estimates the future cash inflows and outflows that will be derived from the investment and discounting them at an appropriate rate. As part of determination of the recoverable amounts using FVLCD method, management has engaged independent valuers to determine the fair value of certain property, plant and equipment at the reporting date. There is no impairment loss recorded by the Company.

We have identified this is an area of audit focus given the significant estimates involved in the assessment of the recoverable amounts.

In determining the recoverable amounts 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;

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

c) We evaluated the key assumptions such as sales volume, comparing them to the historical data and by corroborating with management's plans, current and future market or economic conditions; and

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

INDEPENDENT AUDITORS' REPORT

To the members of KESM Industries Berhad (Incorporated in Malaysia)

Key audit matters (cont'd)

Key audit matter in respect of the financial statements of the Company (cont'd)

Impairment assessment of investment in subsidiaries (cont'd)

In determining the recoverable amounts based on FVLCD, 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 certain property, plant and equipment;

b) We had discussions with the independent valuers to obtain an understanding of the inputs used, amongst others, the recent market transactions and quotation from suppliers and assessed the reasonableness of the inputs used; and

c) We considered the objectivity, independence and expertise of the firms of independent valuers.

In addition, we evaluated the adequacy of the 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.

INDEPENDENT AUDITORS' REPORT

To the members of KESM Industries Berhad (Incorporated in Malaysia)

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.

- 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.

INDEPENDENT AUDITORS' REPORT

To the members of KESM Industries Berhad (Incorporated in Malaysia)

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
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Liew Foo Shen
No. 03349/01/2024 J
Chartered Accountant

Kuala Lumpur, Malaysia
21 September 2023

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 July 2023

	Note	Group 2023 RM'000	Group 2022 RM'000	Company 2023 RM'000	Company 2022 RM'000
Revenue	4	228,283	246,736	59,576	55,925
Other items of income					
Interest income	5	4,156	3,738	1,281	1,103
Dividend income		331	370	331	370
Other income		5,097	5,689	5,389	5,312
Items of expenses					
Raw materials and consumables used		(18,272)	(23,952)	(1,439)	(1,379)
Changes in inventories of finished goods and work-in-progress		–	(758)	–	–
Employee benefits expense	6	(96,386)	(96,121)	(33,008)	(30,066)
Depreciation of property, plant and equipment	11	(39,649)	(51,457)	(7,164)	(8,914)
Finance costs	7	(2,070)	(638)	(369)	(311)
Other expenses		(83,708)	(79,375)	(27,527)	(25,094)
(Loss)/profit before tax	8	(2,218)	4,232	(2,930)	(3,054)
Income tax (expense)/credit	9	(912)	(2,566)	690	847
(Loss)/profit net of tax, attributable to owners of the Company		(3,130)	1,666	(2,240)	(2,207)
Other comprehensive income:					
Item that will not be reclassified to profit or loss					
Remeasurement (loss)/gain arising from net defined benefit liabilities, net of tax	22	(47)	126	–	–
Item that may be reclassified subsequently to profit or loss					
Foreign currency translation (loss)/gain		(1,855)	388	–	–
Other comprehensive (loss)/income for the year, net of tax, attributable to owners of the Company		(1,902)	514	–	–
Total comprehensive (loss)/income for the year, net of tax, attributable to owners of the Company		(5,032)	2,180	(2,240)	(2,207)
(Loss)/earnings per share attributable to owners of the Company					
- Basic	10	(7.3 sen)	3.9 sen		

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

STATEMENTS OF FINANCIAL POSITION

As at 31 July 2023

	Note	Group 2023 RM'000	Group 2022 RM'000	Company 2023 RM'000	Company 2022 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	11	179,574	170,553	26,718	27,461
Investment in subsidiaries	13	–	–	79,250	79,250
Deferred tax assets	20	5,461	4,410	3,365	2,210
Other receivables	15	269	367	269	104
		185,304	175,330	109,602	109,025
Current assets					
Inventories	14	1,488	1,867	137	96
Trade and other receivables	15	53,234	48,253	15,799	13,555
Prepayments		4,304	4,413	1,885	771
Investment securities	25(ii)	10,767	12,409	10,767	12,409
Tax recoverable		6,026	6,517	907	1,643
Cash and short-term deposits	16	223,928	176,853	54,402	59,896
		299,747	250,312	83,897	88,370
Total assets		485,051	425,642	193,499	197,395
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company					
Share capital	17	43,678	43,678	43,678	43,678
Reserves	18	311,067	318,680	133,245	138,066
Total equity		354,745	362,358	176,923	181,744
Non-current liabilities					
Loans and borrowings	19	56,450	15,394	1,670	3,176
Defined benefit liabilities	22	2,553	4,640	–	–
Deferred tax liabilities	20	6,256	5,300	–	–
		65,259	25,334	1,670	3,176
Current liabilities					
Trade and other payables	21	25,236	26,060	10,690	7,494
Loans and borrowings	19	37,261	11,890	4,216	4,981
Defined benefit liabilities	22	2,550	–	–	–
		65,047	37,950	14,906	12,475
Total liabilities		130,306	63,284	16,576	15,651
Total equity and liabilities		485,051	425,642	193,499	197,395

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 2023

			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 2021		363,404	363,404	43,678	299,672	20,054	13,185	2,240	4,629
Profit for the year		1,666	1,666	–	1,666	–	–	–	–
Other comprehensive income for the year, net of tax		514	514	–	126	388	388	–	–
Total comprehensive income for the year		2,180	2,180	–	1,792	388	388	–	–
Transaction with owners									
Dividends on ordinary shares	29	(3,226)	(3,226)	–	(3,226)	–	–	–	–
As at 31 July 2022		362,358	362,358	43,678	298,238	20,442	13,573	2,240	4,629
As at 1 August 2022		362,358	362,358	43,678	298,238	20,442	13,573	2,240	4,629
Loss for the year		(3,130)	(3,130)	–	(3,130)	–	–	–	–
Other comprehensive loss for the year, net of tax		(1,902)	(1,902)	–	(47)	(1,855)	(1,855)	–	–
Total comprehensive loss for the year		(5,032)	(5,032)	–	(3,177)	(1,855)	(1,855)	–	–
Transaction with owners									
Dividends on ordinary shares	29	(2,581)	(2,581)	–	(2,581)	–	–	–	–
As at 31 July 2023		354,745	354,745	43,678	292,480	18,587	11,718	2,240	4,629

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 July 2023

			Non-distributable	Distributable	← Non-distributable →	
	Note	Equity, total RM'000	Share capital (Note 17) RM'000	Retained earnings (Note 18) RM'000	Other reserves, total RM'000	Merger relief reserve (Note 18) RM'000
Company						
As at 1 August 2021		187,177	43,678	142,284	1,215	1,215
Total comprehensive loss for the year		(2,207)	–	(2,207)	–	–
Transaction with owners						
Dividends on ordinary shares	29	(3,226)	–	(3,226)	–	–
As at 31 July 2022		181,744	43,678	136,851	1,215	1,215
As at 1 August 2022		181,744	43,678	136,851	1,215	1,215
Total comprehensive loss for the year		(2,240)	–	(2,240)	–	–
Transaction with owners						
Dividends on ordinary shares	29	(2,581)	–	(2,581)	–	–
As at 31 July 2023		176,923	43,678	132,030	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 2023

