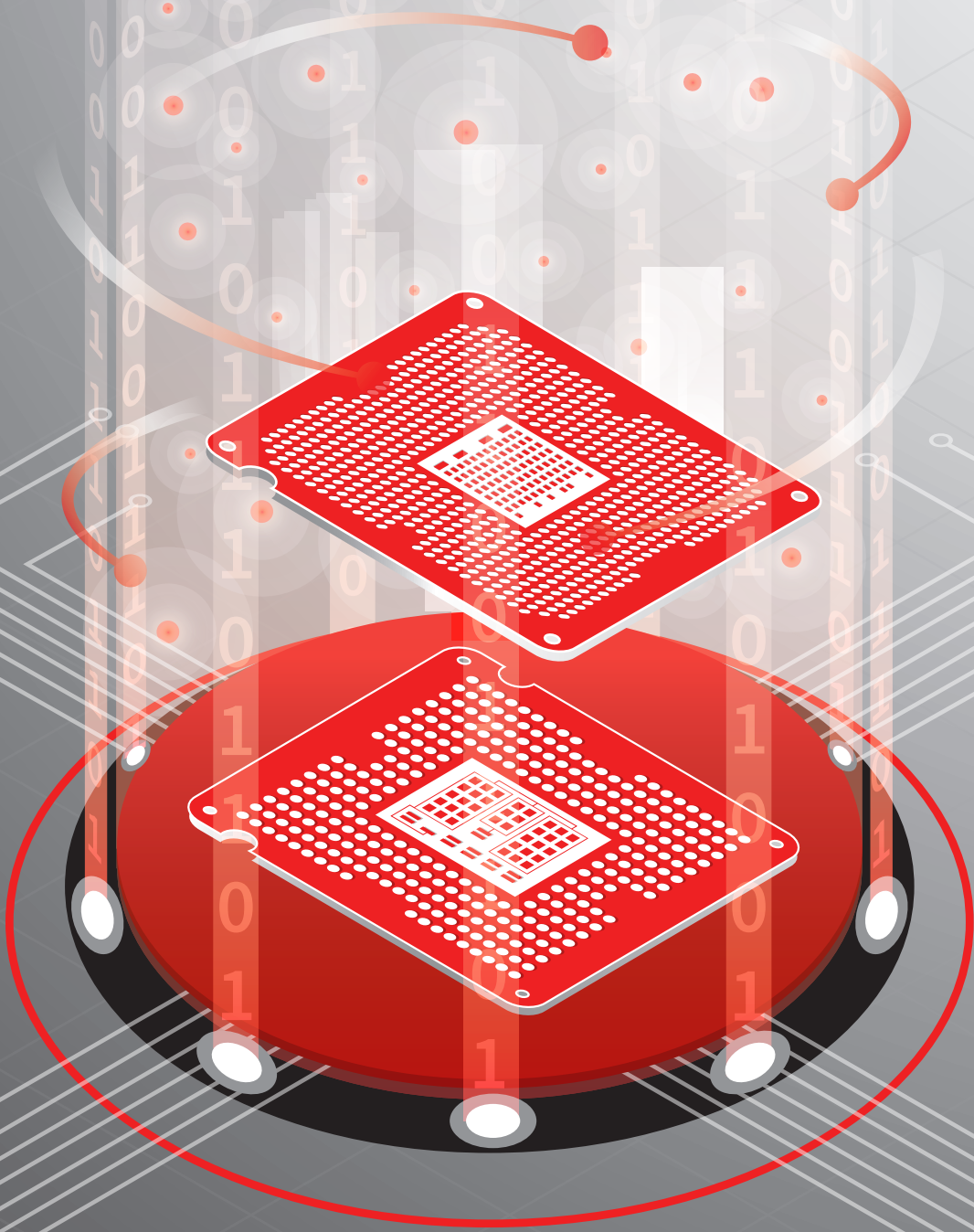


**FRONTKEN**

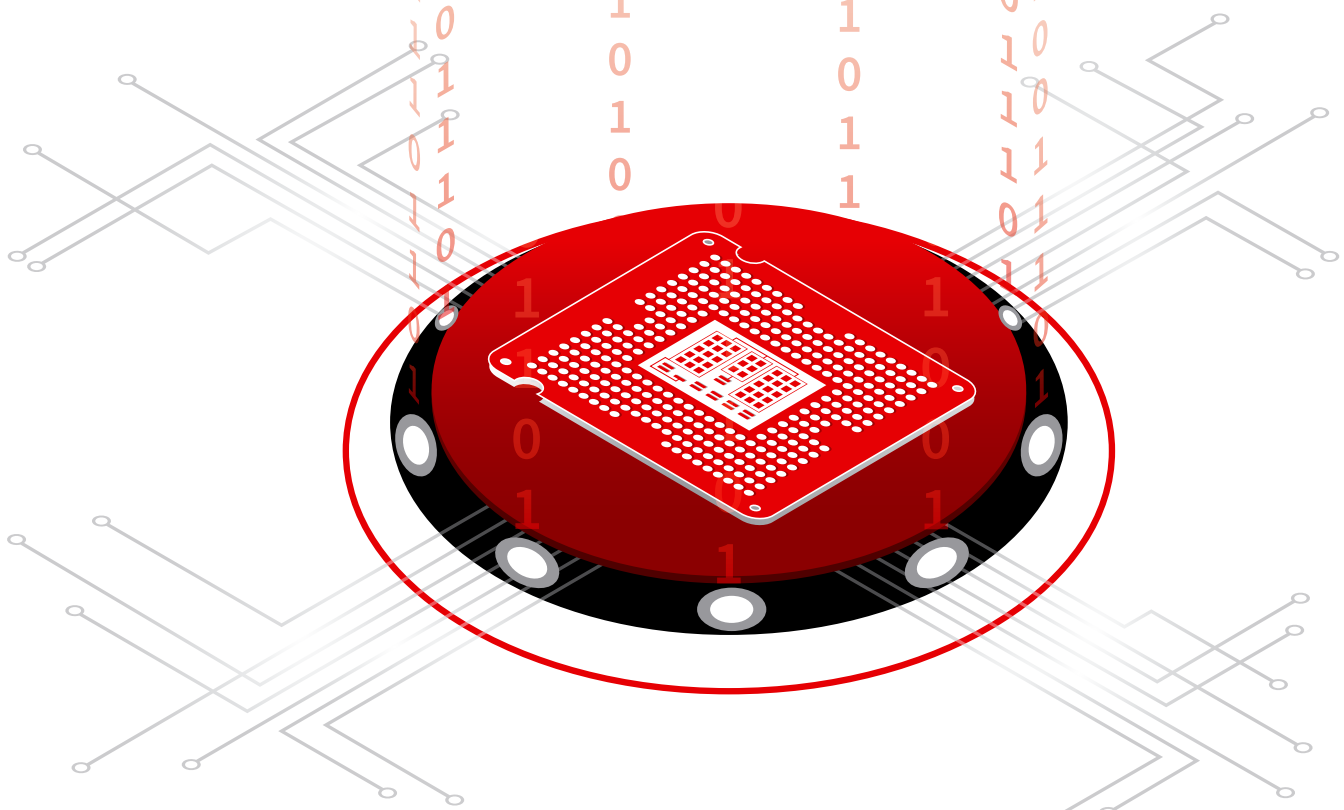
Frontken Corporation Berhad (651020-T)



