A Member of

SUNRIGHT

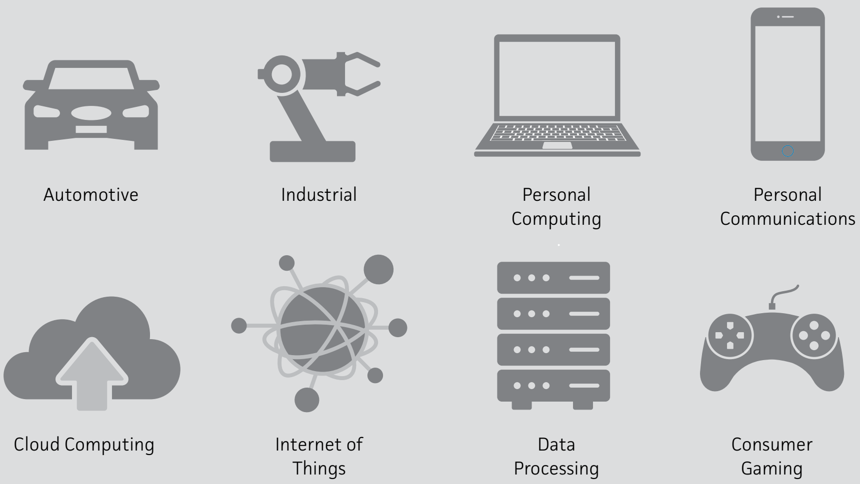
KESM
INDUSTRIES BERHAD
(13022-A)

2016

ANNUAL
REPORT

CONTENTS

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



At KESM, we ensure the reliability and functionality behind many of these new chips designed and manufactured by our customers.

KESM IS ON THE RIGHT TRACK. WE ARE CONFIDENT OF THE GROWING OPPORTUNITIES FOR CONTINUED EXPANSION AND ARE GETTING READY TO RIDE ON THE AUTOMOTIVE GROWTH FOR 2017 AND BEYOND.

RM**285.7**million

Revenue
(2015: RM263.1 million)

RM**30.7**million

Profit After Tax
(2015: RM21.0 million)

RM**71.3**sen

Earnings Per Share
(2015: RM39.6 sen)

DEAR SHAREHOLDERS,

2016 was a spectacular year, the results of our strategy unfolding. We continued our steady growth from last year, finishing FY 2016 in record high profit growth of 46 percent with a solid balance sheet. The KESM Group stands on a strong foundation, working closely with leading world-class automotive semiconductor manufacturers who are relying on our "burn-in and test" service to enable them to produce billions of high quality electronic devices.

We achieved revenue of RM285.7 million, an increase of 9 percent over last financial year. Our net profit nearly doubled to RM30.7 million from FY 2015. We generated RM18.8 million cash from the operations. Our earnings per share were up 71.3 sen from 39.6 sen in FY 2015. At the close of FY 2016, we increased our dividend by 25 percent to 7.5 sen from 6 sen per share in FY 2015, amounting to RM3.2 million.

Our market capitalization, has since the end of last financial year, increased by approximately 89 percent to RM340.7 million, as at the date of this report. This is very gratifying and we are encouraged to see a strong growing return for our shareholders.

STRONG FINISH IN 2016

We are proud of our management team's accomplishments. Their relentless pursuit of service and operational excellence continued to drive good productivity gains. We increased our production volumes and succeeded in sharing the cost savings with our customers. Our technically talented and skilled employees developed unique processes which have benefitted our customers. We expanded our capabilities in testing newer chips for the automotive market. All these achievements have added value to our customers and the sterling performance has also benefitted our stakeholders.

REVVING INTO 2017

We are revving to cross the RM300 million sales mark quickly. We are optimistic in building on this strong momentum to deliver long-term revenues and earnings growth, by keeping focus on new and growing opportunities in the automotive market segment of the semiconductor industry.

The automotive semiconductor market was valued at US$21.5 billion and is expected to reach US$28 billion at a compounded annual growth rate of 6.8 percent between 2016 and 2019. The most significant factor driving this market is the increasing projected production of cars. The growing semiconductor or electronic contents are also increasing to make cars safer, cleaner, smarter and more comfortable. Also, new chip technology offers more applications such as Advanced Driver Assistance Systems "ADAS". These




chips communicate between cars and connect with traffic signals to reduce accidents and congestions.

There are more new chips rolling out each year. These new automotive components require a very stringent set of quality standard to ensure their functionality and reliability. This is what the KESM Group does best. We do not simply burn-in and test chips; we provide burn-in and test solutions for increasing volumes of ADAS. These are complex chips. It combines many different technologies such as micro-controllers, memories and digital signal processors, all on a single chip. For example, an ADAS device provides the integrated functions of a front camera, park assist, surround view and sensor fusion in a single chip.

OUR STRATEGIC ROAD MAP

The Group is the largest independent burn-in & test service company in Malaysia. We are committed to the semiconductor automotive market. There is still so much more to be done as we deep-dive to challenge ourselves in this fast growing market. The automotive industry expects "zero defect" in quality. Imagine shipping a billion devices a year without a SINGLE defect! This is a big challenge we must embrace to make the differentiation of our service quality. We have to further sharpen our control systems, develop automation handling tools and establish a new culture that would drive our process quality standards to higher levels. These various initiatives will enable us to win strategic programs and establish leadership position in each of the different types of automotive semiconductors. It is going to be a new and exciting journey. The Group is on the right track. We are confident of the growing opportunities for continued expansion and are getting ready to ride on the automotive growth for 2017 and beyond.

DIVIDEND

In consideration of our outstanding performance, a special interim tax exempt dividend of 4.5 sen per share amounting to RM1.9 million was paid in August 2016 in recognition of our loyal shareholders who have been our stalwart supporters for many years. Additionally, the Board has proposed a final tax exempt dividend 3 sen per share amounting to RM1.3 million to be approved by shareholders at the Annual General Meeting.

APPRECIATION

In closing, I would like to express my appreciation to our employees for another exceptional year. To our customers and suppliers, thank you for your continued support. To our shareholders, you have invested in us, you believe in our team and you have seen the progress we made over the years. I believe, in the long term you will be well rewarded.

Mr. Samuel Lim
Executive Chairman & Chief Executive Officer
7 October 2016

BOARD OF DIRECTORS

MR SAMUEL LIM SYN SOO
Aged 62, Singaporean
Non-Independent Executive Director

Mr Samuel Lim is the Executive Chairman and Chief Executive Officer of the Company and has been on the Board since 6 September 1986. He was last re-elected on 14 January 2016. Mr Lim co-founded and led the Company to become Malaysia's largest independent provider of burn-in and testing services.

Mr Lim holds a Diploma in Industrial Engineering (Canada) and has more than 44 years of experience in the semiconductor and electronics industry. Prior to the establishing of KESM Industries Berhad, Mr Lim held senior positions including engineering, manufacturing and marketing in U.S. multinational companies. As one of the local pioneers in the semiconductor industry, Mr Lim received 3 U.S. patent families in recognition of his inventions in various solutions involving "Burn-in and test".

Mr Lim also sits on the Board of Sunright Limited, a company listed on the Main Board of the Singapore Exchange Securities Trading Limited and 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 of RM1.00 each	Nil	20,825,000 (Deemed interest by virtue of his substantial interest in Sunright Limited)

MR KENNETH TAN TEOH KHOON
Aged 59, Singaporean
Non-Independent Executive Director

Mr Kenneth Tan was first appointed to the Board on 20 January 1992 and was last re-elected on 15 January 2015.

Mr Tan is responsible for the Group's strategic direction, new business initiatives, 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 Chartered Accountant of Singapore of the Institute of Singapore Chartered Accountants.

MS LIM MEE ING
Aged 65, Singaporean
Non-Independent Non-Executive Director

Ms Lim was first appointed to the Board on 19 February 1990 and was last re-elected on 9 January 2014. She is also a member of the Audit Committee and Nominating Committee.

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

Ms Lim is currently a non-executive director of Sunright Limited and also sits on the Board of a private limited company in China.

TUAN HAJI ZAKARIAH BIN YET, AMS, AMN
Aged 61, Malaysian
Senior Independent Non-Executive Director

Tuan Haji Zakariah was first appointed to the Board on 27 January 1995 as a Non-Independent Non-Executive Director and was re-designated as Independent Non-Executive Director on 8 March 2011. He was last re-elected on 15 January 2015.

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

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

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

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

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

BOARD OF DIRECTORS

MR YONG CHEE HOU
Aged 60, Malaysian
Independent Non-Executive Director

Mr Yong was first appointed to the Board on 11 January 2002 and was last re-elected on 14 January 2016. He is also a member of the Audit Committee and Nominating Committee of the Company.

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

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

OTHER INFORMATION ON DIRECTORS

1. FAMILY RELATIONSHIP

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

3. CONVICTIONS OF OFFENCES

None of the Directors have been convicted of any offence within the past five (5) years other than traffic offence, if any.

4. DETAILS OF ATTENDANCE AT BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 JULY 2016

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

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)

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

Mr Yong Chee Hou
(Independent Non-Executive Director)

AUDIT COMMITTEE

Tuan Haji Zakariah Bin Yet
(Chairman)

Mr Yong Chee Hou
(Member)

Ms Lim Mee Ing
(Member)

NOMINATING COMMITTEE

Tuan Haji Zakariah Bin Yet
(Chairman)

Mr Yong Chee Hou
(Member)

Ms Lim Mee Ing
(Member)

COMPANY SECRETARY

Ms Leong Oi Wah
(MAICSA 7023802)

REGISTERED OFFICE

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Selangor Darul Ehsan
MALAYSIA
Tel : 603-7803 1126
Fax : 603-7806 1387

SHARE REGISTRAR

Symphony Share Registrars Sdn Bhd
Level 6, Symphony House
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Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan
MALAYSIA
Tel : 603-7849 0777
Fax : 603-7841 8151 / 8152
Email: ssr.helpdesk@symphony.com.my

AUDITORS

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

PLACE OF INCORPORATION

Malaysia

COMPANY REGISTRATION NO.

13022-A

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad
Main Market

STOCK NAME

KESM

STOCK CODE

9334

SECTOR

Technology

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. NON-AUDIT FEES

the amount of 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.

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 2016 or entered into since the end of the previous financial year.

AUDIT COMMITTEE'S REPORT

The Audit Committee ("the Committee") is pleased to present its report for the financial year ended 31 July 2016 ("FY2016").

COMPOSITION

The Committee currently comprises the following directors: -

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

KEY FUNCTIONS AND RESPONSIBILITIES

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

The TOR is available on the Company's website.

MEETINGS AND ATTENDANCE

The Committee met five (5) times in FY2016. Other Board members, senior management staff and the company secretary attended the meetings upon invitation of the Committee. The representatives of the internal and external auditors were also present during deliberations which required their inputs and advice.

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

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

SUMMARY OF THE WORK OF THE COMMITTEE

During FY2016, the Committee: -

Financial Reporting

1. reviewed with the external auditors their audit for the financial year ended 31 July 2015 ("FY2015") 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 1965; and discussed their audit findings and accounting issues arising from their audit together with their recommendations and management's responses; and considered management's handling of impairment assessment, corrected or uncorrected misstatements and unadjusted audit differences;

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

3. reviewed and recommended the audited financial statements of the Company and of the Group for FY2015 for the Board's approval; and

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

External Audit

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

2. reviewed the external auditors' report on the Statement on Risk Management and Internal Control in respect of FY2015 to ascertain that the disclosures are consistent with the Company's established systems of risk management and internal control prior to Board's approval;

3. reviewed the audit plan for FY2016 with the external auditors with focus on the audit engagement team, areas of audit emphasis and impairment assessment, multilocation scoping and audit timeline;

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

5. met with the external auditors twice in FY2016 without the presence of Executive Board members and senior management to enquire about management's co-operation with the external auditors, sought clarification on certain issues arising from the final audit and ascertained no significant weaknesses were noted in the internal control system and no frauds were noted in the course of their audit.

Internal Audit

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

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

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

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

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

Related Party Transactions

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

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

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

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

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

Other

1. prepared the Committee's report in respect of FY2015 and presented it to the Board for approval.

2. reviewed the TOR and proposed consequential changes arising from the amendments of MMLR which came into effect on 3 May 2016, 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 first meeting of the Committee;

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

   - Procurement Controls Management for Trade and Non-Trade
   - GST compliance review
   - RRPT
   - Inventory management
   - Human Resource Management
   - Revenue management

   and presented the audit reports to the Committee; and

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

The total cost incurred for the Group's internal audit function amounted to RM68,000.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors ("the Board") is committed to ensuring that good corporate governance practice is observed throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and the financial performance of the Group.