		Group		Company	
	Note	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
Operating activities					
(Loss)/profit before tax		(2,218)	4,232	(2,930)	(3,054)
Adjustments for:					
Depreciation of property, plant and equipment	11	39,649	51,457	7,164	8,914
Net gain on disposal of property, plant and equipment	8	(1,587)	(2,460)	(71)	(340)
Property, plant and equipment written off	8	–	14	–	2
Net fair value gain on investment securities	8	(1,818)	(1,445)	(1,818)	(1,445)
Unrealised exchange loss/(gain)		262	(49)	25	17
(Write-back)/write-down of inventories	8	(747)	1,379	–	–
Impairment of trade receivables	8	95	–	–	–
Dividend income		(331)	(370)	(331)	(370)
Interest income	5	(4,156)	(3,738)	(1,281)	(1,103)
Finance costs	7	2,070	638	369	311
Operating cash flows before changes in working capital		31,219	49,658	1,127	2,932
Changes in working capital:					
Decrease/(increase) in inventories		1,126	4,598	(41)	24
(Increase)/decrease in prepayments and receivables		(5,446)	(1,654)	(3,561)	20
(Decrease)/increase in payables		(2,187)	(6,350)	3,845	(1,658)
Cash flows from operations		24,712	46,252	1,370	1,318
Income taxes (paid)/received, net		(620)	(3,400)	271	(521)
Interest paid		(1,769)	(470)	(369)	(311)
Interest received		3,924	1,448	1,248	1,121
Net cash flows from operating activities		26,247	43,830	2,520	1,607

STATEMENTS OF CASH FLOWS

For the financial year ended 31 July 2023

	Note	Group 2023 RM'000	Group 2022 RM'000	Company 2023 RM'000	Company 2022 RM'000
Investing activities					
(Increase)/decrease in short-term deposits with maturity more than three months		(30,000)	55,300	25,000	9,300
Purchase of investment securities		(4,125)	(478)	(4,125)	(478)
Proceeds from disposal of investment securities		7,585	3,696	7,585	3,696
Dividend received		331	370	331	370
Purchase of property, plant and equipment	11	(44,813)	(94,883)	(3,307)	(4,769)
Proceeds from disposal of property, plant and equipment		2,539	2,491	281	2,000
Net cash flows (used in)/from investing activities		(68,483)	(33,504)	25,765	10,119
Financing activities					
Repayment of principal portion of lease liabilities	19	(3,913)	(2,756)	(2,967)	(1,833)
Repayment of bank loans	19	(15,195)	(5,035)	(2,586)	(2,561)
Proceeds from bank loans	19	82,303	18,000	–	–
Dividends paid on ordinary shares		(3,226)	(3,871)	(3,226)	(3,871)
Net cash flows from/(used in) financing activities		59,969	6,338	(8,779)	(8,265)
Net increase in cash and cash equivalents		17,733	16,664	19,506	3,461
Effect of exchange rate changes on cash and cash equivalents		(658)	121	–	–
Cash and cash equivalents at beginning of the year		82,353	65,568	21,896	18,435
Cash and cash equivalents at end of the year	16	99,428	82,353	41,402	21,896

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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 SS8/4, 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 Mainboard 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 of the Group and of the Company are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand ("RM'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 2022, the Group and the Company adopted the following revised MFRS mandatory for annual financial periods beginning on or after 1 January 2022.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 3: Business Combinations (Reference to the Conceptual Framework)	1 January 2022
Amendments to MFRS 116: Property, Plant and Equipment (Proceeds before Intended Use)	1 January 2022
Amendments to MFRS 137: Provisions, Contingent Liabilities and Contingent Assets (Onerous Contracts – Cost of Fulfilling a Contract)	1 January 2022
Annual Improvements to MFRS Standards 2018-2020:	
– Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards (Subsidiary as a First-time Adopter)	1 January 2022
– Amendments to MFRS 9: Financial Instruments (Fees in the '10 per cent' Test for Derecognition of Financial Liabilities)	1 January 2022
– Amendments to Illustrative Examples accompanying MFRS 16: Leases (Lease Incentives)	1 January 2022

Adoption of the above revised standards did not have any material effect on the financial performance or position of the Group and of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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

2.3 Standards issued but not yet effective

The revised standards that are issued but not yet effective up to the date of issuance of the Group's and the Company's financial statements are disclosed below.

Description	Effective for annual periods beginning on or after
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 112: Income Taxes (International Tax Reform – Pillar Two Model Rules)	1 January 2023
Amendments to MFRS 101: Presentation of Financial Statements (Non-current Liabilities with Covenants)	1 January 2024
Amendments to MFRS 107 and MFRS 7: Financial Instruments: Disclosures (Supplier Finance Arrangements)	1 January 2024
Amendments to MFRS 16: Leases (Lease Liability in a Sale and Leaseback)	1 January 2024
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

With the exception of the following revised standard, the directors expect that the adoption of the above revised standards will not have material impact on the financial statements of the Group and of the Company in the period of initial application.

Amendments to MFRS 101: Presentation of Financial Statements (Disclosure of Accounting Policies)

The Amendments to MFRS 101 requires entities to disclose their material accounting policy information rather than their significant accounting policies. The Amendments, amongst others, also include examples of circumstances in which an entity is likely to consider an accounting policy information to be material to its financial statements.

To support the Amendments MFRS 101, MFRS Practice Statement 2 was also amended to provide guidance on how to apply the concept of materiality to accounting policy information disclosures. The guidance and example provided in the MFRS Practice Statement 2 highlight the need to focus on entity-specific information and demonstrate how the four-step materiality process can address standardised (or boilerplate) information and duplication of requirements of MFRSs in the accounting policy information disclosures.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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	10 - 20 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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, depending on the period of the forecast.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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:

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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.

The Group and the Company transfer control of a good or service over time and, therefore, satisfy 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 Group's and the Company's performances as the entity performs;

(ii) the Group's and the Company's performances create or enhance an asset (for example, work-in-progress) that the customer controls as the asset is created or enhanced; or

(iii) the Group's and the Company's performances do 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, the Group and the Company satisfy 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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 discount. 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 discount 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 discount, 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) 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.

2.19 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 at the reporting date in the countries where the Group operates and generates taxable income.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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

2.19 Taxes (cont'd)

(i) Current income tax (cont'd)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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

2.19 Taxes (cont'd)

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

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

(a) where the SST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the SST 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 statements 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 key management who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance.

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.

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 statements 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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

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 classified as 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 and the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, 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.

3.2 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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

3.2 Key sources of estimation uncertainty (cont'd)

(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 estimates 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 Group has recognised the deferred tax assets as it is probable that the Group will generate sufficient taxable profits in future which the deferred tax assets can be utilised. The carrying amounts of the Group's and the Company's deferred tax assets at reporting date were RM5,461,000 (2022: RM4,410,000) and RM3,365,000 (2022: RM2,210,000) 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 amounts (i.e. higher of fair value less costs of disposal and value in use) of the assets is estimated to determine the amount of impairment loss.

When recoverable amounts are determined based on value in use calculations, the discounted cash flow model with certain key parameters, such as sales volume, discount rate and disposal value of certain property, plant and equipment, are used. Management believes that the aforesaid variables are unlikely to materially result in the carrying amount of property, plant and equipment exceeding their recoverable amounts. In determining the recoverable amounts using the fair value less costs of disposal method, management has engaged independent valuers to determine the fair value of certain property, plant and equipment at the reporting date. 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 is the higher of its value in use and fair value less costs of disposal. When recoverable amounts are determined based on value in use calculations, the discounted cash flow model is used with certain key parameters, such as sales volume, is used. Management believes that the aforesaid variables are unlikely to materially result in the carrying amount of the subsidiaries exceeding its recoverable amounts. In determining the recoverable amounts using the fair value less costs of disposal method, management has engaged independent valuers to determine the fair value of certain property, plant and equipment at the reporting date. For investment in subsidiaries with indicators of impairment, management performed an impairment assessment and estimated the recoverable amounts of the investment in subsidiaries using the value in use and fair value less costs of disposal method.

The carrying amount of the Company's investment in subsidiaries at the reporting date was RM79,250,000 (2022: 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

4. Revenue

(i) Disaggregation of revenue

	Group		Company	
	2023	**2022**	**2023**	**2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Types of goods and services				
Sale of goods	–	10,885	–	–
Rendering of services	228,283	235,851	59,576	55,925
	228,283	246,736	59,576	55,925
Geographical markets				
Malaysia	154,918	176,851	56,184	53,604
People's Republic of China ("PRC")	51,509	61,728	–	29
Others*	21,856	8,157	3,392	2,292
	228,283	246,736	59,576	55,925

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

* Others include countries such as United States of America, European countries and other Asian countries.