ANNUAL REPORT 2019

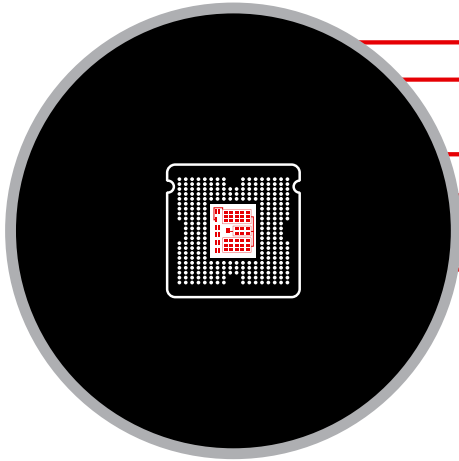
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## CORPORATE INFORMATION

### Board of Directors



#### Ng Wai Pin

*Chairman / Chief Executive Officer*

#### Dr Tay Kiang Meng

*Executive Director / Chief Scientist*

#### Dato' Haji Johar Bin Murat @ Murad

*Independent Non-Executive Director*

#### Ng Chee Whye

*Independent Non-Executive Director*

#### Gerald Chiu Yoong Chian

*Non-Independent Non-Executive Director*

#### AUDIT COMMITTEE

**Dato' Haji Johar Bin Murat @ Murad**  
*(Chairman)*

**Ng Chee Whye**  
**Gerald Chiu Yoong Chian**

#### NOMINATION COMMITTEE

**Dato' Haji Johar Bin Murat @ Murad**  
*(Chairman)*

**Ng Chee Whye**  
**Gerald Chiu Yoong Chian**

#### REMUNERATION COMMITTEE

**Ng Wai Pin**  
*(Chairman)*

**Dato' Haji Johar Bin Murat @ Murad**  
**Ng Chee Whye**

#### COMPANY SECRETARIES

Mah Li Chen (MAICSA 7022751)  
(PC No. 202008002006)  
Chew Mei Ling (MAICSA 7019175)  
(PC No. 201908003198)

#### REGISTERED OFFICE

B-11-10 Level 11  
Megan Avenue II  
Jalan Yap Kwan Seng  
50450 Kuala Lumpur  
Tel : (03) 2166 9718  
Fax : (03) 2166 9728

#### HEAD OFFICE

Suite 301, Block F  
Pusat Dagangan Phileo Damansara 1  
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Damansara  
46350 Petaling Jaya, Selangor  
Tel : (03) 7968 3312  
Fax : (03) 7968 3316  
Email : ir@frontken.com  
Website : www.frontken.com

#### INVESTOR RELATIONS

Tel : (03) 7968 3312  
Fax : (03) 7968 3316  
Email : ir@frontken.com

#### SHARE REGISTRAR

Tricor Investor & Issuing House  
Services Sdn Bhd  
Unit 32-01, Level 32, Tower A  
Vertical Business Suite  
Avenue 3, Bangsar South  
No. 8, Jalan Kerinchi  
59200 Kuala Lumpur  
Tel : (03) 2783 9299  
Fax : (03) 2783 9222

#### AUDITORS

Crowe Malaysia PLT  
(LLP0018817-LCA & AF 1018)  
Chartered Accountants  
Level 16 Tower C  
Megan Avenue II  
12 Jalan Yap Kwan Seng  
50450 Kuala Lumpur  
Tel : (03) 2788 9999  
Fax : (03) 2788 9998

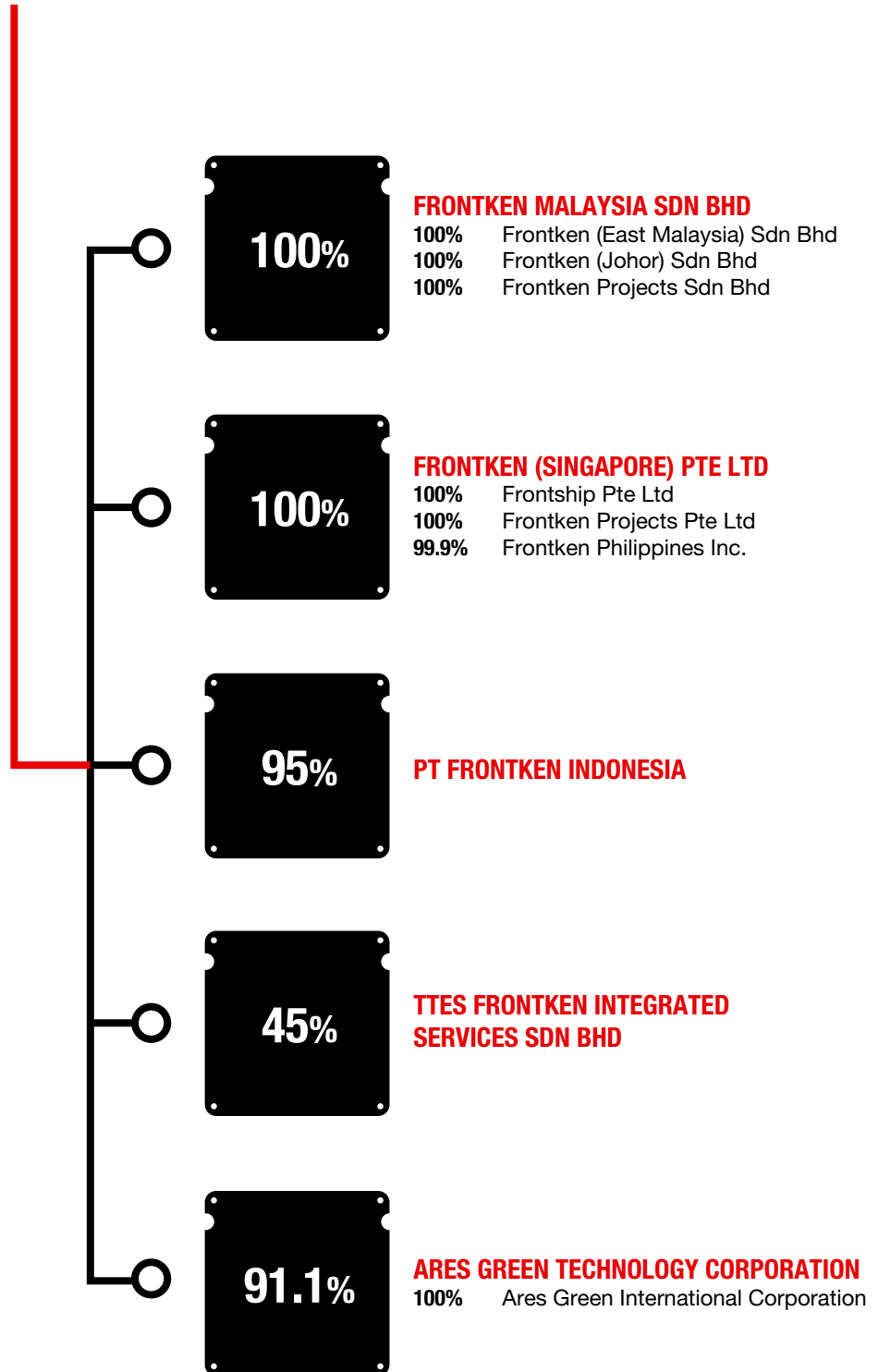
#### STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia  
Securities Berhad  
Stock Name : FRONTKN  
Stock Code : 0128  
Reuters Code : 0128.KL  
Bloomberg Code : FRCB MK