This Statement provides an overview of the corporate governance practices adopted by the Company in respect of the financial year ended 31 July 2016 ("FY2016"). It outlines the manner in which the Company has complied with the key principles and supporting recommendations set out in the Malaysian Code on Corporate Governance 2012 ("Code"). The Board is pleased to report that the Company complied substantially with the Code except where specifically identified and explained in this statement.

BOARD OF DIRECTORS

Roles and Responsibilities

The Board is responsible for leading and managing the Company and the Group in an effective and responsible manner.

The functions reserved for the Board and those delegated to management have been clearly defined in a Board Charter as well as in internal guidelines which set forth matters that require the Board's approval.

The Board assumes the responsibilities and perform the duties stipulated in the Articles of Association of the Company ("Articles"), Companies Act, 1965 ("the Act"), Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR") and any applicable rules, laws and regulations, which are outlined in the Board Charter. Additionally, the Board also undertakes leadership duties, which broadly includes:

- review and adoption of the overall strategic plan for the Company and the Group;
- oversight of the conduct of the Company's business;
- monitor compliance with all relevant statutory and legal obligations;
- approval of the annual budgets;
- identification of principal risks and ensuring implementation of appropriate risk management and internal control measures;
- oversight of succession planning of senior management;
- development and implementation of a shareholder communication policy; and
- review of the adequacy and integrity of the management information and internal control system.

The Board performs the aforesaid responsibilities and duties by ensuring the relevant matters are discussed or included in its regular Board's and Board committee's agendas at appropriate juncture throughout the year. To this end, the Board:

- obtains feedback from senior management to ensure that the strategic plan is aligned to market and is customer-centric;
- receives senior management's updates on key developments in the industry, Group's businesses and customers as well as presentation on the Group's financial performance at the regular meetings held throughout the year;
- ensure there is open channel for shareholders to raise questions at shareholders' meeting;
- deliberates on announcements and press releases to ensure they are prepared to provide factual and meaningful disclosures;
- ensures material information are released on timely basis and respond to press interviews;
- delegates the function of succession planning of the senior management staff of the business units to the Executive Directors as they are in the best position to plan and decide given their direct and close working relationship with the business units; and

- receives regular reports from the internal auditors and management pertaining to their reviews of the Group's internal controls and risk management matters.

The senior management, led by the Chief Executive Officer and guided by the approved strategic plans of the Company, develops the operating plans, puts them into actions, monitors actual results against planned performance and implements corrective actions and ensure compliance with all relevant statutory and legal obligations, implements a proper risk management systems and its associated internal controls, develops programs for better investor relations and shareholder communications, develops and implements policy and procedures to ensure adequacy and integrity of management information and internal control systems and implements effective corporate governance structures and its associated internal control system.

The Board is assisted by the following Board committees which operate within clearly defined terms of reference, namely:

- Audit Committee
- Nominating Committee

Board Composition and Balance

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 FY2016, the Board comprises five (5) directors, three (3) of whom are non-executive. Of the non-executive directors, two (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.

The Board considers its current composition and size to be appropriate and effective, taking into account the nature and scope of the Group's operations and fairly reflects the investment of minority shareholders in the Company.

Separation of Chairman and Chief Executive Officer

Given the present structure and scale of the Group's businesses, the roles of the Chairman and Chief Executive Officer ("CEO") are not separated. Mr Samuel Lim is both the Chairman and CEO of the Company.

The Board is of the view that given the nature and size of the Group's businesses, it is advantageous to vest the roles of both the Chairman and CEO on the same person who, in the unique position as co-founder, is knowledgeable about the businesses of the Group to ensure its proper management and continual success. In this manner, the Group also benefitted from a strong and consistent leadership to ensure effective planning and execution of its long term business strategies. At the same time, in his capacity as Chairman, Mr Samuel Lim can effectively guide discussions to ensure that the Board is properly briefed in a timely manner on pertinent issues and developments of the Group's businesses. The combined role, therefore, has the weight of corporate history and clear reporting lines on its side.

The Chairman/CEO always abstains from all deliberations and voting on matters, which he is directly or deemed, interested. All related party transactions involving him are dealt with in accordance with the provisions of the MMLR. Moreover, the Senior Independent Non-Executive Director, Tuan Haji Zakariah Bin Yet, is available to deal with concerns regarding the Company where it could be inappropriate for these to be dealt with by the Chairman/CEO.

Although the roles of the Chairman and CEO are combined, the Board is of the view that there are sufficient independent directors, which constitutes one-third of the Board, who are capable of exercising independent judgements for the Board to ensure fair and objective deliberations at Board meetings.

Recommendation 3.5 of the Code states that the Board should comprise a majority of independent directors where the chairman is not an independent director. The Board did not adopt this recommendation as it is of the view that Mr Samuel Lim's performance and objectivity in discharging his responsibilities as Chairman, notwithstanding his executive role, has not compromised the effective functioning of the Board. As Chairman, he ensures discussions at the Board level are conducted objectively and professionally where all views are heard and key issues are debated in a fair and open manner. With the assistance of the company secretary, the Chairman schedules Board meetings as and when required, prepares the agenda and ensures sufficient allocation of time for thorough discussion on each agenda item, including strategic issues. He also plays a pivotal role in fostering constructive dialogue between shareholders, the Board and the management at shareholders' meetings.

Re-election

In accordance with the Company's Articles, 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.

Tenure of Independent Director

The Code stipulates that the tenure of an Independent Director should not exceed a cumulative period of nine (9) years and upon the completion of the nine years, an Independent Director may continue to serve on the Board subject to the Director's re-designation as a Non-Independent Director. The Code urges the Board to justify and seek shareholders' approval in the event it retains as an Independent Director, a person who has served in that capacity for more than nine years.

The Board is of the view that the length of tenure should not be a criterion affecting a director's independence as there are advantages to be gained from the long serving Director who possesses good insight and knowledge of the Company's and Group's businesses and affairs. The Board, through the Executive Directors, itself will undertake an assessment of the independence of its Independent Director as it believes the Executive Directors who have intimate working relationship amongst the Directors are well placed to ascertain the independence issue instead of the shareholders.

Subsequent to FY2016, the Board conducted an appraisal on the independence of Tuan Haji Zakariah Bin Yet and Mr Yong Chee Hou and concluded that they met the independence criteria as set out in the MMLR and they continue to maintain independent and objective views in rendering their services.

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.

During the year under review, the Board met on a total of five (5) occasions. The attendances of each individual director at these meetings are set out in the "Other Information on Directors" section of this Annual Report. All directors are committed and had devoted sufficient time to discharge their duties, as demonstrated by their more than 50% attendance of the Board meetings. Deliberations of the Board and the decisions made at the Board meetings are 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.

Formalised Ethical Standards

The code of conduct of the Company are specified across various forms such as the terms of employment, personnel, administration, financial and governance policies and operating procedures to ensure ethical values are observed throughout the Company.

The Company also has in place a whistle blower policy which outlines the procedures when, how and to whom employees may report and raise in good faith and in confidence, any concern about possible improprieties in matters of financial reporting or other matters. The policy had been disseminated to the employees through the usual communication channel of the Company and its subsidiaries.

The Company did not make available its code of conduct or the whistle blower policy on its website as the Board is of the view that it is not commercially beneficial to publish such information publicly.

Corporate Social Responsibility and Sustainability

Caring for the Environment

The Company is committed to environmental and resources conservation and has been accredited the ISO 14000 Quality Management. In the Company's daily operations, it continues to carry out recycling programs and promote good practices on energy saving and take measures to reduce wastage.

Social - The Workplace

The Company has long recognised the value of people and remains committed to help its employees in developing themselves to their fullest potential. Various in-house training programmes focusing on productivity and job related training were conducted to equip the employees with the required skills and knowledge.

It employs an open door policy and encourages its employees to provide suggestions or feedback on any subject matter, regardless of their position or length of employment.

The Company is an equal opportunity employer and treats all employees fairly, regardless of their race, religion, gender, age, marital status and nationality. The Group does not have a policy on workforce diversity of gender, ethnicity and age. However, the Group is committed to cultivate a climate of diversity and inclusiveness via its non-discriminatory recruitment processes.

Governance

The Board will continue to evaluate the Group's corporate governance procedures and introduce various measures and implement best practices that are relevant to the Group, bearing in mind the Group's business, size, the changing business landscape, the economic conditions, etc. that have bearing on the Group.

The Company is not making its policy and implementation plans relating to its strategies on sustainability available on its website as the Board is mindful that such information could be commercially sensitive and proprietary in nature.

TIME COMMITMENT

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

- have to attend Board and Board committee meetings physically, or otherwise via teleconference (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 invitation to serve on another Board,
  - ensure that he/she is not already serving on the Board of five (5) public listed companies; and
  - gives prior notification to the Chairman.

DIRECTORS' TRAINING – CONTINUING EDUCATION PROGRAMMES

All the Directors had fulfilled his/her Mandatory Accreditation Programme obligations stipulated by MMLR. The Directors are mindful that they should 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 programme and external training programme that are deemed appropriate to aid them in the discharge of their duties as directors.

From time to time during the normal proceedings of the meetings, the Directors received updates and briefings, particularly on regulatory and industry developments, relevant new laws and changes to the accounting standards, from the management, company secretary and auditors.

The Company has an allocated training budget amount and the Directors are encouraged to attend training to develop their skills and competencies. In FY2016, the Directors had attended the following courses:-

Name of Director	Course Title / Date	Duration	Organiser
Samuel Lim Syn Soo	Global Social Trends on Issues, Trust and Expectations for Business	Webinar	GlobeScan
Kenneth Tan Teoh Khoon	Transfer Pricing Session 21 June 2016	Half Day	In-House
Lim Mee Ing	Global Social Trends on Issues, Trust and Expectations for Business	Webinar	GlobeScan
Tuan Haji Zakariah Bin Yet	Audit Committee Conference 2015 29 March 2016	1 Day	Malaysian Institute of Accountants
	Transfer Pricing Session 21 June 2016	Half Day	In-House
Yong Chee Hou	Transfer Pricing Session 21 June 2016	Half Day	In-House

ACCESS TO INFORMATION AND INDEPENDENT ADVICE

The Chairman ensures that all Directors have full and unrestricted access to timely information, necessary in the furtherance of their duties, whether as a full board or in their individual capacity.

Prior to each Board and Board Committee meeting, every Director is given the agenda and relevant papers containing reports and information to facilitate active participation and informed decision making. The papers are issued in sufficient time to enable the Directors to obtain further information and explanations, where necessary, so that they are properly briefed before the meetings. At each meeting, apart from receiving financial-oriented information from the management, the Board is also kept updated on the activities, operations and other performance factors affecting the Group's business and performance. Matters requiring any decision are in practice thoroughly discussed and deliberated by the Board. There is active and unrestricted participation by Independent Directors in the deliberations and decisions of the Board. All Directors can and do have opportunity to call for additional clarification and information to assist them in their decision-making.

In furtherance of their duties, the Directors may also seek independent professional advice at the Company's expense if circumstances necessitate it. The procedures for obtaining such advice comprise prior consultation with the Chairman and to obtain the relevant approval of the Chairman or Board, depending on the quantum of the fees to be incurred.

QUALIFIED AND COMPETENT SECRETARY

The Board is supported by a professionally qualified company secretary who has many years of experience handling public listed companies.

The company secretary is accountable to the Board on all matters connected with the proper functioning of the Board. To this end, she is responsible for (i) assisting the Chairman and the chairmen of the Board Committees in developing the agendas for the meetings; (ii) administering, attending and preparing the minutes of meetings of the Board, Board Committees and shareholders, (iii) advising on statutory and regulatory requirements and the resultant implication of any changes that have bearing on the Company and the Directors; (iv) advising on matters of corporate governance; and (v) monitoring compliance with the Act, the MMLR and the Articles of the Company; (vi) ensuring Board policies and procedures are adhered to; (vii) acts as liaison to ensure good information flow within the Board, between the Board and its Committees as well as between management and the Directors; (viii) facilitating orientation of new directors; (ix) disseminating suitable training courses and arranging for Directors to attend such courses when requested.

Every Director has full access to the advice and services of the company secretary. The company secretary and the senior management proactively monitor and guide the Board on the corporate disclosure requirements stipulated in the MMLR to ensure the Company is in compliance and makes timely disclosures.

BOARD CHARTER

The Company's Board Charter ("Charter") sets out:

- the Board structure and protocols;
- the Board's strategic intent;
- key values, principles and ethos of the Company;
- the Board's roles and responsibilities, outlining the division of the responsibilities and powers between Board and management, the different Board committees and between the Chairman and CEO; and
- the processes and procedures for convening Board meetings.

The Board will periodically review the Charter to ensure that it remains consistent with the Board's objectives, meet the needs of the Company and is in compliance with applicable laws and regulatory requirements. The Charter was last reviewed by the Board on 11 July 2016.