5. Interest income

	Group		Company	
	2023	**2022**	**2023**	**2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Interest income from:				
- Deposits with licensed banks	4,141	3,738	1,266	1,098
- Others	15	–	15	5
	4,156	3,738	1,281	1,103

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

6. Employee benefits expense

	Note	Group 2023 RM'000	Group 2022 RM'000	Company 2023 RM'000	Company 2022 RM'000
Employee benefits expense (including directors):					
- Wages, salaries and bonuses		82,205	81,078	30,656	27,732
- Contributions to defined contribution plan		3,030	2,786	1,193	1,089
- Social security contributions		6,439	6,124	198	169
- Defined benefit obligations	22	246	247	–	–
- Other benefits		4,466	5,886	961	1,076
		96,386	96,121	33,008	30,066

7. Finance costs

	Note	Group 2023 RM'000	Group 2022 RM'000	Company 2023 RM'000	Company 2022 RM'000
Interest expense on:					
- Bank loans		1,609	271	121	194
- Lease liabilities	12	291	210	248	117
- Defined benefit obligations	22	170	157	–	–
		2,070	638	369	311

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

8. (Loss)/profit before tax

	Note	Group 2023 RM'000	Group 2022 RM'000	Company 2023 RM'000	Company 2022 RM'000
(Loss)/profit before tax is arrived at:					
<u>After charging:</u>					
Auditors' remunerations					
- statutory audit		405	465	153	149
- non-audit services		173	72	173	72
Directors' remuneration		1,894	1,903	1,854	1,783
Lease expenses	12	414	839	291	484
Utilities		37,830	30,939	14,644	11,352
Repairs and maintenance		24,481	24,895	3,236	3,588
Impairment of trade receivables		95	–	–	–
Write-down of inventories		–	1,379	–	–
Property, plant and equipment written off		–	14	–	2
Net foreign exchange loss		208	–	54	7
<u>and crediting:</u>					
Net gain on disposal of property, plant and equipment		1,587	2,460	71	340
Net fair value gain on investment securities		1,818	1,445	1,818	1,445
Write-back of inventories		747	–	–	–
Rental income from a subsidiary		–	–	1,651	1,485
Net foreign exchange gain		–	440	–	–
COVID-19 related government reliefs		–	238	–	–

Information on directors' remuneration is as follows:

	Group 2023 RM'000	Group 2022 RM'000	Company 2023 RM'000	Company 2022 RM'000
Directors' remuneration				
In respect of the Company's directors:				
Executive:				
- Fees	123	203	103	103
- Salaries and other emoluments	1,550	1,490	1,550	1,490
	1,673	1,693	1,653	1,593
Non-executive:				
- Fees	192	183	172	163
- Allowances	29	27	29	27
	221	210	201	190
Total directors' remuneration	1,894	1,903	1,854	1,783

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

9. Income tax expense/(credit)

(i) Major components of income tax expense/(credit)

The major components of income tax expense/(credit) for the years ended 31 July 2023 and 2022 are:

	Group		Company	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
Current income tax:				
- Malaysian income tax	1,111	857	465	263
- Over provision in prior years	–	(72)	–	–
	1,111	785	465	263
Deferred tax (Note 20):				
- Origination and reversal of temporary differences	(166)	1,800	(1,132)	(1,073)
- Over provision in prior years	(33)	(19)	(23)	(37)
	(199)	1,781	(1,155)	(1,110)
Income tax expense/(credit) recognised in profit or loss	912	2,566	(690)	(847)

The reconciliation between tax expense and product of accounting (loss)/profit multiplied by the applicable corporate tax rate for the years ended 31 July 2023 and 2022 is as follows:

	Group	
	2023 RM'000	2022 RM'000
(Loss)/profit before tax	(2,218)	4,232
Tax at Malaysian statutory tax rate of 24% (2022: 24%)	(532)	1,016
Adjustments:		
Effect of different tax rate on foreign expense	(31)	(14)
Income not subject to tax	(207)	(178)
Non-deductible expenses	372	283
Deferred tax asset not recognised on unutilised business losses and other deductible temporary differences	1,343	1,550
Over provision of income tax expense in prior years	–	(72)
Over provision of deferred tax in prior years	(33)	(19)
Income tax expense recognised in profit or loss	912	2,566

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

9. Income tax expense/(credit) (cont'd)

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

	Company	
	2023	**2022**
	RM'000	**RM'000**
Loss before tax	(2,930)	(3,054)
Tax at Malaysian statutory tax rate of 24% (2022: 24%)	(703)	(733)
Adjustments:		
Income not subject to tax	(224)	(244)
Non-deductible expenses	260	167
Over provision of deferred tax in prior years	(23)	(37)
Income tax credit recognised in profit or loss	(690)	(847)

Domestic current income tax is calculated at the Malaysian statutory tax rate of 24% (2022: 24%) of the estimated assessable (loss)/profit 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 (loss)/earnings per share amounts are calculated by dividing (loss)/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	
	2023	**2022**
	'000	**'000**
Weighted average number of ordinary shares for basic (loss)/earnings per share calculation	43,015	43,015
Basic (loss)/earnings per share	(7.3 sen)	3.9 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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 2023								
At cost								
At 1 August 2022	34,173	1,111	7,775	38,701	918,515	1,598	11,842	1,013,715
Additions	3,332	–	–	1,087	45,113	–	784	50,316
Disposals	(3,833)	–	–	–	(3,272)	(436)	(8)	(7,549)
Write off	–	–	–	–	(21)	–	(10)	(31)
Exchange differences	(176)	–	–	(1,495)	(8,066)	(5)	(572)	(10,314)
At 31 July 2023	33,496	1,111	7,775	38,293	952,269	1,157	12,036	1,046,137
Accumulated depreciation								
At 1 August 2022	27,320	–	2,066	36,759	765,986	1,574	9,457	843,162
Depreciation charge for the year	2,580	–	119	994	35,237	28	691	39,649
Disposals	(3,833)	–	–	–	(2,320)	(436)	(8)	(6,597)
Write off	–	–	–	–	(21)	–	(10)	(31)
Exchange differences	(143)	–	–	(1,472)	(7,827)	(9)	(169)	(9,620)
At 31 July 2023	25,924	–	2,185	36,281	791,055	1,157	9,961	866,563
Net carrying amount	7,572	1,111	5,590	2,012	161,214	–	2,075	179,574

* Included in the net carrying amounts of the Group's 'Plant, machinery and test equipment' and 'Office equipment, furniture and fittings and computers' of RM32,218,000 and RM83,000 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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 2022								
At cost								
At 1 August 2021	34,138	1,111	7,775	37,820	835,171	1,597	11,217	928,829
Additions	–	–	–	582	98,163	–	823	99,568
Disposals	–	–	–	–	(8,219)	–	(55)	(8,274)
Write off	–	–	–	–	(8,252)	–	(176)	(8,428)
Exchange differences	35	–	–	299	1,652	1	33	2,020
At 31 July 2022	34,173	1,111	7,775	38,701	918,515	1,598	11,842	1,013,715
Accumulated depreciation								
At 1 August 2021	24,755	–	1,946	34,398	734,903	1,423	9,073	806,498
Depreciation charge for the year	2,543	–	120	2,075	45,993	150	576	51,457
Disposals	–	–	–	–	(8,188)	–	(55)	(8,243)
Write off	–	–	–	–	(8,240)	–	(174)	(8,414)
Exchange differences	22	–	–	286	1,518	1	37	1,864
At 31 July 2022	27,320	–	2,066	36,759	765,986	1,574	9,457	843,162
Net carrying amount	6,853	1,111	5,709	1,942	152,529	24	2,385	170,553