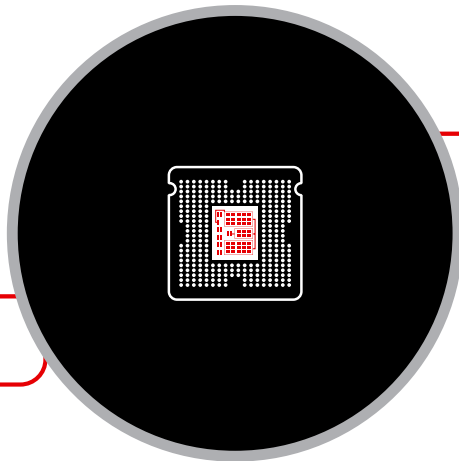
## GROUP CORPORATE STRUCTURE As At 12 May 2020

# FRONTKEN

Frontken Corporation Berhad (651020-T)



## OUR VISION, MISSION AND PROFILE



### Our Vision

To be the leading service provider in the industry we serve.

### Our Mission

To serve our customers with complete satisfaction which includes not only the most competitive price and fastest delivery time but also the highest technical performance and reliability for all our services and products.

### Our Profile

Frontken Corporation Berhad, listed on the Main Market of Bursa Malaysia Securities Berhad, has since its inception in 1996, established itself as a world leading service provider of advanced precision cleaning and surface treatment for semiconductor process chamber parts and repair and maintenance services for the oil and gas industry.

The Group uses cutting edge technology including advanced precision cleaning, advanced surface treatment and specialty spray coating to extend the lifespan of the high precision tools/equipment used in the fabrication of wafers, while significantly improving its customer's process efficiency, operating and maintenance costs.

The Group's continuous focus on research and development helped to improve our customers' process tool part optimisation. As a result, we were able to constantly exceed customers expectation by re-designing some of the tools to further increase the parts' shelf life and at the same time reducing impact on the environment.

The Group's customer portfolio comprises key players in the semiconductor, optoelectronics, oil and gas and petrochemical industries around the world.

To date, the Group has facilities in Singapore, Malaysia, Taiwan, the Philippines, and Indonesia with 1130 employees.

## OUR SERVICES



### Advanced Precision Cleaning

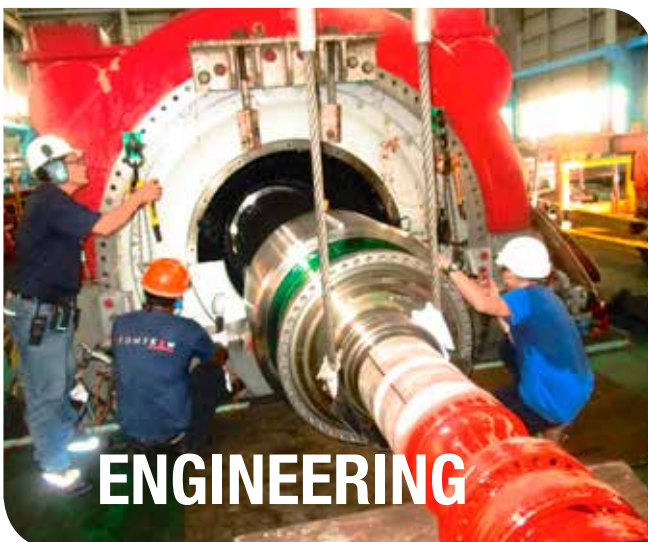
Advanced Precision cleaning and surface treatment of vacuum processes equipment parts in the semiconductors and TFT industries.

Decontamination of newly manufactured parts and routine maintenance. Kit management of semiconductor manufacturing components.

### Advanced Surface Treatment & Specialty Coating

Advanced Surface treatment services include thermal spray coatings, arc spray coatings, precision anodization and precision texturing and polishing.

Protection, lifetime extension, performance and efficiency improvements via advance surface treatment technology such as cold build up treatment, plating, plating & conversion coating, specialised plasma transferred arc welding.