The Code recommends that the Charter be published on the Company's website. However, the Board has concluded that there is no commercial benefit to publicise such self-governance document. Instead, an abridged version of the current Charter is posted on the Company's website at www.kesmi.com.

NOMINATING COMMITTEE

Composition

The Nominating Committee ("NC") comprises the following directors :-

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

Key Functions, Roles and Responsibilities

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

The TOR is available on the Company's website.

Board Nomination and Selection Process

When the need arises to appoint new member of Board, the Board will specify the requirements. The NC will be guided by the procedures outlined in the Charter to source, select and shortlist suitable individuals, for the Board's consideration.

Statement on Activities

The NC met once in FY2016 and the attendance of members was as follows:

Name of Members	No. of Meeting
Tuan Haji Zakariah Bin Yet	1/1
Mr Yong Chee Hou	1/1
Ms Lim Mee Ing	1/1

The Company Secretary was in attendance to record the proceedings of the meeting.

In FY2016, the NC

- assessed and confirmed the independence of the Independent Directors;
- evaluated the effectiveness of the Board as a whole and the Board Committees;
- assessed the contribution of each individual Director; and
- evaluated the board composition in regards to the mix of its skill;

in respect of their performance for FY2015.

The evaluation criteria used for the assessment of the Board comprised assessment of its structure, operation, roles and responsibilities and that of the Chairman whereas the Board Committees were assessed based on their composition, contribution to the Board's effectiveness and discharge of their duties. Some of the factors used to evaluate the performance of the individual Director included contribution to interaction, attendance and participation at meetings and decision-making, quality of input as well as understanding of his/her role and responsibilities. The assessment and comments by all Directors were summarised and reported to the Board by the Chairman of the NC. All assessments and evaluations carried out by the NC in the discharge of its functions were properly documented.

From the results of the assessment, which included an evaluation of the mix of skills and experience possessed by the Directors, the NC was satisfied that the Board has the right size and the Board composition is well balanced having considered the appropriate mix of skills, experience, strength and independence and the diversity required to meet the current and future needs of the Company. The Board concurred with the NC's assessment that the current Board's size and composition has continued to enable the Board to operate effectively. Therefore, no new Board nomination is deemed necessary.

At the meeting, the NC also evaluated the eligibility of the retiring Directors by rotation to stand for re-election at the previous Annual General Meeting and nominated Messrs Samuel Lim Syn Soo and Yong Chee Hou for re-election, pursuant to Article 80 of the Company's Articles.

BOARD DIVERSITY

The Board is of the view that the composition of the Board requires consideration of a number of factors, such as the character, availability of time, mix of skills, abilities and expertise, the length of time served on the Board, the independence criteria as well as experience on other Boards. Therefore, the Board is not establishing a diversity policy on nationality, gender, ethnicity and age or setting any target. The table below provides an overview of the diversity of the Board:

Board Diversity at a Glance

Gender:	Male – 80%	Female – 20%
Ethnicity:	Malay – 20%	Chinese – 80%
Nationality:	Malaysian – 40%	Singaporean – 60%
Age range :	51 to 60 Years: 40%	61 to 70 Years: 60%
Independence:	Non-Independence: 60%	Independence: 40%
Core competencies:	Accounting, banking, business acumen, engineering, finance, general management, human resources, industry knowledge, legal, marketing, manufacturing and strategic development.	

Notwithstanding the current age ranges, the Board believes that this generation brings skills, experience and talents to the Board.

DIRECTORS' REMUNERATION

The Board did not establish a Remuneration Committee ("RC") as recommended by the Code. Instead the Board itself will deliberate on the remuneration of directors during the normal proceedings of the meeting of Directors.

The Board has established remuneration policies and procedures that are formalised in the Charter. Broadly, these encompass:

- Periodic review
- Determination of directors' fees based on:-
  - reference to prevailing market practices of comparable companies in similar industry;
  - basic fee for membership of the Board;
  - fee for chairmanship of the Board;
  - fee for membership of Board Committee; and
  - fee for chairmanship of Board Committee.
- Determination of remuneration package of Executive Directors is based on market trends and the performance of the Group.
- Abstention of Directors in determining his/her own fees or remuneration.

Disclosure on Directors' remuneration can be found on Note 8 of the audited financial statements included in this Annual Report.

AUDIT COMMITTEE

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

INTERNAL AUDIT FUNCTION

The internal audit function of the Group is outsourced to a reputable international accounting/audit firm. The responsibilities of the internal auditors include 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.

Being an independent function, the audit work is conducted with impartiality, proficiency and due professional care.

Details of the work carried out by the internal auditors in FY2016 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.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to provide and present a balanced and meaningful assessment of the Company's and of the Group's financial position and prospects in the annual financial statements, quarterly results announcements as well as the Chairman's statement in the annual report. The Board is assisted by the AC to oversee the Group's financial reporting processes and the quality of its financial reporting.

Details of AC's oversight of the financial reporting function are found in the "Summary of the Work of the Committee" section of the "Audit Committee's Report" included in this Annual Report.

Directors' Responsibility for Preparing the Financial Statements

The Directors are required by the Act to prepare financial statements for each financial year which have been made out 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 the cash flows of the Group and of the Company for the financial year then ended.

In preparing the financial statements, the Directors have:

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

The Directors have ensured the Group and the Company keep proper accounting and other records which disclose with reasonable accuracy the financial position of the Group and of the Company and which enable them to ensure that the financial statements are drawn up to comply with the Act.

The Directors also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Risk Management and Internal Control

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 framework and internal control system.

External Auditors

The Company has always maintained a transparent relationship 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 internal and external auditors. The role of the AC in relation to the auditors is described in the "Audit Committee's Report" section of this Annual Report.

In FY2016, the AC, in consultation with the Board, had established a questionnaire form setting out the criterions that would be employed to assess the external auditor's suitability and independence. The criterions set out in questionnaire covered areas such as:-

- calibre of external audit firm in terms of standing, international capabilities, technical expertise and knowledge;
- size and expertise of audit team in terms of ability to provide effective audit service;
- audit scope and planning in terms of adequate geographical coverage and significant areas;
- understanding of audit expectations;

- audit communications in terms of availability, quality, candor and timeliness;
- quality processes/performance in terms of independence, quality, efficiency and timeliness of service delivery;
- audit fees in terms of reasonableness and sufficiency; and
- independence and objectivity in terms of performance, limit on engagement term, cooling off period of engagement partner and non-audit services rendered, in absolute terms and/or as a percentage of audit fee

In FY2016, the AC also relies on the written assurance obtained from the external auditors confirming their independence throughout the conduct of the audit engagement.

Prior to the provision of any engagement of non-audit services by the external auditor, the AC will review and approve the acceptance of such engagements. Non-audit services provided by the external auditors in FY2016 were in respect of the services rendered for the review of the Statement of Risk Management and Internal Control (as required under the MMLR) and the review of the application for utilities tariff.

The AC had reviewed the suitability and independence of Messrs Ernst & Young ("EY") based on the criterions established by the Board and had recommended their re-appointment as external auditors of the Company for the financial year ending 31 July 2017. The Board, having considered the AC's recommendation, was satisfied with the competency, performance and independence of EY and recommended their re-appointment as the Company's external auditors for shareholders' approval at the forthcoming AGM.

COMMUNICATION AND RELATIONSHIP WITH SHAREHOLDERS AND INVESTORS

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

Additionally, the AGM and/or Extraordinary General Meeting ("EGM") provide an opportunity for the shareholders to interact with the Board face-to-face to seek clarifications on any issues and to gain better understanding of the Group's business affairs and performance. At such meetings, the Board always encourages shareholders' active participation. Members of the Board and the external auditors are also present to answer questions raised during the meetings.

Notices of each AGM and EGM are issued in a timely manner to all shareholders. Each item of special business included in the notice of AGM is accompanied by a full explanation of the effects of a proposed resolution to facilitate full understanding and evaluation of issues involved. The Annual Report is sent out to shareholders at least 21 days before the date of the AGM. It provides detailed and comprehensive information on the Group's activities, business and performance over the financial year to help shareholders make informed decisions on their investment in the Company. The Annual Report is also uploaded on the Company's website at www.kesmi.com.

Bursa Securities introduced a new paragraph 8.29A of the MMLR which came into effect on 1 July 2016, requiring all resolutions set out in the notice of general meetings to be voted by poll. In this connection, the Company will put all resolutions to vote by poll commencing from the next AGM of the Company.

Throughout the year, the Executive Directors, who are responsible for investor relations of the Company, meet with analysts and institutional investors. Presentations based on permissible disclosures are made to explain the Group's strategies, performance and activities. Price sensitive and any information that may be regarded as undisclosed material information about the Group are not disclosed in these exchanges until after the prescribed announcement to Bursa Securities has been made.

Through the Company's website shareholders and members of the public in general also can gain access to updated information about the Company and the Group.

This Statement is made in accordance with the resolution of the Board of Directors dated 20 September 2016.

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 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 Principle 6 of the Malaysian Code on Corporate Governance 2012 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 2016 ("FY2016").

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 recognizes that the system of risk management and internal controls 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:

- Executive Directors, assisted by corporate management, oversee and endorse risk management and internal control system implementation by business unit management;
- Business unit management – to identify, assess and implement suitable risk management and internal control systems; and
- Audit Committee – for oversight over internal control systems, financials and governance matters.

RISK MANAGEMENT FRAMEWORK

The Group has in place an Enterprise Risk Management ("ERM") 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 risks 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 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 prevention of asset and data loss. The key internal control structures the Group has in place are described below.

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

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

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

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

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

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

REVIEW OF THIS STATEMENT

The external auditors had reviewed this Statement pursuant to Recommended Practice Guide 5 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.

CONCLUSION

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

The Board 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 losses that would require disclosure in the Group's annual report. Notwithstanding this, the Board will continue to review the control procedures to ensure continual effectiveness and adequacy of the system of risk management and internal control of the Group.

This Statement is made in accordance with the resolution of the Board of Directors dated 20 September 2016.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Directors are pleased to present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 July 2016.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of semiconductor burn-in services. The principal activities of its subsidiaries are the provision of semiconductor burn-in and testing services, and electronic manufacturing services.

There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	Group RM'000	Company RM'000
Attributable to owners of the Company:		
Profit net of tax	30,683	6,222

There were no material transfers 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 2015 as reported in the Directors' report of that year:	
Final tax exempt dividend of 3 sen, on 43,014,500 shares, declared on 14 January 2016 and paid on 5 February 2016	1,290
In respect of the financial year ended 31 July 2016:	
Special tax exempt dividend of 4.5 sen, on 43,014,500 shares, declared on 11 July 2016 and paid on 18 August 2016	1,936

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the financial year ended 31 July 2016, of 3 sen per ordinary share amounting to RM1,290,435 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 2017.

DIRECTORS

The Directors of the Company in office since the date of the last report and at the date of this report are:

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

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 emoluments and fees received or due and receivable by the Directors as shown in Note 8 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 22 to the financial statements.

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 of RM1.00 each			
	At 1.8.2015	Acquired	Sold	At 31.7.2016
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.

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 all known bad debts had been written off and no provision for doubtful debts was necessary; and

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

(b) At the date of this report, the Directors are not aware of any circumstances which would render:

  (i) it necessary to make any provision for doubtful debts or the amount written off for bad debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and

  (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.

(c) At the date of this report, the Directors are not aware of any circumstances 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.

(d) At the date of this report, the Directors are not aware of any circumstances 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.

(e) As 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.

(f) 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, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 20 September 2016.

Samuel Lim Syn Soo

Kenneth Tan Teoh Khoon

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

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 32 to 83 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 2016 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, 1965 in Malaysia.

The information set out in Note 30 to the financial statements on page 83 have been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 20 September 2016.

Samuel Lim Syn Soo

Kenneth Tan Teoh Khoon

STATUTORY DECLARATION

PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

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 32 to 83 are, to the best of my knowledge and belief, correct and I make this solemn declaration by virtue of the provisions of the Statutory Declarations Act, 1960, and subject to the penalties provided by that Act for the making of false statements in statutory declarations, conscientiously believing the statements contained in this declaration to be true in every particular.

Subscribed and solemnly declared by
the abovenamed Kenneth Tan Teoh Khoon
at Kelana Jaya, Selangor on 20 September 2016

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 FINANCIAL STATEMENTS

We have audited the financial statements of KESM Industries Berhad, which comprise the statements of financial position as at 31 July 2016 of the Group and of the Company, and the 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 a summary of significant accounting policies and other explanatory notes, as set out on pages 32 to 83.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 July 2016 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, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 ("Act") in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

(b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 12 to the financial statements, being financial statements that have been included in the consolidated financial statements.