* Included in the net carrying amounts of the Group's 'Plant, machinery and test equipment' and 'Office equipment, furniture and fittings and computers' of RM75,177,000 and RM179,000 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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 2023								
At cost								
At 1 August 2022	19,964	1,111	5,075	3,754	140,299	975	4,337	175,515
Additions	3,332	–	–	218	2,892	–	189	6,631
Disposals	(3,833)	–	–	–	(789)	(295)	–	(4,917)
Write off	–	–	–	–	(2)	–	–	(2)
At 31 July 2023	19,463	1,111	5,075	3,972	142,400	680	4,526	177,227
Accumulated depreciation								
At 1 August 2022	14,149	–	910	2,765	125,586	961	3,683	148,054
Depreciation charge for the year	1,716	–	54	333	4,862	14	185	7,164
Disposals	(3,833)	–	–	–	(579)	(295)	–	(4,707)
Write off	–	–	–	–	(2)	–	–	(2)
At 31 July 2023	12,032	–	964	3,098	129,867	680	3,868	150,509
Net carrying amount	7,431	1,111	4,111	874	12,533	–	658	26,718

* Included in the net carrying amounts of the Company's 'Plant, machinery and test equipment' and 'Office equipment, furniture and fittings and computers' of RM2,177,000 and RM46,000 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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 2022								
At cost								
At 1 August 2021	19,964	1,111	5,075	3,357	135,493	975	4,289	170,264
Additions	–	–	–	397	7,484	–	209	8,090
Disposals	–	–	–	–	(2,286)	–	–	(2,286)
Write off	–	–	–	–	(392)	–	(161)	(553)
At 31 July 2022	19,964	1,111	5,075	3,754	140,299	975	4,337	175,515
Accumulated depreciation								
At 1 August 2021	12,491	–	854	2,369	120,078	849	3,676	140,317
Depreciation charge for the year	1,658	–	56	396	6,526	112	166	8,914
Disposals	–	–	–	–	(626)	–	–	(626)
Write off	–	–	–	–	(392)	–	(159)	(551)
At 31 July 2022	14,149	–	910	2,765	125,586	961	3,683	148,054
Net carrying amount	5,815	1,111	4,165	989	14,713	14	654	27,461

* Included in the net carrying amounts of the Company's 'Plant, machinery and test equipment' of RM455,000, 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 2023 RM'000	Group 2022 RM'000	Company 2023 RM'000	Company 2022 RM'000
Cash payments		44,813	94,883	3,307	4,769
Lease liabilities	12	3,282	3,242	3,282	3,146
Other payables	21	2,221	1,443	42	175
		50,316	99,568	6,631	8,090

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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, 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

These leases have contract terms of 2 to 3 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.

(i) 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	Total RM'000
At 31 July 2023				
At 1 August 2022	2,207	5,711	2,821	10,739
Additions during the year	3,332	–	–	3,332
Depreciation	(2,331)	(121)	(643)	(3,095)
Exchange differences	(33)	–	–	(33)
At 31 July 2023	3,175	5,590	2,178	10,943
At 31 July 2022				
At 1 August 2021	4,491	5,829	877	11,197
Additions during the year	–	–	3,214	3,214
Depreciation	(2,297)	(118)	(443)	(2,858)
Transfer out upon lease expiry	–	–	(827)	(827)
Exchange differences	13	–	–	13
At 31 July 2022	2,207	5,711	2,821	10,739

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

12. Leases (cont'd)

As a lessee (cont'd)

(i) 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	Total RM'000
As at 31 July 2023				
As at 1 August 2022	1,168	4,167	2,730	8,065
Additions during the year	3,332	–	–	3,332
Depreciation	(1,466)	(56)	(624)	(2,146)
As at 31 July 2023	3,034	4,111	2,106	9,251
As at 31 July 2022				
As at 1 August 2021	2,580	4,221	877	7,678
Additions during the year	–	–	3,118	3,118
Depreciation	(1,412)	(54)	(438)	(1,904)
Transfer out upon lease expiry	–	–	(827)	(827)
As at 31 July 2022	1,168	4,167	2,730	8,065

(ii) 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 2023 RM'000	Group 2022 RM'000	Company 2023 RM'000	Company 2022 RM'000
As at 1 August		5,230	4,726	4,103	2,790
Additions		3,282	3,242	3,282	3,146
Accretion of interest		291	210	248	117
Payments		(4,204)	(2,966)	(3,215)	(1,950)
Exchange differences		(50)	18	–	–
As at 31 July		4,549	5,230	4,418	4,103
Current	19	2,884	3,304	2,773	2,395
Non-current	19	1,665	1,926	1,645	1,708
		4,549	5,230	4,418	4,103

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

12. Leases (cont'd)

As a lessee (cont'd)

(iii) Amounts recognised in profit or loss:

	Note	Group 2023 RM'000	Group 2022 RM'000	Company 2023 RM'000	Company 2022 RM'000
Depreciation expense of right-of-use assets		3,095	2,858	2,146	1,904
Interest expense on lease liabilities	7	291	210	248	117
Lease expense relating to short-term lease		290	714	275	467
Lease expense relating to low-value assets		124	125	16	17
	8	414	839	291	484
Total amount recognised in profit or loss		3,800	3,907	2,685	2,505

The Group and the Company had total cash outflows for leases of RM4,618,000 and RM3,506,000 (2022: RM3,805,000 and RM2,434,000) 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
2023	
Group	
Extension option expected not to be exercised	5,060
Company	
Extension option expected not to be exercised	4,999
2022	
Group	
Extension option expected not to be exercised	5,270
Company	
Extension option expected not to be exercised	5,209

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

12. Leases (cont'd)

As a lessor

(i) An immediate lessor

The Group and the Company lease out part of their owned buildings to third parties and one of its subsidiaries respectively, for monthly lease payments. These leases are classified as operating leases because the risk and rewards incidental to ownership of the assets are not substantially transferred.

(ii) 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 RM1,651,000 (2022: RM1,485,000).

13. Investment in subsidiaries

	Company	
	2023	2022
	RM'000	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	
			2023 %	2022 %
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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

14. Inventories

	Group 2023 RM'000	Group 2022 RM'000	Company 2023 RM'000	Company 2022 RM'000
At cost				
Consumables	1,488	1,867	137	96

During the financial year, the Group wrote back RM747,000 (2022: wrote down RM1,379,000) 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 2023 RM'000	Group 2022 RM'000	Company 2023 RM'000	Company 2022 RM'000
Non-current					
Other receivable					
Refundable deposits		269	367	269	104
Current					
Trade receivables					
Third parties		51,523	45,732	12,685	11,224
Less: Allowance for impairment		(98)	–	–	–
		51,425	45,732	12,685	11,224
Current					
Other receivables					
Refundable deposits		708	534	431	507
Sundry receivables		1,097	1,982	282	336
Amounts due from subsidiaries		–	–	2,400	1,488
Amounts due from related companies		4	5	1	–
		1,809	2,521	3,114	2,331
Total current trade and other receivables		53,234	48,253	15,799	13,555
Total trade and other receivables		53,503	48,620	16,068	13,659
Add: Cash and short-term deposits	16	223,928	176,853	54,402	59,896
Total financial assets carried at amortised cost		277,431	225,473	70,470	73,555

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

15. Trade and other receivables (cont'd)

(i) Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 90 days (2022: 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	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
Neither past due nor impaired	49,214	43,079	12,592	11,133
Past due not impaired				
- 1 to 60 days	2,211	1,431	93	91
- 61 to 120 days	–	1,222	–	–
Impaired	98	–	–	–
	51,523	45,732	12,685	11,224

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 RM2,211,000 (2022: RM2,653,000) and RM93,000 (2022: RM91,000) 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:

	Note	Group	
		2023 RM'000	2022 RM'000
At beginning of the year		–	144
Charge to profit or loss	8	95	–
Write-off		–	(144)
Exchange differences		3	–
At end of the year		98	–