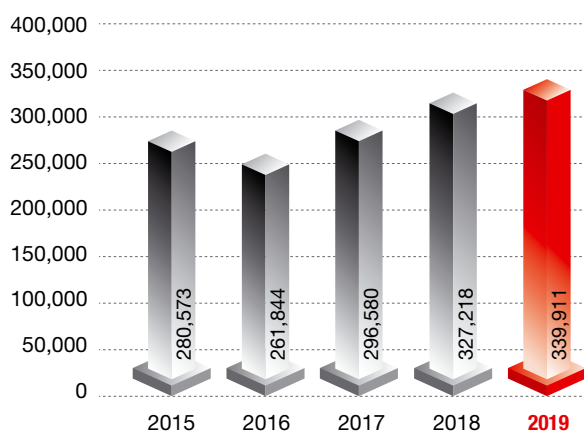


### Rotating Equipment

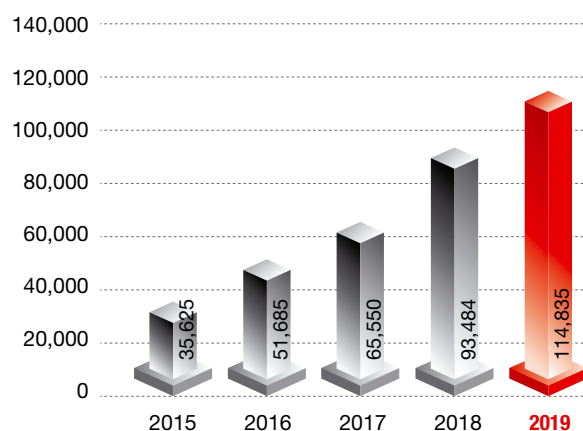
Equipment maintenance and overhaul, mechanical fitting & assembly, dynamic balancing, heat treatment, on site machining, metal stitching, laser alignment.

## FINANCIAL HIGHLIGHTS

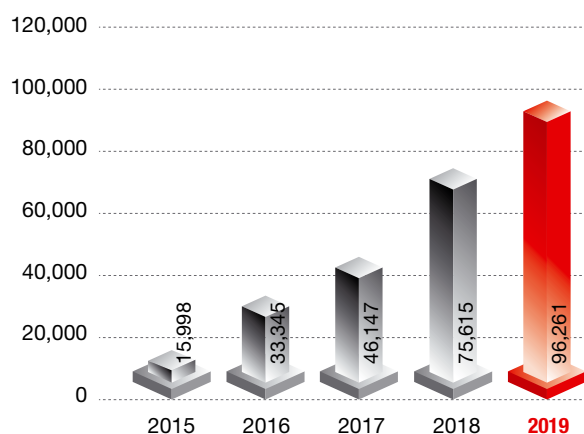
Revenue (RM'000)



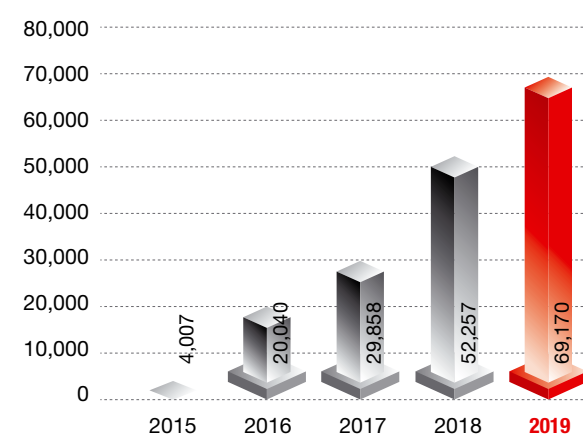
Earning Before Interest, Tax, Depreciation and Amortisation (RM'000)



Profit Before Tax (RM'000)



Net Profit (RM'000)



### SEGMENTAL REVENUE – BY CUSTOMER LOCATION (RM'000)

	2015	2016	2017	2018	2019
Singapore	35,263	38,408	46,616	54,262	53,866
Malaysia	113,398	71,166	51,054	58,714	65,873
Taiwan	107,337	125,893	168,479	182,886	186,018
Others	24,575	26,377	30,431	31,356	34,154
	<b>280,573</b>	<b>261,844</b>	<b>296,580</b>	<b>327,218</b>	<b>339,911</b>

### SEGMENTAL REVENUE – BY INDUSTRY (RM'000)

	2015	2016	2017	2018	2019
Semiconductor	158,737	185,162	235,017	261,621	265,975
Oil & Gas	91,856	50,374	41,132	46,424	57,435
General*	29,980	26,308	20,431	19,173	16,501
	<b>280,573</b>	<b>261,844</b>	<b>296,580</b>	<b>327,218</b>	<b>339,911</b>

\* Comprises power generation, marine, steel, cement, wood processing, pulp & paper, printing, agriculture, industrial manufacturing, food, construction and other sectors.

## FINANCIAL HIGHLIGHTS

(cont'd)

### SUMMARISED GROUP FINANCIAL POSITION

As At 31 Dec (RM'000)	2015	2016	2017	2018	2019
Non-Current Assets	172,843	190,575	188,706	177,493	181,523
Current Assets	217,040	217,187	242,385	277,567	334,202
<b>Total Assets</b>	<b>389,883</b>	<b>407,762</b>	<b>431,091</b>	<b>455,060</b>	<b>515,725</b>
Share Capital	105,344	105,344	118,925	118,925	118,925
Reserves	131,211	156,266	162,675	206,115	258,047
Shareholders' Equity	236,555	261,610	281,600	325,040	376,972
Non-Controlling Interests	34,684	33,799	24,373	19,604	21,776
<b>Total Equity</b>	<b>271,239</b>	<b>295,409</b>	<b>305,973</b>	<b>344,644</b>	<b>398,748</b>
Non-Current Liabilities	32,331	25,420	16,061	12,348	15,053
Current Liabilities	86,313	86,933	109,057	98,068	101,924
<b>Total Liabilities</b>	<b>118,644</b>	<b>112,353</b>	<b>125,118</b>	<b>110,416</b>	<b>116,977</b>
<b>Total Equity and Liabilities</b>	<b>389,883</b>	<b>407,762</b>	<b>431,091</b>	<b>455,060</b>	<b>515,725</b>

### SUMMARISED GROUP CASH FLOWS

Year Ended 31 Dec (RM'000)	2015	2016	2017	2018	2019
Net Cash Flows From Operating Activities	44,500	44,424	69,029	63,322	114,901
Net Cash Flows For Investing Activities	(7,386)	(35,037)	(32,078)	(7,142)	(12,113)
Net Cash Flows From/(For) Financing Activities	6,246	(18,473)	(8,389)	(27,786)	(33,711)
Net Increase/(Decrease) in Cash and Cash Equivalents	43,360	(9,086)	28,562	28,394	69,077
Effect of exchange differences	9,182	2,037	(6,377)	293	1,652
Cash and Cash Equivalents at Beginning of Year	52,575	105,117	98,068	120,253	148,940
<b>Cash and Cash Equivalents at End of Year</b>	<b>105,117</b>	<b>98,068</b>	<b>120,253</b>	<b>148,940</b>	<b>219,669</b>