(c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

(d) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and in respect of subsidiaries incorporated in Malaysia did not include any comment required to be made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 30 to the financial statements on page 83 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Low Khung Leong
No. 2697/01/17 (J)
Chartered Accountant

Kuala Lumpur, Malaysia
20 September 2016

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 July 2016

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Revenue	4	285,734	263,122	64,703	60,902
Other items of income					
Interest income	5	2,541	2,520	1,419	1,424
Dividend income		134	169	134	29,783
Other income		1,280	5,830	2,537	5,996
Items of expense					
Raw materials and consumables used		(31,623)	(31,191)	(831)	(705)
Changes in work-in-progress and finished goods		628	754	–	–
Employee benefits expense	6	(98,814)	(93,413)	(30,975)	(29,256)
Depreciation of property, plant and equipment	11	(55,214)	(57,641)	(6,087)	(9,991)
Finance costs	7	(3,039)	(3,578)	(34)	(366)
Other expenses		(65,388)	(62,533)	(23,064)	(24,469)
Profit before tax	8	36,239	24,039	7,802	33,318
Income tax expense	9	(5,556)	(3,061)	(1,580)	(696)
Profit net of tax		30,683	20,978	6,222	32,622
Other comprehensive income:					
Items to be reclassified subsequently to profit or loss					
Foreign currency translation		(1,205)	6,619	–	–
Other comprehensive income for the year, net of tax		(1,205)	6,619	–	–
Total comprehensive income for the year		29,478	27,597	6,222	32,622
Profit attributable to:					
Owners of the Company		30,683	17,031	6,222	32,622
Non-controlling interests		–	3,947	–	–
		30,683	20,978	6,222	32,622
Total comprehensive income attributable to:					
Owners of the Company		29,478	23,650	6,222	32,622
Non-controlling interests		–	3,947	–	–
		29,478	27,597	6,222	32,622
Earnings per share attributable to owners of the Company					
– Basic	10	71.3 sen	39.6 sen		

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

STATEMENTS OF FINANCIAL POSITION
As at 31 July 2016

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Assets					
Non-current assets					
Property, plant and equipment	11	169,770	183,031	17,684	17,802
Investment in subsidiaries	12	–	–	79,250	79,250
Deferred tax assets	20	602	2,537	412	620
		170,372	185,568	97,346	97,672
Current assets					
Inventories	13	8,527	10,089	114	124
Trade and other receivables	14	70,421	67,025	20,456	24,727
Prepayments		5,452	3,910	2,349	1,358
Investment securities	15	4,184	4,059	4,184	4,059
Cash and short-term deposits	16	112,748	93,924	56,614	47,150
		201,332	179,007	83,717	77,418
Total assets		371,704	364,575	181,063	175,090
Equity and liabilities					
Equity attributable to owners of the Company					
Share capital	17	43,015	43,015	43,015	43,015
Reserves	18	243,703	217,451	125,062	122,066
Total equity		286,718	260,466	168,077	165,081
Non-current liabilities					
Loans and borrowings	19	9,874	32,983	287	–
Current liabilities					
Trade and other payables	21	45,230	30,367	12,451	6,844
Loans and borrowings	19	29,495	40,375	203	2,818
Income tax payable		387	384	45	347
		75,112	71,126	12,699	10,009
Total liabilities		84,986	104,109	12,986	10,009
Total equity and liabilities		371,704	364,575	181,063	175,090

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 2016

	Equity, total RM'000	Equity attributable to owners of the Company, total RM'000	Share capital (Note 17) RM'000	Share premium (Note 18) RM'000	Retained earnings (Note 18) RM'000	Other reserves, total RM'000	Foreign currency translation reserve (Note 18) RM'000	Capital reserve (Note 18) RM'000	Statutory reserve fund (Note 18) RM'000	Non-controlling interests RM'000
		Attributable to owners of the Company								
			Non-distributable		Distributable		Non-distributable			
Group										
At 1 August 2014	281,552	245,459	43,015	663	193,343	8,438	5,117	–	3,321	36,093
Total comprehensive income	27,597	23,650	–	–	17,031	6,619	6,619	–	–	3,947
Transactions with owners										
Transfer to statutory reserve fund	–	–	–	–	(558)	558	–	–	558	–
Dividends (Note 28)	(2,580)	(2,580)	–	–	(2,580)	–	–	–	–	–
Dividends paid to non-controlling interests	(10,386)	–	–	–	–	–	–	–	–	(10,386)
Issuance of bonus shares by subsidiaries	–	–	–	–	(2,240)	2,240	-	2,240	–	–
Acquisition of non-controlling interests without a change in control (Note 12)	(35,717)	(6,063)	–	–	(6,063)	–	–	–	–	(29,654)
Total transactions with owners	(48,683)	(8,643)	–	–	(11,441)	2,798	–	2,240	558	(40,040)
At 31 July 2015	260,466	260,466	43,015	663	198,933	17,855	11,736	2,240	3,879	–
Total comprehensive income	29,478	29,478	–	–	30,683	(1,205)	(1,205)	–	–	–
Transactions with owners										
Transfer to statutory reserve fund	–	–	–	–	(750)	750	–	–	750	–
Dividends (Note 28)	(3,226)	(3,226)	–	–	(3,226)	–	–	–	–	–
Total transactions with owners	(3,226)	(3,226)	–	–	(3,976)	750	–	–	750	–
At 31 July 2016	286,718	286,718	43,015	663	225,640	17,400	10,531	2,240	4,629	–

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 July 2016

		Non-distributable		Distributable	Non-distributable	
	Equity, total RM'000	Share capital (Note 17) RM'000	Share premium (Note 18) RM'000	Retained earnings (Note 18) RM'000	Other reserves, total RM'000	Merger relief reserve (Note 18) RM'000
Company						
At 1 August 2014	135,039	43,015	663	90,146	1,215	1,215
Total comprehensive income	32,622	–	–	32,622	–	–
Transaction with owners						
Dividends (Note 28)	(2,580)	–	–	(2,580)	–	–
At 31 July 2015	165,081	43,015	663	120,188	1,215	1,215
Total comprehensive income	6,222	–	–	6,222	–	–
Transaction with owners						
Dividends (Note 28)	(3,226)	–	–	(3,226)	–	–
At 31 July 2016	168,077	43,015	663	123,184	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 2016

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Operating activities				
Profit before tax	36,239	24,039	7,802	33,318
Adjustments for:				
Depreciation of property, plant and equipment	55,214	57,641	6,087	9,991
Gain on disposal of property, plant and equipment	(506)	(172)	(343)	(2,379)
Gain on disposal of investment securities held for trading	–	(697)	–	(697)
Plant and equipment written off	15	4	1	2
Net fair value (gain)/loss on investment securities held for trading	(125)	3,021	(125)	3,021
Unrealised exchange loss/(gain)	1,031	1,917	(6)	1,012
Reversal of impairment loss on trade receivables	–	(21)	–	–
Inventories written down	30	227	–	–
Dividend income	(134)	(169)	(134)	(29,783)
Interest income	(2,541)	(2,520)	(1,419)	(1,424)
Finance costs	3,039	3,578	34	366
Operating cash flows before working capital changes	92,262	86,848	11,897	13,427
Changes in working capital:				
Decrease in inventories	1,532	1,273	10	9
(Increase)/decrease in prepayments, trade and other receivables	(4,938)	(4,643)	3,286	10,792
Increase/(decrease) in trade and other payables	3,444	(1,969)	2,927	(133)
Cash flows generated from operations	92,300	81,509	18,120	24,095
Income taxes paid	(3,618)	(2,996)	(1,674)	(662)
Interest paid	(3,039)	(3,578)	(34)	(366)
Interest received	2,541	2,520	1,419	1,424
Net cash flows generated from operating activities	88,184	77,455	17,831	24,491

STATEMENTS OF CASH FLOWS

For the financial year ended 31 July 2016

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Investing activities				
Increase in short-term deposits with maturity more than three months	(1,000)	–	–	–
Proceeds from disposal of investment securities	–	1,277	–	1,277
Dividend income	134	169	134	29,783
Purchase of property, plant and equipment	(29,622)	(78,503)	(4,619)	(2,188)
Proceeds from disposal of property, plant and equipment	523	1,993	344	3,954
Net cash flows (used in)/generated from investing activities	(29,965)	(75,064)	(4,141)	32,826
Financing activities				
Repayment of obligations under finance leases	(1,350)	(1,873)	(243)	(638)
Repayment of term loans	(39,756)	(44,423)	(2,693)	(14,642)
Proceeds from term loans	3,067	45,520	–	–
Repayment of other loan	–	(1,374)	–	–
Dividends paid on ordinary shares	(1,290)	(2,580)	(1,290)	(2,580)
Dividends paid to non-controlling interests	–	(10,386)	–	–
Acquisition of non-controlling interests	–	(35,717)	–	(35,717)
Net cash flows used in financing activities	(39,329)	(50,833)	(4,226)	(53,577)
Net increase/(decrease) in cash and cash equivalents	18,890	(48,442)	9,464	3,740
Effects of exchange rate changes on cash and cash equivalents	(1,066)	2,998	–	–
Cash and cash equivalents at beginning of year	93,924	139,368	47,150	43,410
Cash and cash equivalents at end of year (Note 16)	111,748	93,924	56,614	47,150

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

1. CORPORATE INFORMATION

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

The principal activities of the Company are investment holding and provision of semiconductor burn-in services. The principal activities of its subsidiaries are the provision of semiconductor burn-in and testing services, and electronic manufacturing services. There have been no significant changes in the nature of these activities during the year.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 1965 in Malaysia.

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

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

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. In the current financial year, there was no new and amended MFRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 August 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Standards issued but not yet effective

The Group has not adopted the following standards that have been issued but not yet effective.

Description	Effective for annual periods beginning on or after
Annual Improvements to MFRSs 2012-2014 Cycle	1 January 2016
Amendments to MFRS 116 and 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 10 and 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 127: Equity Method in Separate Financial Statements	1 January 2016
Amendments to MFRS 101: Disclosure Initiatives	1 January 2016
Amendments to MFRS 10, 12 and 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
MFRS 14: Regulatory Deferral Accounts	1 January 2016
Amendments to MFRS 107: Disclosure Initiatives	1 January 2017
Amendments to MFRS 112: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
MFRS 15: Revenue from Contracts with Customers	1 January 2018
MFRS 15: Clarification of MFRS 15	1 January 2018
MFRS 9: Financial Instruments	1 January 2018
MFRS 16: Leases	1 January 2019

The Directors expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application except as discussed below:

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step models that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of MFRS 15 and plans to adopt the new standard on the required effective date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Standards issued but not yet effective (cont'd.)

MFRS 9 Financial Instruments

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

2.4 Basis of consolidation and business combinations

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.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full, except for unrealised losses which are not eliminated, when there are indications of impairment.

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 parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

A change in the ownership of a subsidiary without a loss of control, is accounted for as an equity transaction.

The carrying amount of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The resulting difference is recognised directly in equity and attributed to owners of the Company.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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 acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Basis of consolidation and business combinations (cont'd.)

Business combinations and goodwill (cont'd.)

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 deemed to be an asset or liability, will be 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 Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company.

Changes in the owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

2.6 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 denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are initially recognised and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.6 Functional and foreign currency (cont'd.)

(ii) Foreign operations

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 exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income and accumulated in equity under foreign currency translation reserve relating to that particular foreign operation is recognised in the profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

2.7 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. 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 recognises 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 is computed on a straight-line basis over the estimated useful lives of the assets as follows:

• Buildings	9 - 20 years
• Leasehold land	60 - 99 years
• Renovation	5 years
• Plant, machinery and test equipment	1.5 - 5 years
• Motor vehicles	5 years
• Office equipment, furniture and fittings and computers	3 - 10 years

Capital work-in-progress are not depreciated as these assets are not yet 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 financial year-end, 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 the profit or loss in the year the asset is derecognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.8 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes 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 exceeds its recoverable amount, the asset is written down to its recoverable amount.

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

Impairment losses are recognised in profit or loss.

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

2.9 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 investment, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

2.10 Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

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, the date that the Group commits to purchase or sell the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.10 Financial assets (cont'd.)

Subsequent measurement

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

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

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets held for trading are investment securities, derivatives or financial assets acquired principally for the purpose of selling or repurchasing in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any 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 fair value through profit or loss include exchange difference, interest and dividend income.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Gains and losses are recognised in the statement of profit or loss when the loans and recoverables are derecognised or impaired, and through the amortization process.

This category generally applies to trade and other receivables. Loans and receivables are classified as current assets, except for those having maturity date later than 12 months after the reporting date which are classified as non-current.

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 is recognised in statement of profit or loss.

2.11 Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred), discounted at the financial asset's original effective interest rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.11 Impairment of financial assets (cont'd.)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognised in the statement of profit or loss.