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

15. Trade and other receivables (cont'd)

(ii) Related company receivables

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	
	2023	2022	2023	2022
	RM'000	RM'000	RM'000	RM'000
United States Dollar	11,483	7,389	1,303	398
Ringgit Malaysia	29,145	24,746	14,765	13,261
Renminbi	12,875	16,485	–	–
	53,503	48,620	16,068	13,659

16. Cash and short-term deposits

	Group		Company	
	2023	2022	2023	2022
	RM'000	RM'000	RM'000	RM'000
Cash at banks and on hand	23,401	25,261	6,875	5,804
Deposits with licensed banks	200,527	151,592	47,527	54,092
Cash and short-term deposits	223,928	176,853	54,402	59,896
Less: Bank deposits with maturity more than three months	(124,500)	(94,500)	(13,000)	(38,000)
Cash and cash equivalents	99,428	82,353	41,402	21,896

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

	Group		Company	
	2023	2022	2023	2022
	RM'000	RM'000	RM'000	RM'000
United States Dollar	3,259	2,401	2,164	407
Ringgit Malaysia	211,318	162,331	52,238	59,489
Renminbi	9,351	12,121	–	–
	223,928	176,853	54,402	59,896

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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 (2022: 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 2023 for the Group and the Company were 3.4% (2022: 2.1%) and 3.2% (2022: 2.1%) per annum respectively.

Cash and short-term deposits of RM9,351,000 (2022: RM12,121,000) 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 and Company			
	Number of ordinary shares		Amount	
	2023	2022	2023	2022
	'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	
		2023	2022	2023	2022
		RM'000	RM'000	RM'000	RM'000
Distributable:					
Retained earnings	(i)	292,480	298,238	132,030	136,851
Non-distributable:					
Foreign currency translation reserve	(ii)	11,718	13,573	–	–
Statutory reserve fund	(iii)	4,629	4,629	–	–
Merger relief reserve	(iv)	–	–	1,215	1,215
Capital reserve	(v)	2,240	2,240	–	–
		311,067	318,680	133,245	138,066

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

18. Reserves (cont'd)

(i) Retained earnings

The Company may distribute dividends out of its entire retained earnings as at 31 July 2023 under the single tier system.

(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 years	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
Current					
Lease liabilities (Note 12)		2,884	3,304	2,773	2,395
Bank loans	2024	34,377	8,586	1,443	2,586
		37,261	11,890	4,216	4,981
Non-current					
Lease liabilities (Note 12)		1,665	1,926	1,645	1,708
Bank loans	2025 - 2026	54,785	13,468	25	1,468
		56,450	15,394	1,670	3,176
Total loans and borrowings		93,711	27,284	5,886	8,157

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

19. Loans and borrowings (cont'd)

(i) Bank loans

The bank loans bore interests between 4.2% and 5.0% (2022: between 3.6% and 4.0%) per annum during the current financial year.

A reconciliation of movement of liabilities to cash flows arising from financing activities is as follows:

			Non-cash items		
	1 August 2022	**Cash flows**	**Addition**	**Others**	**31 July 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Group					
Bank loans					
- Current	8,586	(15,195)	–	40,986	34,377
- Non-current	13,468	82,303	–	(40,986)	54,785
Lease liabilities					
- Current	3,304	(3,913)	–	3,493	2,884
- Non-current	1,926	–	3,282	(3,543)	1,665
Total	27,284	63,195	3,282	(50)	93,711
Company					
Bank loans					
- Current	2,586	(2,586)	–	1,443	1,443
- Non-current	1,468	–	–	(1,443)	25
Lease liabilities					
- Current	2,395	(2,967)	–	3,345	2,773
- Non-current	1,708	–	3,282	(3,345)	1,645
Total	8,157	(5,553)	3,282	–	5,886

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

19. Loans and borrowings (cont'd)

	1 August 2021	Cash flows	Non-cash items		31 July 2022
			Addition	Others	
	RM'000	RM'000	RM'000	RM'000	RM'000
Group					
Bank loans					
- Current	5,037	(5,035)	–	8,584	8,586
- Non-current	4,029	18,000	–	(8,561)	13,468
Lease liabilities					
- Current	2,380	(2,756)	–	3,680	3,304
- Non-current	2,346	–	3,242	(3,662)	1,926
Total	13,792	10,209	3,242	41	27,284
Company					
Bank loans					
- Current	2,586	(2,561)	–	2,561	2,586
- Non-current	4,029	–	–	(2,561)	1,468
Lease liabilities					
- Current	1,562	(1,833)	–	2,666	2,395
- Non-current	1,228	–	3,146	(2,666)	1,708
Total	9,405	(4,394)	3,146	–	8,157

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, if any.

The carrying amounts of total loans and borrowings are denominated in the following currencies:

	Group		Company	
	2023	2022	2023	2022
	RM'000	RM'000	RM'000	RM'000
Renminbi	78	1,045	–	–
Ringgit Malaysia	93,633	26,239	5,886	8,157
	93,711	27,284	5,886	8,157

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

20. Deferred tax (assets)/liabilities

		Group		Company	
	Note	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
At beginning of the year		890	(870)	(2,210)	(1,100)
Recognised in profit or loss	9	(199)	1,781	(1,155)	(1,110)
Exchange differences		104	(21)	–	–
At end of the year		795	890	(3,365)	(2,210)
Presented after appropriate offsetting as follows:					
Deferred tax assets		(5,461)	(4,410)	(3,365)	(2,210)
Deferred tax liabilities		6,256	5,300	–	–
		795	890	(3,365)	(2,210)

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 RM'000	Others RM'000	Total RM'000
At 31 July 2021	4,158	2	4,160
Recognised in profit or loss	2,673	(1)	2,672
At 31 July 2022	6,831	1	6,832
Recognised in profit or loss	4,580	(1)	4,579
At 31 July 2023	11,411	–	11,411

Deferred tax assets of the Group

	Property, plant and equipment RM'000	Others* RM'000	Total RM'000
At 31 July 2021	(226)	(4,804)	(5,030)
Recognised in profit or loss	132	(1,023)	(891)
Exchange differences	–	(21)	(21)
At 31 July 2022	(94)	(5,848)	(5,942)
Recognised in profit or loss	94	(4,872)	(4,778)
Exchange differences	–	104	104
At 31 July 2023	–	(10,616)	(10,616)
Net			795

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

20. Deferred tax (assets)/liabilities (cont'd)

Deferred tax liabilities of the Company

	Property, plant and equipment RM'000
At 31 July 2021/31 July 2022	–
Recognised in profit or loss	24
At 31 July 2023	24

Deferred tax assets of the Company

	Property, plant and equipment RM'000	Others* RM'000	Total RM'000
At 31 July 2021	(226)	(874)	(1,100)
Recognised in profit or loss	132	(1,242)	(1,110)
At 31 July 2022	(94)	(2,116)	(2,210)
Recognised in profit or loss	94	(1,273)	(1,179)
At 31 July 2023	–	(3,389)	(3,389)
Net			(3,365)

* Others comprise unutilised business losses, unabsorbed capital allowances and other deductible temporary differences relating to provisions.

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2023 RM'000	2022 RM'000
Unutilised business losses	43,160	37,659
Other deductible temporary differences	39,561	39,587
	82,721	77,246

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 ten years respectively. Upon expiry of the relevant periods, the unutilised business losses will be disregarded.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

20. Deferred tax (assets)/liabilities (cont'd)

Pursuant to relevant tax regulations, the unutilised business losses at the end of reporting period will be expired as follows:

	Group	
	2023	2022
	RM'000	RM'000
Within five years	33,716	27,168
Within six to ten years	9,444	10,491
	43,160	37,659

21. Trade and other payables

	Note	Group		Company	
		2023	2022	2023	2022
		RM'000	RM'000	RM'000	RM'000
Trade payables					
Third parties		1,363	2,613	–	–
Other payables					
Accrued operating expenses		9,763	7,195	5,089	3,348
Sundry payables		8,689	10,755	2,969	2,110
Dividend payable		–	645	–	645
Balance due for acquisitions of property, plant and equipment	11	2,221	1,443	42	175
Amounts due to ultimate holding company		2,486	2,254	1,245	1,216
Amounts due to subsidiairies		–	–	631	–
Amounts due to related companies		714	1,155	714	–
Total trade and other payables		25,236	26,060	10,690	7,494
Add: Loans and borrowings	19	93,711	27,284	5,886	8,157
Total financial liabilities carried at amortised cost		118,947	53,344	16,576	15,651

(i) Trade payables and sundry payables

Trade payables and sundry payables are non-interest bearing. They are normally settled on 30 to 90 days (2022: 30 to 90 days) terms.