### FINANCIAL ANALYSIS

	2015	2016	2017	2018	2019
Turnover Growth	-9.5%	-6.7%	13.3%	10.3%	3.9%
Profit Before Tax Growth	-43.2%	108.4%	38.4%	63.9%	27.3%
Net Profit Growth	-78.7%	400.1%	49.0%	75.0%	32.4%
Pre-tax Profit Margin	5.7%	12.7%	15.6%	23.1%	28.3%
Net Profit Margin	1.4%	7.7%	10.1%	16.0%	20.3%
Gearing Ratio (Net of cash) (times)	0.0	0.0	0.0	0.0	0.0
Return on Average Shareholders' Equity	1.8%	8.1%	11.0%	17.2%	19.7%
Return on Average Total Assets	1.1%	5.0%	7.1%	11.8%	14.4%
Earnings Per Share (Sen)					
- Basic	0.4	1.9	2.9	5.0	6.6
- Diluted	^ 0.4	^ 1.9	^ 2.9	^ 5.0	^ 6.6

^ The Group has not issued any dilutive potential ordinary shares and hence, the diluted earnings per share is equal to the basic earnings per share.

## CHAIRMAN'S MESSAGE

# Dear valued shareholders,

Once again, it is time to recognise the accomplishments for last year and look forward for the next chapter in the coming year. The year 2019 enters history as a year of growth with several record achievements for the Group; both for our semiconductor and engineering businesses.

The Group's revenue and earnings as well as return on equity was also at its highest. While we still have a lot of work to do in pursuit of our long-term goals, I'm pleased with our business plan and strategies based on the progress we have made thus far as reflected in this report.

On behalf of the Board of Directors, it is my great pleasure to present to you the Annual Report and Audited Financial Statements of the Group for the financial year 2019 ("FYE2019"). As part of this Annual Report, we have included the Management Discussion and Analysis to provide our shareholders with a more insightful and informative details of the Group's performance and operations.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Review 2019

In 2019, the Group operated against a backdrop of macroeconomic and political disruption, including the uncertainty surrounding international trade policy. However, we are fortunate to have navigated the challenges of this evolving backdrop while continuing to execute our strategies successfully and managed to deliver a better set of results.

One of the key priorities for the year was to further improve on the profitability of the Group. Gross and operating profit margins had to be improved so that the net profit as a percentage to sales will move in tandem with it. As a result, the Group achieved a gross profit margin of 44% this year with growth momentum across all its businesses. Against the same period last year, the Profit After Tax for the Group improved by 30% from RM57.0 million in FYE2018 to RM74.2 million this year. At the same time, we further strengthened our balance sheet, generated good cash flow, and increased our net cash to RM199.0 million, a reflection of our emphasis on cost and cash discipline. We continued to undertake rigorous evaluation of all businesses in order to allocate the appropriate resources according to individual business needs and funding requirements. The total capital expenditure for the year was at RM7.1 million, which was mainly incurred in the Group's subsidiary in Taiwan to further improve its operations' efficiency.

In addition to fortifying our core businesses and growth opportunities, we remain focused on transforming underperforming businesses. For example, in 2019 we made changes to our operation in Indonesia where the division was

restructured by putting in place a new management team. This change helped improve performance and narrowed its losses significantly.

Looking beyond the financial performance, much of the progress we have made in recent years reflects not only our focus on cost but also on our amazing team of employees. We recognise that employees' experience is one of the core elements of our success. We want to create the right culture and ensures that everyone feels engaged in our strategy in driving growth. We have taken steps to ensure that all our employees share in the success of our Group by providing them with the appropriate incentives and rewards. We also emphasised on continuous learning approach and tools, enabling everyone to stay on top of the technology trends and acquiring new knowledge skills.

During the course of the year, we undertook a number of "deep dives" into different aspects of the Group and its strategies. Each August and December, we spend a few days with our executive team to discuss the integrated strategic business plan for the Group. This allows us to constantly evaluate our progress and refine aspects of our strategies. We also engaged with our stakeholders, including our customers, in order to provide us with their holistic views and feedbacks so that we may support them better. At the same time, we also use that knowledge to better understand the key risks we faced to enable us to mitigate and manage them; a key to ensuring good governance.

Our efforts have not gone unnoticed as our share price and its market capitalisation hit its highest level in nearly fourteen years. It is encouraging for us to see the trust that the shareholders place in us as a company, the way we do

## CHAIRMAN'S MESSAGE (cont'd)

business, our transparency, the sustainability of our business and many more. In addition, the Group was also recognised for “Highest Growth and Profit After Tax Over Three Years” in its sector during The Edge Billion Ringgit Club annual event held in September 2019.

Going beyond measures of revenue and profitability is our commitment to governance and sustainability, which remain key to our long-term business growth. As in previous years, our targets and initiatives are found in the Sustainability section of this Annual Report. We also continually explore options to further integrate environmental, social and governance (“ESG”) impact into our investment decisions and the way we do business.

### Semiconductor

In 2019, the worldwide semiconductor industry sales decreased by 12.1% compared to the year before, as reported by The Semiconductor Industry Association. Although the industry's numbers fell, our Group's semiconductor business was up marginally, accounting for close to 80% of the Group's total revenue.



As one of the leaders in our industry, we hold many crucial assets that others will find very difficult to replicate including the ability to provide consistent and good quality results for our services and products. Furthermore, our scale, long and trusted relationships with customers, the strength of our partnership, our people and a trusted name goes a long way in cementing our reputation in the market. Our technology roadmap has always been aligned to support our customers' requests and needs to ensure a profitable and successful partnership.



Every year, we handled hundreds of thousands of big and small high precision kits and tools. The experience and insight we gain from this are what drives our continuous development that allows us to provide solutions to help our customers reduce their operating costs. We work on modernising and simplifying precision cleaning processes of tools without compromising on the quality of the end product to meet our customers' increasing needs, such as a faster turnaround time, greater transparency, data collection and real-time documentation.

We hope to benefit from the continued investments by our customers in producing smaller nodes chips to meet the demands of new technologies such as 5G, HPC and Internet of Things. While we can look back on many accomplishments, we are also conscious of the challenges ahead of us and the need to keep up with latest developments to remain relevant to our customers in the future.

### Engineering

For the first time in many years, the Group engineering business accounted for a double-digit percentage of our total profit, driven by the gradual recovery of the oil and gas industry. At the same time, our costs were substantially reduced mainly due to improved production efficiencies and higher volume.