2.12 Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

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.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

(i) 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 in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in statement of profit or loss.

(ii) 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 and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

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, and the difference in the respective carrying amounts is recognised in statement of profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.13 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.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, and deposits with bank, 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 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.

2.15 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:

- raw materials: purchase costs on a weighted average basis.
- consumables: purchase costs on a first-in first-out basis.
- finished goods and work-in-progress: cost of direct materials and labour, and a proportion of manufacturing overheads based on normal operating capacity.

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

2.16 Provisions

Provisions are recognised when the Group has 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 renewed at the end of each reporting period 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, when 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.

2.17 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 in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.18 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. 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 pays 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) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for the leave is recognised for services rendered by employees up to the reporting date.

(iv) Defined benefit plan

The Group's obligations under the defined benefit Retirement Benefit Plan are estimated and determined based on the amount of benefit that 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 obligation under 'Employee benefits expense' and net interest under 'Finance costs' in the statement of profit or loss.

2.19 Leases

(i) Finance lease - as lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

(ii) Operating lease - as lessee

Leases where the lessor retains substantially all the risks and ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.19 Leases (cont'd.)

(iii) Operating lease - as lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

2.20 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

(i) Revenue from burn-in, testing and electronic manufacturing services

Revenue is recognised upon passage of ownership to the customer which generally coincides with the delivery, or the rendering of service to the customer.

(ii) Interest income

Interest income is recognised using the effective interest method.

(iii) Dividend income

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

(iv) Rental income

Rental income is accounted for on a straight-line basis over the lease terms.

2.21 Taxes

(i) Current income tax

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

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

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.21 Taxes (cont'd.)

(ii) Deferred tax (cont'd.)

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

- 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

- 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, 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:

- 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

- 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 asset 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.21 Taxes (cont'd.)

(iii) Sales tax/goods and services tax

Revenues, expenses and assets are recognised net of the amount of sales tax/goods and services tax ("GST") except:

- where the sales tax/GST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax/GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax/GST included.

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

2.22 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.

2.23 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 27, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.24 Contingencies

A contingent liability is:

(a) 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; or

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

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

(ii) 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.25 Current versus non-current classification

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

- expected to be realised or intended to be sold or consumed in the normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- 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:

- it is expected to be settled in the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities, including deferred tax liabilities as non-current.

2.26 Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.26 Fair value measurements (cont'd.)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Judgements made in applying accounting policies

There are no significant judgements made by management in the application of accounting policies of the Group 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 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. Such changes are reflected in the assumptions when they occur.

(i) 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 within 1.5 to 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 plant and equipment at the reporting date is disclosed in Note 11.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D.)

3.2 Key sources of estimation uncertainty (cont'd.)

(ii) Impairment of loans and receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor, certainty of customers' orders and defaults or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivables at the reporting date is disclosed in Note 14 to the financial statements.

(iii) Deferred tax assets

Deferred tax assets are recognised for unutilised reinvestment allowance to the extent that it is probable that taxable profit will be available against which the unutilised reinvestment allowance can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies. Deferred tax asset has not been recognised on the remaining unutilised reinvestment allowance, unutilised business losses and other deductible temporary differences as it is not probable that sufficient taxable income will be available against which these benefits can be realised. The details are disclosed in Note 20.

(iv) Impairment of non-financial assets (property, plant and equipment, and investment in subsidiaries)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. If such indicators exist, the recoverable amount (i.e. higher of the fair value less costs to sell and value in use) of the assets is estimated to determine the amount of impairment loss.

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. REVENUE

Revenue consists of burn-in, testing and electronic manufacturing services.

5. INTEREST INCOME

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Interest income from:				
– Deposits with licensed banks	2,541	2,520	1,419	1,237
– Loans to subsidiaries	–	–	–	187
	2,541	2,520	1,419	1,424

6. EMPLOYEE BENEFITS EXPENSE

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Wages and salaries	84,017	80,402	28,590	26,939
Contributions to defined contribution plans	2,721	2,627	907	876
Social security contributions	6,133	5,455	106	104
Other benefits	5,943	4,929	1,372	1,337
	98,814	93,413	30,975	29,256

The above employee benefits expense includes Directors' remuneration, which is disclosed in Note 8.

7. FINANCE COSTS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Interest expense on:				
– Term loans	2,912	3,383	11	308
– Obligations under finance leases	127	128	23	58
– Loan from holding company	–	59	–	–
– Others	–	8	–	–
	3,039	3,578	34	366

8. PROFIT BEFORE TAX

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit before tax is arrived at:				
After charging:				
Auditors' remunerations				
– statutory audit	400	430	106	124
– non-audit services	8	8	5	8
Directors' remuneration	2,436	1,810	1,446	1,390
Rental of factory	2,372	2,251	1,424	1,404
Utilities	26,788	25,196	9,295	8,551
Repairs and maintenance	17,080	14,445	3,735	3,251
Inventories written down	30	227	–	–
Net fair value loss on investment securities held for trading	–	3,021	–	3,021
Plant and equipment written off	15	4	1	2
Amounts due from subsidiaries written off	–	–	–	688
and crediting:				
Gain on disposal of property, plant and equipment	506	172	343	2,379
Gain on disposal of investment securities held for trading	–	697	–	697
Reversal of sundry payables	–	2,625	–	–
Net fair value gain on investment securities held for trading	125	–	125	–
Rental income from premises	–	–	1,378	1,390
Reversal of impairment loss on trade receivables	–	21	–	–
Net foreign exchange gain	4	1,910	537	1,222

Information on Directors' remuneration is as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Directors' remuneration				
In respect of the Company's Directors:				
Executive:				
– Fees	1,061	491	91	91
– Salaries and other emoluments	1,165	1,109	1,165	1,109
	2,226	1,600	1,256	1,200
Non-executive:				
– Fees	183	183	163	163
– Allowances	27	27	27	27
	210	210	190	190
Total Directors' remuneration	2,436	1,810	1,446	1,390

8. PROFIT BEFORE TAX (CONT'D.)

The number of Directors of the Company whose total remuneration during the year fall within the following bands is analysed below:

	Group Number of Directors	
	2016	2015
Executive Directors:		
RM600,001 to RM650,000	1	1
RM650,001 to RM1,000,000	–	1
RM1,550,001 to RM1,600,000	1	–
Non-executive Directors:		
RM50,001 to RM100,000	3	3

9. INCOME TAX EXPENSE

(i) Major components of income tax expense

The major components of income tax expense for the years ended 31 July 2016 and 2015 are:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current income tax:				
– Malaysian income tax	3,592	1,927	1,338	892
– Foreign tax	–	1,332	–	–
– Under/(over) provision in respect of prior years	29	(13)	34	(12)
	3,621	3,246	1,372	880
Deferred income tax (Note 20):				
– Origination and reversal of temporary differences	1,968	(345)	142	101
– (Over)/under provision in prior years	(33)	160	66	(285)
	1,935	(185)	208	(184)
Income tax expense recognised in profit or loss	5,556	3,061	1,580	696

9. INCOME TAX EXPENSE (CONT'D.)

(ii) Relationship between tax expense and accounting profit

The reconciliation between tax expense and product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 July 2016 and 2015 is as follows:

	Group	
	2016 RM'000	2015 RM'000
Profit before tax	36,239	24,039
Tax at Malaysian statutory tax rate of 24% (2015: 25%)	8,697	6,010
Adjustments:		
Effect of different tax rate on foreign income	39	–
Income not subject to tax	(62)	(234)
Non-deductible expenses	329	1,553
Utilisation of previously unrecognised tax benefits	(7,746)	(2,860)
Deferred tax asset recognised on reinvestment allowance	–	(2,788)
Deferred tax asset not recognised on reinvestment allowance and unutilised business losses	4,303	1,233
Under/(over) provision of income tax expense in prior years	29	(13)
(Over)/under provision of deferred tax in prior years	(33)	160
Income tax expense recognised in profit or loss	5,556	3,061

	Company	
	2016 RM'000	2015 RM'000
Profit before tax	7,802	33,318
Tax at Malaysian statutory tax rate of 24% (2015: 25%)	1,872	8,330
Adjustments:		
Income not subject to tax	(62)	(8,167)
Non-deductible expenses	226	1,077
Utilisation of previously unrecognised reinvestment allowance	(556)	(1,074)
Deferred tax asset not recognised on reinvestment allowance	–	827
Under/(over) provision of income tax expense in prior years	34	(12)
Under/(over) provision of deferred tax in prior years	66	(285)
Income tax expense recognised in profit or loss	1,580	696

Domestic current income tax is calculated at the Malaysian statutory tax rate of 24% (2015: 25%) of the estimated assessable 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.

9. INCOME TAX EXPENSE (CONT'D.)

(ii) Relationship between tax expense and accounting profit (cont'd.)

The Group has the following reinvestment allowance and business losses that are available indefinitely for offsetting against future taxable profits of the companies in which they arose:

	Group	
	2016 RM'000	2015 RM'000
Reinvestment allowance	54,814	77,458
Business losses	9,337	5,321

10. EARNINGS PER SHARE

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

The following tables reflect the profit and share data used in the computation of basic earnings per share for the years ended 31 July:

	Group	
	2016 RM'000	2015 RM'000
Profit attributable to owners of the Company	30,683	17,031
	Number '000	Number '000
Weighted average number of ordinary shares for basic earnings per share calculation	43,015	43,015
Basic earnings per share	71.3 sen	39.6 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 between the reporting date and the date of completion of these financial statements.

11. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings 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	Capital work-in-progress RM'000	Total RM'000
At 31 July 2016								
At Cost								
At 1 August 2015	21,525	6,200	25,423	641,671	1,584	9,970	4,132	710,505
Additions	–	–	862	29,241	376	577	11,068	42,124
Disposals	–	–	(149)	(15,484)	(345)	(500)	–	(16,478)
Write off	–	–	(145)	(12,436)	–	(100)	–	(12,681)
Reclassification	–	–	38	8,267	–	–	(8,305)	–
Exchange differences	–	–	(504)	(3,375)	(2)	(73)	–	(3,954)
At 31 July 2016	21,525	6,200	25,525	647,884	1,613	9,874	6,895	719,516
Accumulated depreciation and impairment losses								
At 1 August 2015	13,353	1,407	16,942	486,099	1,366	8,307	–	527,474
Depreciation charge for the year	2,125	97	2,848	49,217	186	741	–	55,214
Disposals	–	–	(149)	(15,481)	(345)	(486)	–	(16,461)
Write off	–	–	(145)	(12,423)	–	(98)	–	(12,666)
Exchange differences	–	–	(455)	(3,292)	(2)	(66)	–	(3,815)
At 31 July 2016	15,478	1,504	19,041	504,120	1,205	8,398	–	549,746
Net carrying amount	6,047	4,696	6,484	143,764	408	1,476	6,895	169,770
At 31 July 2015								
At Cost								
At 1 August 2014	21,525	6,200	21,016	586,260	1,616	10,050	6,292	652,959
Additions	–	–	200	68,994	–	155	12,875	82,224
Disposals	–	–	(2)	(5,123)	–	(71)	(1,203)	(6,399)
Write off	–	–	(736)	(42,060)	(47)	(764)	–	(43,607)
Reclassification	–	–	1,818	12,328	–	125	(14,271)	–
Exchange differences	–	–	3,127	21,272	15	475	439	25,328
At 31 July 2015	21,525	6,200	25,423	641,671	1,584	9,970	4,132	710,505
Accumulated depreciation and impairment losses								
At 1 August 2014	11,229	1,272	12,657	462,172	1,232	7,902	–	496,464
Depreciation charge for the year	2,124	135	3,056	51,259	166	901	–	57,641
Disposals	–	–	(2)	(4,506)	–	(70)	–	(4,578)
Write off	–	–	(736)	(42,060)	(47)	(760)	–	(43,603)
Exchange differences	–	–	1,967	19,234	15	334	–	21,550
At 31 July 2015	13,353	1,407	16,942	486,099	1,366	8,307	–	527,474
Net carrying amount	8,172	4,793	8,481	155,572	218	1,663	4,132	183,031

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Company	Buildings 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	Capital work-in-progress RM'000	Total RM'000
At 31 July 2016								
At Cost								
At 1 August 2015	10,035	3,500	1,420	110,799	731	3,582	137	130,204
Additions	–	–	325	4,610	60	175	801	5,971
Disposals	–	–	–	(768)	–	(108)	–	(876)
Write off	–	–	–	(4,403)	–	–	–	(4,403)
Reclassification	–	–	38	99	–	–	(137)	–
At 31 July 2016	10,035	3,500	1,783	110,337	791	3,649	801	130,896
Accumulated depreciation and impairment losses								
At 1 August 2015	6,152	700	1,366	100,634	531	3,019	–	112,402
Depreciation charge for the year	971	33	72	4,547	140	324	–	6,087
Disposals	–	–	–	(768)	–	(107)	–	(875)
Write off	–	–	–	(4,402)	–	–	–	(4,402)
At 31 July 2016	7,123	733	1,438	100,011	671	3,236	–	113,212
Net carrying amount	2,912	2,767	345	10,326	120	413	801	17,684
At 31 July 2015								
At Cost								
At 1 August 2014	10,035	3,500	2,150	127,204	777	4,027	1,713	149,406
Additions	–	–	6	1,951	–	97	137	2,191
Disposals	–	–	–	(3,006)	–	–	(1,203)	(4,209)
Write off	–	–	(736)	(15,831)	(46)	(571)	–	(17,184)
Reclassification	–	–	–	481	–	29	(510)	–
At 31 July 2015	10,035	3,500	1,420	110,799	731	3,582	137	130,204
Accumulated depreciation and impairment losses								
At 1 August 2014	5,180	630	1,984	110,767	449	3,217	–	122,227
Depreciation charge for the year	972	70	118	8,331	128	372	–	9,991
Disposals	–	–	–	(2,634)	–	–	–	(2,634)
Write off	–	–	(736)	(15,830)	(46)	(570)	–	(17,182)
At 31 July 2015	6,152	700	1,366	100,634	531	3,019	–	112,402
Net carrying amount	3,883	2,800	54	10,165	200	563	137	17,802

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

(i) Assets held under finance leases

The carrying amounts of plant and equipment held under finance leases at reporting date are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Plant, machinery and test equipment	2,840	1,470	452	643
Motor vehicles	243	120	–	120
	3,083	1,590	452	763

Leased assets are pledged as security for the related finance lease liabilities, as disclosed in Note 19.