(ii) Related companies payables

Amounts due to ultimate holding company and related companies are non-trade in nature, unsecured, non-interest bearing and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

21. Trade and other payables (cont'd)

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

	Group		Company	
	2023	2022	2023	2022
	RM'000	RM'000	RM'000	RM'000
United States Dollar	2,478	3,147	1,395	39
Ringgit Malaysia	15,947	12,248	8,084	6,265
Renminbi	4,321	8,349	–	–
Others	2,490	2,316	1,211	1,190
	25,236	26,060	10,690	7,494

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	
	2023	2022
	RM'000	RM'000
Present value of defined benefit obligations, representing defined benefit liabilities		
- Non-current	2,553	4,640
- Current	2,550	–
	5,103	4,640

Changes in present value of the defined benefit obligations are as follows:

	Group	
	2023	2022
	RM'000	RM'000
Balance at beginning of the year	4,640	4,362
Current service costs	246	247
Interest costs	170	157
Remeasurement loss/(gain) on defined benefit liabilities		
- Actuarial loss/(gain) arising from changes in financial assumptions	47	(126)
Balance at end of the year	5,103	4,640

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

22. Defined benefit liabilities (cont'd)

The components of amounts recognised in the consolidated statement of profit or loss and other comprehensive income in respect of the defined benefit plan are as follows:

	Note	Group 2023 RM'000	Group 2022 RM'000
Reported in profit or loss			
Current service costs	6	246	247
Interest costs	7	170	157
		416	404
Reported in other comprehensive income			
Actuarial loss/(gain) arising from changes in financial assumptions		47	(126)

The principal assumptions used in determining the liabilities for the defined benefit plan are shown below:

	Group 2023 %	Group 2022 %
Discount rates	4.1 - 4.2	4.5 - 4.6
Expected rate of future salary increases	4.3	4.3

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:

	Increase/ (decrease)	Group 2023 RM'000	Group 2022 RM'000
Discount rates	0.25%	(30)	(38)
	(0.25%)	31	39
Expected rate of future salary increases	0.25%	31	39
	(0.25%)	(31)	(39)

The duration of the defined benefit liabilities at the reporting date is 1 to 4 years (2022: 2 to 5 years).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
Transactions with Sunright Limited, ultimate holding company of the Company, and its subsidiaries				
Management fees charged by Sunright Limited	8,940	9,023	4,372	4,343
Dividend paid/payable to Sunright Limited	1,250	1,562	1,250	1,562
Rental received/receivable from:				
- KES Systems & Service (M) Sdn. Bhd.	18	9	–	–
Purchases from:				
- KES Systems & Service (1993) Pte Ltd	1,488	570	1,488	570
- KEST Systems and Service Ltd.	126	3,777	120	1,714

	Company	
	2023 RM'000	2022 RM'000
Transactions with subsidiaries		
Rental income from a subsidiary	1,651	1,485
Commission income from a subsidiary	1,602	1,950
Interest income on loan to a subsidiary	–	5
Purchase of equipment	647	–
Sale of equipment	282	2,000

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

24. Capital commitments

Capital expenditure as at the reporting date is as follows:

	Group		Company	
	2023	**2022**	**2023**	**2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Property, plant and equipment				
Authorised and contracted for	12,805	44,172	943	3,189

In last financial year, included in authorised and contracted for was an amount of RM1,294,000 and RM1,294,000 related 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 2023 and 31 July 2022.

(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
2023	
Group and Company	
Financial assets at fair value through profit or loss	
Investment securities (quoted)	10,767
2022	
Group and Company	
Financial assets at fair value through profit or loss	
Investment securities (quoted)	12,409

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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 the Company's profit before tax would have been RM139,000 (2022: RM39,000) and RM7,000 (2022: RM13,000) higher/lower respectively, arising mainly as a result of lower/higher interest expenses on floating rate loans.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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 before tax to a reasonably possible change in USD exchange rate against RM with all other variables held constant:

	Group		Company	
	2023	**2022**	**2023**	**2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**
USD/RM				
- strengthened 1% (2022: 1%)	123	80	21	8
- weakened 1% (2022: 1%)	(123)	(80)	(21)	(8)

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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.

2023	Note	On demand or within one year RM'000	One to five years RM'000	Total RM'000
Group				
Financial assets				
Investment securities		10,767	–	10,767
Trade and other receivables	15	53,234	304	53,538
Cash and short-term deposits	16	223,928	–	223,928
Total undiscounted financial assets		287,929	304	288,233
Financial liabilities				
Trade and other payables	21	(25,236)	–	(25,236)
Loans and borrowings (exclude lease liabilities)		(37,707)	(56,920)	(94,627)
Lease liabilities		(3,039)	(1,722)	(4,761)
Total undiscounted financial liabilities		(65,982)	(58,642)	(124,624)
Total net undiscounted financial assets/(liabilities)		221,947	(58,338)	163,609
Company				
Financial assets				
Investment securities		10,767	–	10,767
Trade and other receivables	15	15,799	304	16,103
Cash and short-term deposits	16	54,402	–	54,402
Total undiscounted financial assets		80,968	304	81,272
Financial liabilities				
Trade and other payables	21	(10,690)	–	(10,690)
Loans and borrowings (exclude lease liabilities)		(1,463)	(25)	(1,488)
Lease liabilities		(2,924)	(1,702)	(4,626)
Total undiscounted financial liabilities		(15,077)	(1,727)	(16,804)
Total net undiscounted financial assets/(liabilities)		65,891	(1,423)	64,468

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

26. Financial risk management objectives and policies (cont'd)

(iii) Liquidity risk (cont'd)

Analysis of financial instruments by remaining contractual maturities (cont'd)

2022	Note	On demand or within one year RM'000	One to five years RM'000	Total RM'000
Group				
Financial assets				
Investment securities		12,409	–	12,409
Trade and other receivables	15	48,253	367	48,620
Cash and short-term deposits	16	176,853	–	176,853
Total undiscounted financial assets		237,515	367	237,882
Financial liabilities				
Trade and other payables	21	(26,060)	–	(26,060)
Loans and borrowings (exclude lease liabilities)		(9,282)	(13,945)	(23,227)
Lease liabilities		(3,510)	(1,975)	(5,485)
Total undiscounted financial liabilities		(38,852)	(15,920)	(54,772)
Total net undiscounted financial assets/(liabilities)		198,663	(15,553)	183,110
Company				
Financial assets				
Investment securities		12,409	–	12,409
Trade and other receivables	15	13,555	104	13,659
Cash and short-term deposits	16	59,896	–	59,896
Total undiscounted financial assets		85,860	104	85,964
Financial liabilities				
Trade and other payables	21	(7,494)	–	(7,494)
Loans and borrowings (exclude lease liabilities)		(2,692)	(1,484)	(4,176)
Lease liabilities		(2,556)	(1,753)	(4,309)
Total undiscounted financial liabilities		(12,742)	(3,237)	(15,979)
Total net undiscounted financial assets/(liabilities)		73,118	(3,133)	69,985

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

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 ongoing basis with the result that the Group's and the Company's exposure to bad debts is not significant.

Trade receivables

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.