As you would have noticed from my statement over the past few years, the Group's engineering business had been very challenging, to say the least. Most operators have deferred maintenance and put off non-critical spending to reduce their costs. Until more recently, we saw an increase in activity levels with many new active enquiries as operators started to refocus their attention on equipment repair and maintenance.

## CHAIRMAN'S MESSAGE (cont'd)

Being a dedicated specialist in the maintenance and repair services of rotating equipment it enabled us to be ever ready to support our customers during this time.

We are focused on growing our engineering business in the years to come. To do that we will be leveraging on the Group's resources, maintain capital discipline and focus on productivity improvements. We will continue to leverage on the Group's wealth of expertise and know-how to maximise return on our assets.

Barring any unforeseen circumstances, we believe the performance of the Group's engineering business will continue to improve going forward.



### Frontken Malaysia

In 2019, Frontken Malaysia saw a jump in its operating profit to RM12.6 million from RM5.0 million a year ago, an improvement of 153% or RM7.6 million year on year. This increase was primarily due to the pick-up in business in our engineering units across Malaysia.

The performance of the Group's engineering units in Malaysia, namely Frontken (East Malaysia) Sdn Bhd ("FEM"), TTES Frontken Integrated Services Sdn Bhd ("TFIS") and Frontken (Johor) Sdn Bhd far exceeded the expectation we set at the beginning of 2019.

TFIS continued to participate in turn around/shutdown works while expanding its capability for broader work scope and beyond the traditional market it is in. Demand for our services in equipment repair and maintenance work had also increased steadily with the somewhat more stable crude oil price.

In late 2019, TFIS was appointed as one of the panel contractors for the provision of manpower supply and mechanical rotating equipment services and parts for Petronas Group of Companies. TFIS has also expanded its market, leveraging on available resources from the Group's other subsidiaries such as FEM to deliver on our integrated strategy and provide a solid framework for joint projects. Moving forward, we aim to offer a more complete range of services to our customers leveraging on the success achieved in 2019.

The Group's semiconductor operation in Kulim, Melaka and Kuching continued to perform steadily in a fairly challenging market. This year, we saw a slight slowdown from our hard disk drive ("HDD") customers but luckily that was offset by increased business from our customers in the semiconductor, photovoltaic and OLED industries. However, 2019 continued to be a busy year as we were qualified for more new parts by our existing customers and also some new customers that helped generated new sales for that unit. That business was further boosted by new development and increase of wafer box cleaning by one of our customers' new wafer fabrication facilities.

The continued efforts on cost reduction and profit growth also resulted in an improved margin from operational efficiency that contributed to the bottom line of that unit. To maintain our dominance in the market and to further drive growth, we continued to explore more new service offerings such as fabrication of process kits and cleaning of new parts amongst others. We are also in the final stages of being qualified by another overseas HDD customer which will contribute positively to this business unit in 2020.

We will take advantage of the multiple opportunities in this growing market and hope to capture new customers and leverage on our Group's expertise and experience.

### Frontken Taiwan - Ares Green Technology

In 2019, the Group's subsidiary in Taiwan, Ares Green Technology Corporation ("AGTC") again contributed a substantial portion of the Group's profit. AGTC delivered an operating profit of RM57.1 million, up 16% from FYE2018. Revenue was also up by 2% to RM189.5 million from a year ago.

This is a result of not just reducing cost but also through a series of well-planned out strategies including tweaking our business model, training and developing talents, constantly improving operational efficiency to ensure greater control over operations.

During the year, we continued to strengthen what we were already doing well and at the same time reduced our focus on the less profitable area of our business, namely the TFT-

## CHAIRMAN'S MESSAGE (cont'd)

LCD precision cleaning, so that we can shift our attention to areas that we believe will have higher potential for sustainable growth.

We continued to undertake R&D and joint development on our best-known method/cleaning processes with our customers and technology partners from the early stages of each new nodes. Consequently, this enabled us to be chosen as a partner to our customers for their critical cleaning in their most advanced technology nodes ie N16 and below. As a result, our parts precision cleaning business for leading edge chips had increased over the years. We believe this trend will continue to account for a greater share of AGTC's overall revenue in the coming years. In addition to our advanced precision cleaning business, we are also looking at expanding our other product offerings such as advanced coating and parts supply as part of our growth strategies.



Our investment and commitment to producing consistent high quality end results has always been an important differentiator for us. Besides enhancing our operational efficiency, we were able to continue to provide innovative methods and cost-effective solutions to help meet customers' need and solve their problems during the transition to the next technology node. We also continued to support our customers by providing them with value-adding capabilities, quick response time and impeccable service. This is evidenced by the many recognitions and awards presented to us by our customers over the years including achieving the highest grade recognition during their annual

audit of our facility and strict compliance and adherence to their very strict international requirements.

AGTC continues to work on various sustainability initiatives including the adoption of ESG policies. From an environmental perspective, by way of an example in 2019, we decided to upgrade our existing waste-water treatment facility for better efficiency in energy use, improving process outcomes and minimising impact to the environment. This new improved waste-water treatment is expected to be ready in 2020.

In addition to better serve our customers, we will continue to focus on making necessary investment in AGTC so that it will be well-equipped to cater to the increasing demand while enhancing our capabilities to meet the most stringent quality requirements of our customers.

During 2019, the Group also increased its shareholding in AGTC from 89.6% in the year before to 90.9%. We believe our increased shareholding will further drive the long-term value of the Group.

### Frontken Singapore

Frontken Singapore Pte Ltd ("FSPL") recorded an operating profit of RM24.0 million in FYE2019 from RM18.4 million or a 30% increase compared to a year ago. This is a most commendable set of results in light of the very challenging business environment particularly with manpower shortages and tight foreign labor policies that are in place in Singapore. Notwithstanding that, we are still seeing very encouraging activities from our customers with their proposed expansion plans and continual growth in the country. We are already in talk with our customers to handle their potential new business for the coming years.

In 2019, revenue for FSPL's semiconductor business was mainly driven by its existing customer as our advanced precision cleaning service continued to be a key driver.

As with all our other R&D activities, we were engaged in various formal and informal collaboration with our customers, co-create and jointly develop new processes for our customers' next generation tools as well as to optimise production and process costs.

Moving forward, we believe that our business will continue to grow, spurred by continual spending in the most advanced nodes and expansion plans by our customers.