(ii) Assets acquisition

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

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash payments		29,622	78,503	4,619	2,188
Finance leases		4,050	117	608	–
Financed by creditors	21	8,452	3,604	744	3
		42,124	82,224	5,971	2,191

12. INVESTMENT IN SUBSIDIARIES

	Company	
	2016 RM'000	2015 RM'000
Unquoted shares, at costs	79,250	79,250

(i) Composition of the Group

The Company has the following investment in subsidiaries:

Name of Company	Country of incorporation	Principal activities	Proportion of ownership interest 2016 %	2015 %
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. ^	China	Provision of semiconductor burn-in and testing services	100	100

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

12. INVESTMENT IN SUBSIDIARIES (CONT'D.)

(i) Composition of the Group (cont'd.)

On 13 May 2015, the Company acquired an additional 34.62% equity interest in KESM Test (M) Sdn Bhd from its non-controlling interests for a cash consideration of RM35,000,000. The carrying value of the additional interest acquired was RM29,654,000. The total transaction costs incurred in relation to this acquisition had been capitalised and recognised in the statement of financial position.

	RM'000
Cash consideration paid to non-controlling interests	35,000
Transaction costs capitalised	717
Carrying value of the additional interest in KESM Test (M) Sdn Bhd	(29,654)
Difference recognised in retained earnings	6,063

(ii) Non-controlling interests in subsidiaries

All subsidiaries are wholly-owned as at the reporting date. In respect of the previous financial year, the Company's subsidiary that has material non-controlling interests ("NCI") was as follows:

	KESM Test (M) Sdn Bhd	
	2016 RM'000	2015 RM'000
NCI percentage of ownership interest and voting interest	–	–
Carrying amount of NCI	–	–
Profit attributable to NCI	–	3,947
Total comprehensive income attributable to NCI	–	3,947

13. INVENTORIES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At cost				
Raw materials	2,687	4,279	–	–
Consumables	3,048	3,646	114	124
Work-in-progress	1,104	793	–	–
Finished goods	1,688	1,371	–	–
	8,527	10,089	114	124

During the financial year, the Group wrote down RM30,000 (2015: RM227,000) of inventories which were recognised in "Changes in work-in-progress and finished goods" line item in the statement of profit or loss.

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current				
Trade receivables				
Third parties	67,104	73,302	17,174	14,639
Amounts due from related companies	1,410	189	–	–
	68,514	73,491	17,174	14,639
Less: Allowance for impairment	–	(7,961)	–	–
	68,514	65,530	17,174	14,639
Other receivables				
Refundable deposits	965	934	458	470
Sundry receivables	942	528	90	206
Amounts due from subsidiaries	–	–	2,734	9,380
Amounts due from related companies	–	33	–	32
	1,907	1,495	3,282	10,088
Total trade and other receivables	70,421	67,025	20,456	24,727
Add: Cash and short-term deposits (Note 16)	112,748	93,924	56,614	47,150
Total loans and receivables	183,169	160,949	77,070	71,877

(i) Trade receivables

Trade receivables, including amounts due from related companies are non-interest bearing and are generally on 30 to 135 days (2015: 30 to 95 days) credit terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

The Group's exposure to significant concentration of credit risk is as disclosed in Note 25(iv).

<u>Ageing analysis of trade receivables</u>

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Neither past due nor impaired	66,595	59,518	17,119	13,638
Past due not impaired				
– 1 to 30 days	1,743	5,487	51	640
– 31 to 60 days	77	367	3	361
– 61 to 90 days	84	132	–	–
– 91 to 120 days	–	26	1	–
– More than 121 days	15	–	–	–
	1,919	6,012	55	1,001
Impaired	–	7,961	–	–
	68,514	73,491	17,174	14,639

14. TRADE AND OTHER RECEIVABLES (CONT'D.)

(i) Trade receivables (cont'd.)

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group and the Company.

None of the Group's and of the Company's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

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 RM1,919,000 (2015: RM6,012,000) and RM55,000 (2015: RM1,001,000) respectively, and 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

The Group's trade receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	Group	
	2016 RM'000	2015 RM'000
Trade receivables (gross)	–	7,961
Less: Allowance for impairment	–	(7,961)
	–	–
Movement in allowance account:		
At beginning of year	7,961	7,225
Reversal for the year (Note 8)	-	(21)
Written off	(8,352)	(632)
Exchange difference	391	1,389
At end of year	–	7,961

Trade receivables that were individually determined to be impaired at the reporting date mainly related to a debtor who had defaulted on payments. These receivables were not secured by any collateral or credit enhancements.

(ii) Related company receivables

Amounts due from subsidiaries are non-trade in nature, unsecured, non-interest bearing and are repayable upon demand. Amounts due from subsidiaries of RM688,000 were written off in last financial year.

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

14. TRADE AND OTHER RECEIVABLES (CONT'D.)

(ii) Related company receivables (cont'd.)

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
United States Dollar ("USD")	7,891	8,824	3,178	8,910
Ringgit Malaysia ("RM")	44,909	41,727	17,278	15,817
Renminbi ("RMB")	17,621	16,420	–	–
Others	–	54	–	–
	70,421	67,025	20,456	24,727

15. INVESTMENT SECURITIES

	Group/Company	
	2016 RM'000	2015 RM'000
Investment held for trading		
Equity investments (quoted in Malaysia), at fair value through profit or loss	4,184	4,059

16. CASH AND SHORT-TERM DEPOSITS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Deposits with licensed banks	86,714	69,264	50,963	39,261
Cash at banks	26,034	24,660	5,651	7,889
Cash and short-term deposits	112,748	93,924	56,614	47,150
Less: short-term deposits with maturity more than three months	(1,000)	–	–	–
Cash and cash equivalents	111,748	93,924	56,614	47,150

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
USD	7,251	7,774	3,662	6,122
RM	93,544	74,111	52,952	41,028
RMB	11,953	11,963	–	–
Others	–	76	–	-
	112,748	93,924	56,614	47,150

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 (2015: between seven 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 2016 for the Group and the Company were 3.0% (2015: 2.7%) and 2.9% (2015: 3.1%) respectively.

Cash at banks of RM11,953,000 (2015: RM11,963,000) held in People's Republic of China ("PRC") are subject to local exchange control restrictions. These regulations place restriction on the amount of currency being exported other than through dividends and trade-related transactions.

17. SHARE CAPITAL

	Group/Company			
	Number of ordinary shares of RM1 each		Amount	
	2016 '000	2015 '000	2016 RM'000	2015 RM'000
Authorised share capital:				
At beginning/end of year	50,000	50,000	50,000	50,000
Issued and fully paid:				
At beginning/end of year	43,015	43,015	43,015	43,015

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Distributable:				
Retained earnings	225,640	198,933	123,184	120,188
Non-distributable:				
Share premium	663	663	663	663
Statutory reserve fund	4,629	3,879	–	–
Merger relief reserve	–	–	1,215	1,215
Capital reserve	2,240	2,240	–	–
Foreign currency translation reserve	10,531	11,736	–	–
	243,703	217,451	125,062	122,066

(i) Retained earnings

The Company may distribute dividends out of its entire retained earnings as at 31 July 2016 under the single tier system.

As at reporting date, the Company has credit in the tax exempt account to distribute tax exempt dividends of approximately RM95,863,000 (2015: RM94,785,000).

18. RESERVES (CONT'D.)

(ii) Foreign currency translation reserve

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

(iii) Statutory reserve fund

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

(iv) Merger relief reserve

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

(v) Capital reserve

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

19. LOANS AND BORROWINGS

		Group		Company	
	Maturities	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current					
Obligations under finance leases (Note 23)					
- secured	2017	1,483	619	203	125
Term loans - unsecured	2017	28,012	39,756	–	2,693
		29,495	40,375	203	2,818
Non-current					
Obligations under finance leases (Note 23)					
- secured	2018	1,874	38	287	–
Term loans - unsecured	2017 - 2018	8,000	32,945	–	–
		9,874	32,983	287	–

19. LOANS AND BORROWINGS (CONT'D.)

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Total loans and borrowings				
Obligations under finance leases (Note 23)	3,357	657	490	125
Term loans	36,012	72,701	–	2,693
	39,369	73,358	490	2,818
The remaining maturities of the loans and borrowings as at 31 July are as follows:				
Within one year	29,495	40,375	203	2,818
More than one year and less than five years	9,874	32,983	287	–
	39,369	73,358	490	2,818

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
USD	–	2,693	–	2,693
RM	39,369	70,665	490	125
	39,369	73,358	490	2,818

The term loans bore interests between 4.77% and 5.08% (2015: 2.74% and 5.08%) per annum during the financial year.

The Group and the Company have finance leases for certain assets (Note 11). Obligations under finance leases of RM3,357,000 (2015: RM657,000) and RM490,000 (2015: RM125,000) of the Group and of the Company respectively and secured by a charge over the leased assets.

At reporting date, the finance leases of the Group and of the Company bore effective interest between 6.09% and 6.60% (2015: 4.77% and 6.59%), and 6.60% (2015: between 4.77% and 6.21%) per annum respectively.

20. DEFERRED TAX (ASSETS)/LIABILITIES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At beginning of year	(2,537)	(2,352)	(620)	(436)
Recognised in profit or loss (Note 9)	1,935	(185)	208	(184)
At end of year	(602)	(2,537)	(412)	(620)
Presented after appropriate offsetting as follows:				
Deferred tax assets	(8,770)	(4,539)	(1,324)	(1,676)
Deferred tax liabilities	8,168	2,002	912	1,056
	(602)	(2,537)	(412)	(620)

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 1 August 2014	7,937	10	7,947
Recognised in profit or loss	2,204	(6)	2,198
At 31 July 2015	10,141	4	10,145
Recognised in profit or loss	(1,973)	(4)	(1,977)
At 31 July 2016	8,168	–	8,168

Deferred tax assets of the Group

	Property, plant and equipment RM'000	Unutilised reinvestment allowances RM'000	Others RM'000	Total RM'000
At 1 August 2014	(1,247)	(7,218)	(1,834)	(10,299)
Recognised in profit or loss	(696)	(1,647)	(40)	(2,383)
At 31 July 2015	(1,943)	(8,865)	(1,874)	(12,682)
Recognised in profit or loss	938	3,347	(373)	3,912
At 31 July 2016	(1,005)	(5,518)	(2,247)	(8,770)

20. DEFERRED TAX (ASSETS)/LIABILITIES (CONT'D.)

Deferred tax liabilities of the Company

	Property, plant and equipment RM'000	Others RM'000	Total RM'000
At 1 August 2014	1,262	10	1,272
Recognised in profit or loss	(206)	(10)	(216)
At 31 July 2015	1,056	–	1,056
Recognised in profit or loss	(144)	–	(144)
At 31 July 2016	912	–	912

Deferred tax assets of the Company

	Property, plant and equipment RM'000	Unutilised reinvestment allowances RM'000	Others RM'000	Total RM'000
At 1 August 2014	(463)	(1,006)	(239)	(1,708)
Recognised in profit or loss	(634)	1,006	(340)	32
At 31 July 2015	(1,097)	–	(579)	(1,676)
Recognised in profit or loss	282	–	70	352
At 31 July 2016	(815)	–	(509)	(1,324)

Deferred tax asset has not been recognised in respect of the following items:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Unutilised reinvestment allowance	31,823	40,594	–	2,319
Unutilised business losses	9,337	5,321	–	–
Unabsorbed capital allowance	–	767	–	–
Other deductible temporary differences	59,269	67,922	–	–
Total deferred tax asset not recognised	100,429	114,604	–	2,319
Deferred tax, if recognised	24,733	28,176	–	556

The availability of the unutilised reinvestment allowance 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.