Exposure to credit risk

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

Credit risk concentration profile

The Group and the Company determine concentrations of credit risk by monitoring the country and industry sector profile of its trade receivables on an ongoing 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

	2023		2022	
	RM'000	**% of total**	**RM'000**	**% of total**
By country				
Malaysia	31,675	62	28,685	63
Others*	19,750	38	17,047	37
	51,425	100	45,732	100

* Others include countries such as PRC, United States of America, European countries and other Asian countries.

	2023		2022	
	RM'000	**% of total**	**RM'000**	**% of total**
By industry sectors				
Burn-in, testing and electronic manufacturing services	51,425	100	45,732	100

At the reporting date, approximately 77% (2022: 82%) of the Group's trade receivables were due from three (2022: three) major customers who are in the semiconductor industry.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

26. Financial risk management objectives and policies (cont'd)

(iv) Credit risk (cont'd)

Credit risk concentration profile (cont'd)

Company

90% (2022: 96%) 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% (2022: 5%) higher/lower, with all other variables held constant, the Group's and the Company's profit before tax would have been RM538,000 (2022: RM620,000) 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 2023 and 31 July 2022.

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 2023 and 31 July 2022.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

27. Capital management (cont'd)

	Note	Group		Company	
		2023	2022	2023	2022
		RM'000	RM'000	RM'000	RM'000
Cash and short-term deposits	16	223,928	176,853	54,402	59,896
Less: Loans and borrowings	19	(93,711)	(27,284)	(5,886)	(8,157)
Net cash		130,217	149,569	48,516	51,739
Equity attributable to owners of the Company		354,745	362,358	176,923	181,744
Less: Statutory reserve fund	18	(4,629)	(4,629)	–	–
		350,116	357,729	176,923	181,744

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.

Geographical information

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	Revenue		Non-current assets	
	2023	2022	2023	2022
	RM'000	RM'000	RM'000	RM'000
Malaysia	154,918	176,851	165,906	154,295
PRC	51,509	61,728	13,668	16,258
Others*	21,856	8,157	–	–
	228,283	246,736	179,574	170,553

Non-current assets information presented above consist of property, plant and equipment.

* Others include countries such as United States of America, European countries and other Asian countries.

Information about major customers

The Group's customer base includes three (2022: three) 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 RM169,008,000 (2022: RM201,392,000).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2023

29. Dividends

	Company	
	2023	2022
	RM'000	RM'000
Recognised during the financial year		
Final tax exempt dividend for 2022 at 6 sen (2021: 6 sen) per ordinary share	2,581	2,581
Interim tax exempt dividend for 2023 at nil sen (2022: 1.5 sen) per ordinary share	–	645
	2,581	3,226
Proposed but not recognised as a liability as at 31 July		
First and final tax exempt dividend for 2023 at 6 sen (2022: 6 sen) per ordinary share	2,581	2,581

At the forthcoming Annual General Meeting, a first and final tax exempt dividend in respect of the financial year ended 31 July 2023, of 6 sen on 43,014,500 ordinary shares, amounting to dividend payable of RM2,580,870 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 2024.

30. Authorisation of financial statements for issue

The financial statements for the year ended 31 July 2023 were authorised for issue in accordance with a resolution of the directors on 21 September 2023.

SHAREHOLDERS' INFORMATION

As at 21 September 2023

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	Size of Holdings	Total Holdings	%
68	Less than 100 shares	499	0.00
1,118	100 to 1,000 shares	653,033	1.52
865	1,001 to 10,000 shares	2,935,768	6.83
149	10,001 to 100,000 shares	3,990,500	9.28
24	100,001 to less than 5% of issued shares	14,609,700	33.96
1	5% and above of issued shares	20,825,000	48.41
2,225	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. Kua Choh Leang	–	–	–	–
5. Dato' Dr. Suhazimah Binti Dzazali	–	–	–	–

* 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 2023.

SHAREHOLDERS' INFORMATION

As at 21 September 2023

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.	Tan Ai Leng	1,633,700	3.80
4.	Wong Tee Kim @ Wong Tee Fatt	1,550,000	3.60
5.	Amanahraya Trustees Berhad Public Islamic Opportunities Fund	1,347,400	3.13
6.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (Aberislamic)	951,900	2.21
7.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (Nomura)	880,700	2.05
8.	Citigroup Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (Leef)	672,800	1.56
9.	Citigroup Nominees (Asing) Sdn Bhd Exempt An for Citibank New York (Norges Bank 22)	665,800	1.55
10.	Citigroup Nominees (Tempatan) Sdn Bhd Urusharta Jamaah Sdn. Bhd. (Aberdeen 2)	646,400	1.50
11.	Amanahraya Trustees Berhad PB Islamic Smallcap Fund	545,200	1.27
12.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (Niam EQ)	443,400	1.03
13.	Kumpulan Wang Persaraan (Diperbadankan)	395,600	0.92
14.	Maybank Nominees (Tempatan) Sdn Bhd MTrustee Bhd for Nomura TNB RBTF (EQ) (433137)	360,600	0.84
15.	Tan Kim Hin	357,000	0.83
16.	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Yong Loy Huat (7000875)	326,000	0.76
17.	Lim Khuan Eng	300,000	0.70
18.	Citigroup Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (LPF)	278,800	0.65
19.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (ABDN EQ ABSR FD)	272,300	0.63
20.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lee Khoon Beng (E-KLG)	244,500	0.57
21.	Maybank Nominees (Tempatan) Sdn Bhd Medical Fund (IFM Nomura) (410223)	183,100	0.43
22.	Citigroup Nominees (Tempatan) Sdn Bhd Urusharta Jamaah Sdn. Bhd. (Nomura 2)	150,800	0.35
23.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lim Kong Hwee (E-KPG/SGK)	134,900	0.31
24.	Khoo Kim Wee	110,800	0.26
25.	CGS-CIMB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lim Chen Yik (Penang-CL)	100,500	0.23
26.	Amanahraya Trustees Berhad Amittikal	99,100	0.23
27.	Citigroup Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (LGF)	97,400	0.23
28.	Citigroup Nominees (Asing) Sdn Bhd Exempt An for Citibank New York (Norges Bank 1)	88,200	0.21
29.	Maybank Nominees (Tempatan) Sdn Bhd Maybank Trustees Berhad for Astute Dana Al-Faiz-I (ADAF-I)(410324)	88,100	0.21
30.	Citigroup Nominees (Asing) Sdn Bhd CBSG GW for ABRDN Select Portfolio-ABRDN Malaysian Equity Fund (CTSL)	84,500	0.20
		35,892,000	83.45

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Fifty-Second Annual General Meeting ("52nd AGM") of the Company will be held at Connexion Conference & Event Centre, Spectrum & Prism (Level 3A), Nexus, Bangsar South, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Thursday, 11 January 2024 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 2023 together with the reports of the Directors and of the Auditors thereon.

2. To declare a first and final tax exempt dividend of 6 sen per share in respect of the financial year ended 31 July 2023. **Resolution 1**

3. To approve payment of Directors' fees and allowances of RM303,500 in respect of the financial year ended 31 July 2023. **Resolution 2** *(Please see Explanatory Note)*

4. To re-elect Mr Samuel Lim Syn Soo who is retiring pursuant to Article 100 of the Company's Constitution and being eligible, has offered himself for re-election. **Resolution 3** *(Please see Explanatory Note)*

5. To re-elect the following Directors who are retiring pursuant to Article 107 of the Company's Constitution and being eligible, have offered themselves for re-election: -

   (a) Mr Kua Choh Leang **Resolution 4**
   (b) Dato' Dr. Suhazimah Binti Dzazali **Resolution 5** *(Please see Explanatory Note)*

6. To re-appoint Ernst & Young PLT as the Company's Auditors and to authorise the Board of Directors to fix their remuneration. **Resolution 6**

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolution as Ordinary Resolution:

7. Proposed renewal of existing shareholders' mandate for recurrent related party transactions of a revenue or trading nature **Resolution 7** *(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 Bursa Malaysia Securities Berhad, 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 2023 ("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;

NOTICE OF ANNUAL GENERAL MEETING

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

(a) the conclusion of the next annual general meeting ("AGM") 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 AGM 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."