As for our engineering business in Singapore, the changes implemented in recent years are continuing to bear fruits. We are seeing significant step up in the operational efficiency which have translated into better financial performance and losses have significantly narrowed. The engineering unit

## CHAIRMAN'S MESSAGE (cont'd)

now has a leaner organisation with a significantly lower cost base to better match the activities in the country. We also saw productivity improvements and increased capabilities through sharing of common resources within the Group to take advantage of lower costs offered by other business units.

We were also qualified for more HVOF and other coating related processes by new customers and we are working hard to secure more long-term service agreements. We also explored new avenues such as setting up rotor inspection and storage program in a climate-controlled environment in our facility, to help ensure our customers' critical rotors are maintained in prime condition. This will hopefully become a catalyst to generate other services and income stream to the business.

While the primary goal of the transformation program is to ensure our business returns to sustainable financial health, we are continuously looking to develop a business model that are more resilient and stable.

### Frontken Philippines

In 2019, Frontken Philippines Inc., reported an operating profit of RM2.4 million on the back of a revenue of RM16.1 million. We continued to offer our comprehensive services to all the industries that we serve by providing multi-skilled manpower to different locations nationwide to perform maintenance and repair of rotating and static equipment, fabrication of piping and structural assemblies, non-destructive testing inspections and many more specialised services.

With our deep expertise and competent personnel in handling large-size machining, we were able to add new capabilities such as using Cold Metal Transfer Machine to support the restoration and repair activities and servicing of turbine and generator components for our customers.

We have also initiated the "Power Team" and have started to put together a Quick Response Tool Van to attend and respond immediately to urgent requirements of all our customers.

### LOOKING FORWARD

With the uncertainty created by the Covid-19 pandemic, we believe that the market conditions will be challenging. However, we are still cautiously optimistic of being able to achieve some growth for our businesses. To that end, we are in the process of expanding our facility in Taiwan to better cater for the anticipated increased business from our customers. We expect the new cleaning lines to be ready

sometime in the third quarter of 2020 and should start contributing to our bottom line in the fourth quarter of that year.

We have already begun implementing strategies and initiatives and developing a pipeline that can deliver sustainable growth over the long term. To stay at the forefront of our industries, we will allocate capital where necessary, such as investing in our existing facilities including adding advanced metrology, testing and inspection equipment and introducing more automation to our processes with the view to ensuring consistent high quality end results.

While we have not made any significant changes to our key policies, we remain committed to delivering sustainable shareholders' return through both dividends and capital growth. We will continue to make prudent decisions in our investments and take appropriate steps to strengthen our growth potential and the value of our business, both organically and/or via mergers and acquisitions.

### ACKNOWLEDGEMENT

I would like to take this opportunity to thank our Board of Directors for its continuous guidance and steadfast support throughout the year. On behalf of the Board, I would also like to extend my sincere gratitude to our Senior Independent Non-Executive Director, the late Mr Aaron Sim Kwee Lein and deepest condolences to his family, for his long service and valuable counsel to the Group over the years. It has been a real honor and privilege to have made his acquaintance and worked with him.

As announced in July, we welcome two new directors to our Board, namely Non-Executive Non-Independent Director, Mr Gerald Chiu Yoong Chian and Independent Non-Executive Director, Mr Ng Chee Whye, who bring with them tremendous experience and expertise to the Group. We look forward to their guidance and working with them.

I would also like to take this opportunity to say many thanks to all my colleagues for their continued dedication and hard work during the year, without which we would not have gotten to where we are today.



To our customers, suppliers, business associates, various ministries, government agencies and regulators of the countries in which we operate, we thank you again for the opportunity and trust that you have given to us.

Lastly, I would also like to mark my appreciation to all our loyal shareholders and stakeholders, for your ongoing support and trust in us.



## FINANCIAL REVIEW

### RESULTS OF OPERATIONS

in RM'000

REVENUE			EBITDA				
2018	327,218		4%	2018	93,484		23%
2019	339,911			2019	114,835		

NET PROFIT			EBITDA MARGIN as a % of revenue				
2018	52,257		32%	2018	28.6		5%
2019	69,170			2019	33.8		

### REVENUE

The Group revenue for the financial year ended 31 December 2019 ("FYE2019") was RM339.9 million compared with RM327.2 million recorded in the previous financial year. The Group revenue increased by RM12.7 million or 3.9% compared to the preceding financial year mainly due to positive growth of the Group's semiconductor and engineering business.

REVENUE (by customer location)	2019		2018		% change in revenue
	RM'000	%	RM'000	%	
Taiwan	186,018	55	182,886	56	2
Malaysia	65,873	19	58,714	18	12
Singapore	53,866	16	54,262	17	-1
Philippines	15,102	4	17,185	5	-12
Others	19,052	6	14,171	4	34
<b>Total</b>	<b>339,911</b>	<b>100</b>	<b>327,218</b>	<b>100</b>	<b>4</b>

An analysis of revenue by customer location showed growth in our business particularly in Malaysia, Taiwan and China whereas operational issues experienced by customers resulting in some works being requested to be put on hold resulted a drop of business in the Philippines.

The revenue in Taiwan increased from RM182.9 million to RM186.0 million in FYE2019 or a 2% increase compared to the preceding financial year. Our subsidiary in Taiwan continues to enjoy better business performance mainly due to customer's ramp up of production. The better performance for our subsidiaries in Malaysia was due to improvement in engineering business.

### EARNINGS



Earnings before interest, tax, depreciation and amortisation ("EBITDA") of the Group for FYE2019 increased to RM114.8 million from RM93.5 million or a 23% increase compared to the preceding financial year attributable to higher revenue and continual efforts to improve our efficiency across the Group.

The profit after tax increased by 30% to RM74.2 million from RM57.0 million in the previous financial year mainly because of our semiconductor division in Taiwan and Singapore performed better this year and also an improvement in engineering business in Malaysia and Singapore.



The consolidated net profit attributable to shareholders of the Company for FYE2019 was RM69.2 million, an increase of RM16.9 million or 32% compared to the net profit attributable to shareholders of RM52.3 million for the preceding financial year. The improvement was mainly due to better performances by our non-wholly owned subsidiaries and the increase of the Group's equity interest in our Taiwan subsidiary in FYE2019. This translated to basic earnings per share in FYE2019 of 6.60 sen compared to basic earnings per share of 4.99 sen in the previous financial year.