21. TRADE AND OTHER PAYABLES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current				
Trade payables				
Third parties	4,587	3,829	–	–
Amounts due to related companies	5	348	5	112
Other payables				
Accrued operating expenses	16,540	12,078	4,600	2,769
Sundry payables	11,401	8,779	3,797	3,071
Dividend payable	1,936	–	1,936	–
Derivatives	7	–	–	–
Balance due for acquisitions of property, plant and equipment (Note 11)	8,452	3,604	744	3
Amounts due to holding company	2,300	1,724	1,367	884
Amounts due to related company	2	5	2	5
Total trade and other payables	45,230	30,367	12,451	6,844
Add: Loans and borrowings (Note 19)	39,369	73,358	490	2,818
Less: Derivatives	(7)	–	–	–
Total financial liabilities carried at amortised cost	84,592	103,725	12,941	9,662

(i) Trade and sundry payables are non-interest bearing. They are normally settled on 30 - 60 days (2015: 30 - 60 days) terms.

(ii) Amounts due to holding company are non-trade in nature, unsecured, non-interest bearing and are repayable on demand.

(iii) Amounts due to related companies are trade and non-trade in nature, unsecured, non-interest bearing and are repayable on demand.

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
USD	9,728	3,794	937	67
RM	26,482	17,353	10,135	5,826
RMB	6,520	4,766	–	–
Others	2,500	4,454	1,379	951
	45,230	30,367	12,451	6,844

22. 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 and related parties took place at terms agreed between the parties during the financial year.

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Transactions with Sunright Limited, holding company of the Company, and its subsidiaries				
Management fees charged by Sunright Limited	7,069	5,697	3,887	3,075
Dividend paid to Sunright Limited	1,562	1,249	1,562	1,249
Acquisition of non-controlling interests from Sunright Limited (Note 12)	–	35,000	–	35,000
Dividend paid to non-controlling interests, Sunright Limited	–	10,386	–	–
Interest on loan from Sunright Limited	–	59	–	–
Sales to:				
– KES Systems & Service (1993) Pte Ltd	–	31	–	–
– KES Systems, Inc.	1,045	190	–	–
Purchases from:				
– KES Systems & Service (1993) Pte Ltd	603	243	585	237
– Kestronics (M) Sdn Bhd	59	25	7	20
– KES Systems, Inc.	–	957	–	957
– KESU Systems & Service, Inc.	–	261	–	–
– KES Systems & Service (Shanghai) Co., Ltd	56	437	–	–
– KEST Systems & Service Ltd	175	108	175	89

	Company	
	2016 RM'000	2015 RM'000
Transactions with subsidiaries		
Rental income from a subsidiary for rent of a factory	1,378	1,390
Interest income on loan to a subsidiary	–	187
Sales of equipment and other consumables to a subsidiary	–	2,553
Dividend income from subsidiaries	–	29,614

Information regarding outstanding balances arising from related party transactions as at reporting date is disclosed in Notes 14 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 Directors of the Company are the key management personnel of the Company, whose remuneration are disclosed in Note 8.

23. COMMITMENTS

(i) Capital commitments

Capital expenditure as at the reporting date is as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Property, plant and equipment				
Authorised and contracted for	10,119	6,605	478	1,793
Authorised but not contracted for	3,088	7,831	–	–
	13,207	14,436	478	1,793

Included in authorised and contracted for commitment is an amount of RM16,000 (2015: RM1,811,000) and RM16,000 (2015: RM844,000) relating to purchases from related companies by the Group and the Company respectively.

(ii) Operating lease commitments - Group as lessee

The Group has entered into operating leases on office equipment, with lease terms between one and five years. The Group has the option, under some of its leases, to lease the assets for additional terms of three to five years.

Future minimum rentals payable under non-cancellable operating leases as at 31 July are as follows:

	Group	
	2016 RM'000	2015 RM'000
Within one year	25	25
After one year but not more than five years	27	52
	52	77

(iii) Finance lease commitments

The Group and the Company have finance leases for certain items of plant, machinery and test equipment.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Minimum lease payments				
Not later than one year	1,609	671	223	137
After one year and not later than five years	2,058	42	316	–
Total minimum lease payments	3,667	713	539	137
Less: Amounts representing finance charges	(310)	(56)	(49)	(12)
Present value of minimum lease payments	3,357	657	490	125
Present value of payments				
Not later than one year (Note 19)	1,483	619	203	125
After one year and not later than five years (Note 19)	1,874	38	287	–
Present value of minimum lease payments (Note 19)	3,357	657	490	125

23. COMMITMENTS (CONT'D.)

(iv) Financial instruments

Derivative and other financial instruments included in the statement of financial position at 31 July are as follows:

		Group			
		2016		2015	
	Note	Assets RM'000	Liabilities RM'000	Assets RM'000	Liabilities RM'000
Forward currency contracts	21	–	(7)	–	–
Add: Investment securities	15	4,184	–	4,059	–
Total financial assets/(liabilities) at fair value through profit or loss		4,184	(7)	4,059	–

As at 31 July 2016, the Group held one (2015: Nil) forward currency contract, with total outstanding notional amount of RM1,011,000 (2015: Nil). The outstanding forward contract will mature within 1 month (2015: Nil).

The Group does not apply hedge accounting.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

(i) Financial instruments that are carried at fair value

All assets and liabilities for which fair value is disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – the fair value is measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – the fair value is measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (such as prices) or indirectly (such as derived from prices).

Level 3 – the fair value is measured using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

24. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

(i) Financial instruments that are carried at fair value (cont'd.)

The following table shows an analysis of financial instruments carried at fair value by level of fair value hierarchy:

		Group/Company Quoted prices in active markets (Level 1)	
	Note	2016 RM'000	2015 RM'000
Financial assets			
Held for trading investments			
– Investment securities (quoted)	15	4,184	4,059

		Group Significant other observable inputs (Level 2)	
	Note	2016 RM'000	2015 RM'000
Financial liabilities			
Derivatives			
– Forward currency contracts	21	7	–

(ii) Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value:

	Note
Trade and other receivables	14
Cash and short-term deposits	16
Loans and borrowings	19
Trade and other payables	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 floating rate instruments that are re-priced to market interest rates on or near the reporting date.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

(iii) Financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

The fair value of financial assets and liabilities by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value are as follows:

	Group			
	Carrying amount 2016 RM'000	Fair value 2016 RM'000	Carrying amount 2015 RM'000	Fair value 2015 RM'000
Financial liabilities				
Obligations under finance leases (non-current)	1,874	1,910	38	37

	Company			
	Carrying amount 2016 RM'000	Fair value 2016 RM'000	Carrying amount 2015 RM'000	Fair value 2015 RM'000
Financial liabilities				
Obligations under finance leases (non-current)	287	294	–	–

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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 Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing these risks. The Group's risk management approach seeks to minimise the potential material adverse impact of those exposures. It is, and has been, throughout the current and previous financial year, the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

The following section provides 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 exposure to these financial risks or the manner in which it manages and measures 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's interest-bearing financial assets are mainly short-term in nature, where the surplus funds are placed with reputable licensed banks.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(i) Interest rate risk (cont'd.)

The Group obtains additional financing through bank borrowings and leasing arrangements. The Group's policy is to obtain the most favourable interest rates available.

Sensitivity analysis for interest rate risk

At the reporting date, if interest rates had been 25 basis points lower/higher, with all other variables held constant, the Group's profit before tax would have been RM136,000 (2015: RM179,000) higher/lower, arising mainly as a result of lower/higher interest expenses on floating loans and borrowings.

(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 has transactional currency exposures arising from sales and purchases that are denominated in currency other than the respective functional currencies of Group entities, primarily USD and Singapore Dollar.

The Group and the Company also hold cash and cash equivalents denominated in foreign currencies (Note 16) for working capital purpose.

The Group is also exposed to currency translation risk arising from its net investment in foreign operation, PRC. The Group's net investment in PRC which is not hedged as currency position in RMB, is considered to be long-term in nature.

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 against the respective functional currencies of the Group's entities, with all other variables held constant:

			Group		Company	
			2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
USD/RM	– strengthened 1%	(2015: 1%)	84	109	45	122
	– weakened 1%	(2015: 1%)	(84)	(109)	(45)	(122)
USD/RMB	– strengthened 1%	(2015: 1%)	(52)	(87)	–	–
	– weakened 1%	(2015: 1%)	52	87	–	–

(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 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.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(iii) Liquidity risk (cont'd.)

Analysis of financial instruments by remaining contractual maturities

The table below summarises 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.

	2016 RM'000		
	On demand or within one year	One to five years	Total
Group			
Financial assets			
Investment securities (Note 15)	4,184	–	4,184
Trade and other receivables (Note 14)	70,421	–	70,421
Cash and short-term deposits (Note 16)	112,748	–	112,748
Total undiscounted financial assets	187,353	–	187,353
Financial liabilities			
Trade and other payables (Note 21)	45,230	–	45,230
Loans and borrowings	30,999	10,190	41,189
Total undiscounted financial liabilities	76,229	10,190	86,419
Total net undiscounted financial assets/(liabilities)	111,124	(10,190)	100,934
Company			
Financial assets			
Investment securities (Note 15)	4,184	–	4,184
Trade and other receivables (Note 14)	20,456	–	20,456
Cash and short-term deposits (Note 16)	56,614	–	56,614
Total undiscounted financial assets	81,254	–	81,254
Financial liabilities			
Trade and other payables (Note 21)	12,451	–	12,451
Loans and borrowings	223	316	539
Total undiscounted financial liabilities	12,674	316	12,990
Total net undiscounted financial assets/(liabilities)	68,580	(316)	68,264

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(iii) Liquidity risk (cont'd.)

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

	2015 RM'000		
	On demand or within one year	One to five years	Total
Group			
Financial assets			
Investment securities (Note 15)	4,059	–	4,059
Trade and other receivables (Note 14)	67,025	–	67,025
Cash and short-term deposits (Note 16)	93,924	–	93,924
Total undiscounted financial assets	165,008	–	165,008
Financial liabilities			
Trade and other payables (Note 21)	30,367	–	30,367
Loans and borrowings	43,880	34,734	78,614
Total undiscounted financial liabilities	74,247	34,734	108,981
Total net undiscounted financial assets/(liabilities)	90,761	(34,734)	56,027
Company			
Financial assets			
Investment securities (Note 15)	4,059	–	4,059
Trade and other receivables (Note 14)	24,727	–	24,727
Cash and short-term deposits (Note 16)	47,150	–	47,150
Total undiscounted financial assets	75,936	–	75,936
Financial liabilities			
Trade and other payables (Note 21)	6,844	–	6,844
Loans and borrowings	2,851	–	2,851
Total undiscounted financial liabilities	9,695	–	9,695
Total net undiscounted financial assets/(liabilities)	66,241	–	66,241

(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 objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group'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 exposure to bad debts is not significant.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(iv) Credit risk (cont'd.)

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.

Information regarding credit enhancements for trade and other receivables is disclosed in Note 14.

Credit risk concentration profile

Group

The Group determines 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:

	2016		2015	
	RM'000	% of total	RM'000	% of total
By country				
Malaysia	46,978	69	42,390	65
Others *	21,536	31	23,140	35
	68,514	100	65,530	100

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

	2016		2015	
	RM'000	% of total	RM'000	% of total
By industry sectors				
Burn-in, testing and electronic manufacturing services	68,514	100	65,530	100

At the reporting date, approximately:

- 83% (2015: 87%) of the Group's trade receivables were due from 5 (2015: 5) major customers who are major players in the semiconductor industry; and

- Less than 3% (2015: 1%) of the Group's trade and other receivables were due from related parties.

Company

100% (2015: 99%) of the Company's trade receivables are located in Malaysia.

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 14. Cash and short-term deposits, investment securities and derivatives are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(iv) Credit risk (cont'd.)

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 14.

(v) Market price risk

Market price risk is the risk that the fair value or future cash flows of the Group'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 equity price risk arising from its investment in quoted equity instruments. The quoted equity instruments in Malaysia are listed on the Bursa Malaysia Securities Berhad, and are classified as held for trading. The Group does not have exposure on commodity price risk.