8. 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 2023

Notes:

1. A member entitled to attend and vote at the 52nd 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 11th Floor, Menara Symphony, No. 5, Jalan Prof. Khoo Kay Kim, Seksyen 13, 46200 Petaling Jaya, Selangor Darul Ehsan, Malaysia, not less than forty-eight (48) hours before the time appointed for holding the 52nd AGM or any adjournment thereof. Alternatively, the instrument appointing proxy/proxies can be submitted via email by attaching a signed PDF copy of the Proxy Form to bsr.helpdesk@boardroomlimited.com before the cut-off time for the lodgement.

5. Depositors whose name appear in the Record of Depositors on 4 January 2024 shall be regarded as member of the Company entitled to attend the 52nd AGM or appoint proxy/proxies to attend and vote on his/her/its behalf.

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes To Ordinary Business:

Resolution 2

Payment of Directors' fees and allowances in respect of the financial year ended 31 July 2023 are as follows:

Description	Amount (RM)
Directors' fees	275,000
Allowances (Payable to Non-Executive Directors only)	28,500
Total	303,500

Resolutions 3 to 5

For the purpose of determining the eligibility of the Directors to stand for re-election at the 52nd AGM, the Board through its Nominating Committee had assessed Mr Samuel Lim Syn Soo, Mr Kua Choh Leang and Dato' Dr. Suhazimah Binti Dzazali (collectively "the Retiring Directors"). Please refer to the Board of Directors section in the Annual Report 2023, for more details about them. Mr Samuel Lim was assessed on his performance and understanding of the Group's businesses. His active participation at the Board meetings showed that he came well prepared and was effective in the discharge of his responsibilities. He has always acted in the best interests of the Company as a whole.

The Board also agreed to recommend the re-election of Mr Kua Choh Leang and Dato' Dr. Suhazimah Binti Dzazali who were appointed to the Board on 1 May 2023, to fill the casual vacancies for the previous independent directors who had stepped down to comply with the amended Listing Requirements on new criteria of Independent Directors. As such, pursuant to Article 107 of the Company's Constitution they shall hold office only until the 52nd AGM and shall be eligible for re-election. After taking into consideration their qualifications, professional expertise and experience, the Board views that their re-election would bring benefits to the Company.

Based on the above, the Board supports the re-election of the Retiring Directors.

Explanatory Note To Special Business:

Resolution 7

Please refer to the Circular to Shareholders dated 27 October 2023 for more information.

NOTICE OF DIVIDEND ENTITLEMENT

NOTICE IS HEREBY GIVEN that the first and final tax exempt dividend of 6 sen per share in respect of the financial year ended 31 July 2023, if approved at the forthcoming Annual General Meeting, will be paid on 8 February 2024 to Depositors registered in the Record of Depositors on 18 January 2024. 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 18 January 2024, 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 2023

ADMINISTRATIVE NOTES FOR SHAREHOLDERS/ PROXIES/CORPORATE REPRESENTATIVES

Attending the Fifty-Second Annual General Meeting ("52nd AGM")

REGISTRATION

1. The registration will commence at 8:30 a.m. and the registration counters will be closed when the meeting commences.

2. Please produce your original identity card (for Malaysian) or passport (for non-Malaysian) to the registration staff for verification. Photocopy of identity card or passport will not be accepted. Please make sure you collect your identity card or passport thereafter.

3. No person will be allowed to register on behalf of another person even with the original identity card or passport of that other person.

4. After registration and signing on the Attendance List, please vacate the registration area.

5. You will be given a wristband and a smartcard upon verification and registration.

6. No person will be allowed to enter the meeting hall without the wristband and the smartcard. A handset will be given to the shareholders, proxies and corporate representatives once the smartcard is presented to the usher at the entrance of the meeting hall.

7. The wristband must be worn throughout the 52nd AGM. There will be no replacement in the event you lose or misplace the wristband.

8. The smartcard and handset must be returned to the usher at the door once you leave the meeting hall. Please inform the usher if you are going to the restroom in order for the usher to hold on to it. Please collect the smartcard and handset from the usher upon returning to the meeting hall.

9. The smartcard and handset must be returned to the usher at the door once the meeting ends. Failing which, you will need to pay for the cost of loss of or misplacement of the smartcard and handset.

10. The registration counters only handle verification of identity and registration. If you have any enquiries or in need of clarification, please proceed to the Help Desk.

REFRESHMENTS

1. Coffee and tea will be served at the refreshment area before the commencement of the meeting.

2. Packed lunch will be served at the refreshment area once the meeting ends at the time as directed by the Chairman.

SEATING ARRANGEMENTS FOR THE MEETINGS

1. Shareholders, proxies and corporate representatives are free to sit anywhere they please, except for those which have been marked "Reserved".

2. Shareholders, proxies and corporate representatives will only be allowed to enter the meeting hall upon registration.

3. All shareholders, proxies and corporate representatives are encouraged to be seated at least five (5) minutes before the scheduled commencement of the meeting.

MOBILE DEVICES

Kindly switch off or turn to silent mode all mobile devices during the meeting to ensure smooth proceedings.

ADMINISTRATIVE NOTES FOR SHAREHOLDERS/ PROXIES/CORPORATE REPRESENTATIVES

Attending the Fifty-Second Annual General Meeting ("52nd AGM")

PERSONAL BELONGINGS

Kindly take care of your personal belongings. The Company will not be held responsible for any loss of items.

PARKING COUPON

1. A standing signage will be prepared to direct shareholders, proxies and corporate representatives to the designated location to collect parking coupon.

2. **The collection of parking coupon shall cease at 12:00 p.m.. Those who fail to collect the parking coupon by 12:00 p.m. shall bear the parking charges themselves**.

VOTING PROCEDURES

1. The voting at the meeting will be conducted by way of electronic polling ("ePolling"). The Share Registrar, Boardroom Share Registrars Sdn. Bhd. is appointed as Poll Administrator to conduct the polling process and a scrutineer is appointed to verify and validate the poll results.

2. Voting via ePolling will be carried out separately for each individual resolution upon the conclusion of the deliberation.

3. All attendees of the meeting will be briefed and guided by the Poll Administrator before the commencement of the ePolling process.

ANNUAL REPORT 2023 AND CIRCULAR TO SHAREHOLDERS

The Annual Report 2023 and Circular to Shareholders dated 27 October 2023 are available on the Company's website at URL http://kesmi.com/investor-relations/general-meetings/ and Bursa Malaysia Securities Berhad's website at www.bursamalaysia.com. Limited printed copies are available for collection on a first come, first served basis from the table near the entrance of the meeting hall.

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 Fifty-Second Annual General Meeting ("52nd AGM") of the Company to be held at Connexion Conference & Event Centre, Spectrum & Prism (Level 3A), Nexus, Bangsar South, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Thursday, 11 January 2024 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 first and 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 Kua Choh Leang as Director		
5. Re-election of Dato' Dr. Suhazimah Binti Dzazali as Director		
6. Re-appointment of Auditors		
Special Business		
7. 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 ____________ 2023/2024

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 52nd 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 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 submitted via email by attaching a signed PDF copy of the Proxy Form to bsr.helpdesk@boardroomlimited.com before the cut-off time for the lodgement.

5. A Depositor whose name appears in the Record of Depositors on 4 January 2024 shall be regarded as a member of the Company entitled to attend the 52nd AGM or appoint proxy/proxies to attend and vote on his/her/its behalf.

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Affix postage stamp

The Share Registrar of KESM Industries Berhad

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

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KESM INDUSTRIES BERHAD
REG. NO. 197201001376 (13022-A)

Lot 4, SS8/4
Sungei Way Free Industrial Zone
47300 Petaling Jaya
Selangor Darul Ehsan Malaysia
Tel : (603) 787-40000
Fax : (603) 787-58558