The Group's objective is to manage investment returns and equity price risk by investing in companies operating in Malaysia which are publicly traded.

Sensitivity for equity price risk

At the reporting date, if the FTSE Bursa Malaysia KLCI had been 5% (2015: 5%) higher/lower, with all other variables held constant, the Group's profit before tax would have been RM209,000 (2015: RM203,000) higher/lower, arising as a result of higher/lower fair value gain on investment securities held for trading.

26. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximises shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group 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 years ended 31 July 2016 and 31 July 2015.

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 year ended 31 July 2016 and 31 July 2015.

The Group will continue to be guided by prudent financial policies of which gearing is an important aspect. The Group includes 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.

26. CAPITAL MANAGEMENT (CONT'D.)

	Note	Group 2016 RM'000	Group 2015 RM'000
Loans and borrowings	19	39,369	73,358
Less: Cash and short-term deposits	16	(112,748)	(93,924)
Net cash		(73,379)	(20,566)
Equity attributable to owners of the Company		286,718	260,466
Less: Statutory reserve fund	18	(4,629)	(3,879)
		282,089	256,587
Capital and net cash		208,710	236,021

At the reporting date, the Group's cash and short-term deposits exceed its loans and borrowings. Therefore, gearing ratio is not meaningful to the Group.

27. SEGMENT INFORMATION

The Group has only one operating segment, burn-in, testing and electronic manufacturing services, which is evaluated regularly by management in deciding how to allocate resources and in assessing performance of the Group.

Investment holding segment which comprises Group-level corporate services, treasury functions and investment in marketable securities, 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 segments

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

	Revenue 2016 RM'000	Revenue 2015 RM'000	Non-current assets 2016 RM'000	Non-current assets 2015 RM'000
Malaysia	196,493	177,948	146,360	159,740
PRC	57,156	59,125	23,410	23,291
Others	32,085	26,049	–	–
	285,734	263,122	169,770	183,031

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

Information about major customers

The Group's customer base includes two (2015: two) customers from burn-in, testing and electronic manufacturing services segment, with whom transactions have exceeded 10% of the Group's revenue. Revenue generated from these two customers amounted to approximately RM194,953,000 (2015: RM180,685,000).

28. DIVIDENDS

	Group	
	2016 RM'000	2015 RM'000
Recognised during the financial year		
Final tax exempt dividend for 2015: 3 sen (2014: 3 sen) per ordinary share	1,290	1,290
Special interim tax exempt dividend for 2016: 4.5 sen (2015: 3 sen) per ordinary share	1,936	1,290
	3,226	2,580
Proposed but not recognised as a liability as at 31 July		
Final tax exempt dividend for 2016: 3 sen (2015: 3 sen) per ordinary share	1,290	1,290

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the financial year ended 31 July 2016, of 3 sen on 43,014,500 ordinary shares, amounting to dividend payable of RM1,290,000 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 July 2017.

29. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the year ended 31 July 2016 were authorised for issue in accordance with a resolution of the directors on 20 September 2016.

30. SUPPLEMENTARY INFORMATION ON THE DISCLOSURE OF REALISED AND UNREALISED PROFIT OR LOSS

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued another directive on the disclosure and prescribed format of presentation.

Pursuant to the directive, the amounts of realised and unrealised profits or losses included in the retained earnings of the Group and of the Company as at 31 July are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Total retained earnings of the Company and its subsidiaries				
– realised	260,337	234,984	122,531	120,470
– unrealised	(195)	692	653	(282)
	260,142	235,676	123,184	120,188
Less: Consolidation adjustments	(34,502)	(36,743)	–	–
Retained earnings as per financial statements	225,640	198,933	123,184	120,188

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purpose.

SHAREHOLDERS' INFORMATION

As at 30 September 2016

ANALYSIS OF SHAREHOLDINGS

Authorised share capital	:	RM50,000,000.00
Issued and paid-up capital	:	RM43,014,500.00
Type of shares	:	Ordinary shares of RM1.00 each
Voting Rights	:	One vote per ordinary share

ANALYSIS BY SIZE OF HOLDINGS

Number of Holders	Holdings	Total Holdings	%
24	Less than 100	373	0.00
608	100 to 1,000 shares	454,304	1.06
1,079	1,001 to 10,000 shares	4,067,383	9.46
247	10,001 to 100,000 shares	7,396,640	17.20
33	100,001 to less than 5% of issued shares	10,270,800	23.88
1	5% and above of issued shares	20,825,000	48.40
1,992	Total	43,014,500	100.00

SUBSTANTIAL SHAREHOLDERS (PER REGISTER OF SUBSTANTIAL SHAREHOLDERS)

		Number of Shares Held			
	Name of Shareholders	Direct	%	Deemed Interest	%
1.	Sunright Limited	20,825,000	48.41	–	–
2.	Samuel Lim Syn Soo	–	–	20,825,000*	48.41

DIRECTORS' SHAREHOLDINGS (PER REGISTER OF DIRECTORS' SHAREHOLDING)

SHARES IN THE COMPANY

		Number of Shares Held			
	Name of Director	Direct	%	Deemed Interest	%
1.	Samuel Lim Syn Soo	–	–	20,825,000*	48.41
2.	Kenneth Tan Teoh Khoon	–	–	–	–
3.	Lim Mee Ing	–	–	–	–
4.	Tuan Haji Zakariah Bin Yet	–	–	–	–
5.	Yong Chee Hou	–	–	–	–

* Deemed interest by virtue of his substantial shareholding in Sunright Limited

SHARES IN RELATED CORPORATION

The interest of Directors in related companies remains the same as disclosed in the Directors' Report for the year ended 31 July 2016.

SHAREHOLDERS' INFORMATION

As at 30 September 2016

THIRTY LARGEST SHAREHOLDERS

	Name of Shareholders	Number of Shares Held	Percentage of Shareholdings
1.	Sunright Limited	20,825,000	48.41
2.	Wong Tee Kim @ Wong Tee Fatt	2,150,000	4.99
3.	Tan Kong Hong Alex	2,057,500	4.78
4.	Public Nominess (Tempatan) Bhd Pledged Securities Account for Lim Kong Hwee (E-SLY/SGK)	514,800	1.20
5.	Amsec Nominees (Tempatan) Sdn Bhd Nomura Asset Management Malaysia Sdn Bhd for Tenaga Nasional Berhad Retirement Benefit Trust Fund	412,300	0.96
6.	Tan Kim Hin	400,000	0.93
7.	Cartaban Nominees (Tempatan) Sdn Bhd RHB Trustees Berhad for KAF Vision Fund	340,000	0.79
8.	Tan Jin Tuan	333,000	0.77
9.	Lim Khuan Eng	304,000	0.71
10.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Manulife Investment Al-Faid (4389)	268,500	0.62
11.	Cimsec Nominees (Tempatan) Sdn Bhd CIMB Bank for Yong Loy Huat (M78069)	250,000	0.58
12.	DB (Malaysia) Nominees (Asing) Sdn Bhd Deutsche Bank AG Singapore for Yeoman 3-Rights Value Asia Fund (PTSL)	225,000	0.52
13.	Lee Kok Hin	200,200	0.47
14.	Amanahraya Trustees Berhad MIDF Amanah Strategic Fund	190,000	0.44
15.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Manulife Investment Progress Fund (4082)	185,100	0.43
16.	Citigroup Nominees (Asing) Sdn Bhd GSI for MQ Asia Long Short Master Fund	175,000	0.41
17.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LBF)	162,100	0.38
18.	Amanahraya Trustees Berhad Amtotal Return	152,000	0.35
19.	Soon Hock Teong	145,000	0.34
20.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Manulife Investment Al-Fauzan (5170)	143,200	0.33
21.	Cimsec Nominees (Tempatan) Sdn Bhd CIMB Bank for Mui Kar Wai (MY2323)	138,100	0.32
22.	HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Koh Yap Heng	132,500	0.31
23.	Lim Ching Wah	131,000	0.30
24.	Heng Peng Hong	130,000	0.30
25.	CIMB Group Nominees (Tempatan) Sdn Bhd MIDF Amanah Asset Management Berhad for Universiti Malaya (JG488)	127,100	0.30
26.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd Manulife Insurance Berhad (Managed Fund)	125,700	0.29
27.	Maybank Nominees (Tempatan) Sdn Bhd Medical Fund (IFM Nomura)	123,000	0.29
28.	RHB Nominees (Asing) Sdn Bhd Pledged Securities Account for Tan Lee Gek	111,500	0.26
29.	Choong Chee Seng	111,700	0.26
30.	Lim Siew Chin	110,000	0.26
	TOTAL	30,673,300	71.30

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 45th Annual General Meeting of the Company will be held at Spectrum, Level 3A, CONNEXION @ NEXUS, No. 7 Jalan Kerinchi, Bangsar South City, 59200 Kuala Lumpur, Malaysia on Wednesday, 4 January 2017 at 10.30 a.m. for the following purposes: -

AGENDA

AS ORDINARY BUSINESS

1.	To receive the audited financial statements for the financial year ended 31 July 2016 together with the reports of the Directors and of the Auditors thereon.	
2.	To declare a final tax exempt dividend of 3 sen per share in respect of the financial year ended 31 July 2016.	Resolution 1
3.	To approve payment of Directors' fees in respect of the financial year ended 31 July 2016.	Resolution 2
4.	To re-elect the following Directors who are retiring pursuant to Article 80 of the Company's Articles of Association and being eligible, have offered themselves for re-election: -	
	(a) Kenneth Tan Teoh Khoon	Resolution 3
	(b) Lim Mee Ing	Resolution 4
5.	To re-appoint Messrs Ernst & Young as the Company's Auditors and to authorise the Board of Directors to fix their remuneration.	Resolution 5
6.	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, 1965 and the Company's Articles of Association.	

BY ORDER OF THE BOARD
LEONG OI WAH (MAICSA 7023802)
Company Secretary

Petaling Jaya
26 October 2016

Notes: -

1. A member entitled to attend and vote at the Annual General Meeting 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 and Section 149(1)(b) of the Companies Act, 1965 shall not apply.

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 Registered Office at 802, 8th Floor, Block C, Kelana Square, 17 Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia, at least forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.

5. Depositors whose name appear in the Record of Depositors on 28 December 2016 shall be regarded as member of the Company entitled to attend the 45th Annual General Meeting or appoint proxy/proxies to attend and vote on his/her behalf.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE OF DIVIDEND ENTITLEMENT

NOTICE IS HEREBY GIVEN that the final tax exempt dividend of 3 sen per share in respect of the financial year ended 31 July 2016, if approved at the forthcoming Annual General Meeting, will be paid on 26 January 2017 to Depositors registered in the Record of Depositors on 10 January 2017. 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 10 January 2017, 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)
Company Secretary

Petaling Jaya
26 October 2016

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PROXY FORM

KESM INDUSTRIES BERHAD (13022-A)

I / We ____ (Full Name in Block Letters)

NRIC/Passport/Company No. ____________________ of ______________________________

____ (Address)

being a member / members of KESM Industries Berhad hereby appoint

Name	Address	NRIC / Passport Number	Proportion of Shareholdings (%)

and / or (delete as appropriate)

Name	Address	NRIC / Passport Number	Proportion of Shareholdings (%)

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 45th Annual General Meeting of the Company to be held at Spectrum, Level 3A, CONNEXION @ NEXUS, No. 7 Jalan Kerinchi, Bangsar South City, 59200 Kuala Lumpur, Malaysia on Wednesday, 4 January 2017 at 10.30 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.

No.	Resolutions	For*	Against*
1.	Approval of final dividend		
2.	Approval of Directors' fees		
3.	Re-election of Kenneth Tan Teoh Khoon as Director		
4.	Re-election of Lim Mee Ing as Director		
5.	Re-appointment of Auditors		

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

Total Number of Shares Held	

Signed this ____________ day of ____________ 2016/2017

____

Signature(s)/Common Seal of Shareholder(s)

Notes: -

1. A member entitled to attend and vote at the Annual General Meeting 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 and Section 149(1)(b) of the Companies Act, 1965 shall not apply.

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 Registered Office at 802, 8th Floor, Block C, Kelana Square, 17 Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia, at least forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.

5. A Depositor whose name appears in the Record of Depositors on 28 December 2016 shall be regarded as a member of the Company entitled to attend the 45th Annual General Meeting or appoint proxy/proxies to attend and vote on his/her/its behalf.

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Affix postage here

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

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A Member of

SUNRIGHT

KESM INDUSTRIES BERHAD (13022-A)

Lot 4, SS 8/4
Sungei Way Free Industrial Zone
47300 Petaling Jaya
Selangor Darul Ehsan
MALAYSIA
Tel : (603) 787-40000
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