## FINANCIAL REVIEW (cont'd)

### CASH FLOWS in RM'000

	NET DEBT			WORKING CAPITAL			
2018	(124,144)		60%	2018	179,499		29%
2019	(198,929)			2019	232,279		

	FREE CASH FLOW			CAPITAL EXPENDITURE			
2018	56,907		90%	2018	9,892		28%
2019	107,884			2019	7,146		

The free cash flow increased from RM56.9 million to RM107.9 million in FYE2019 mainly due to higher cash generated from operations, enhance working capital management and lower capital expenditure compared to the preceding financial year.

The net cash from operating activities was RM114.9 million and RM63.3 million in year 2019 and 2018 respectively. The net cash outflow for financing activities was RM33.7 million in year 2019 as compared to RM27.8 million in year 2018. The increase was mainly due to higher dividend payment in year 2019 as compared to the preceding financial year.

Net cash used for investing activities increased from RM7.1 million in the preceding financial year to RM12.1 million in year 2019. The increase in cash outflow for investing activities was mainly due to higher placement of fixed deposits. The proceeds from disposal of an associate and property, plant and equipment in year 2018 also contributed to the lower net cash used for investing activities in 2018.

The Group has cash and cash equivalents of RM219.7 million as at the end of year 2019 compared to RM148.9 million at the end of year 2018. Amid the challenging business conditions, the Group will continue to exercise prudence in cash flow management while conserving the cash for potential future expansion and investing activities.

### FINANCIAL POSITION

The Group's shareholders' fund improved from RM325.0 million as at 31 December 2018 to RM377.0 million as at 31 December 2019.

Total assets of the Group increased from RM455.1 million as at 31 December 2018 to RM515.7 million as at 31 December 2019. Total Group's liabilities of RM117.0 million as at 31 December 2019 were higher by RM6.6 million or 6% compared to the previous year mainly due to higher lease liabilities from the initial application of MFRS 16.

The Group's borrowings as at 31 December 2019 are denominated in Singapore Dollar and repayable within one year. Foreign currency borrowings were drawn to hedge against the subsidiary business and receivables which were denominated in Singapore Dollar.

## BOARD OF DIRECTORS' PROFILE

### NG WAI PIN

#### Chairman / Chief Executive Officer

- Aged 54, Male, Malaysian
- Appointed to the Board on 10 April 2006
- Chairman of Remuneration Committee

Ng Wai Pin, formerly a Senior Independent Non-Executive Director of Frontken Corporation Berhad ("FCB"), was re-designated as the Chairman / Managing Director of the Company on 19 January 2012. He was re-designated as the Chairman / Chief Executive Officer of the Company on 29 March 2018. He holds a Bachelor of Laws degree from University of Auckland and was admitted to the roll of barristers and solicitors of the High Court of New Zealand in 1989. He then continued practising as a barrister and solicitor in a leading legal firm in Auckland for a number of years before returning to Malaysia where he joined Shook Lin & Bok, a legal firm in Kuala Lumpur. He was admitted as an Advocate and Solicitor of the High Court of Malaya in 1993. He later became a Director and Chief Executive Officer of an oil and gas services company listed on Bursa Malaysia Securities Berhad with regional operations, before returning to private

practice in law. From September 2005 to February 2009, he was the Chief Operating Officer of a company listed on the Singapore Exchange Limited and was seconded as the Chief Executive Officer of a company listed on the Australian Stock Exchange. He is also the Executive Chairman of Ares Green Technology Corporation, a public company in Taiwan, R.O.C., a subsidiary of FCB. He also sits on the board of BSL Corporation Berhad as an Independent Non-Executive Director.

He has no family relationship with any other Directors or major shareholders of the Company. He is a director of Dazzle Clean Ltd as well as a major shareholder of the Company by virtue of his substantial shareholding in Dazzle Clean Ltd.

He has not been convicted of any offences within the past five years. He has no conflict of interest with the Company.

### DR TAY KIANG MENG

#### Executive Director / Chief Scientist

- Aged 55, Male, Singaporean
- Appointed to the Board on 10 April 2006

Dr Tay Kiang Meng holds a Bachelor of Engineering (First Class Honours) in Manufacturing Systems Engineering from University of Portsmouth, and a Master of Science in Advanced Manufacturing Systems and a PhD in Engineering from Brunel University, United Kingdom.

He is responsible for research and development leading the Group's technology roadmap, spearheading research and development ("R&D") activities, formalising the Group's quality systems, developing critical manufacturing technologies for FCB's semiconductor technology and advanced materials engineering, and exploring new technology opportunities for the Group. He has more than 20 years of professional experiences in technology development, R&D, and has led some of the most significant technology innovations in

semiconductor-related manufacturing technology and advanced materials engineering.

An engineer and scientist by training, Dr Tay began his professional R&D experience with research think tank, Gintic Institute of Manufacturing Technology, Singapore. Dr Tay has received honours and awards in many of his academic, research and technology development work.

Dr Tay also sits on the board of the FCB's subsidiary, Ares Green Technology Corporation.

He has no family relationship with any other Directors or major shareholders of the Company.

He has not been convicted of any offences within the past five years. He has no conflict of interest with the Company.

## BOARD OF DIRECTORS' PROFILE (cont'd)

### **DATO' HAJI JOHAR BIN MURAT @ MURAD** Independent Non-Executive Director

- Aged 72, Male, Malaysian
- Appointed to the Board on 10 April 2006
- Chairman of Audit Committee and Nomination Committee, Member of Remuneration Committee

Dato' Haji Johar Bin Murat @ Murad graduated with a Bachelor degree in Malay Studies from Universiti Malaya in 1971. He has worked in various government agencies, such as the Ministry of Science, Technology & Environment, the Ministry of Finance, the Ministry of Public Enterprises (now known as Ministry of Entrepreneur and Co-operative Development) and Economic Planning Unit of Prime Minister's Department. During his tenure of service in the Ministry of Finance (1996 – 2000), he was a director of the following organisations:-

- Yayasan Tun Razak (Tun Razak foundation)
- Perbadanan Kemajuan Negeri Selangor (Selangor State Economic Development Corporation)
- Majlis Sukan Negara Malaysia (National Sports Council)
- Lembaga Pembangunan Labuan (Labuan Development Authority)
- Syarikat MKIC Malaysia (Malaysia Kuweity Investment of Malaysia)
- Jawatankuasa Pengurusan Hutan Serantau (Regional Forestry Management Committee)

- Majlis Penyelidikan dan Kemajuan Sains Negara (National Council of Science and Research Development)

When he was the Deputy Secretary General (Operations) of the Ministry of Science, Technology & Environment from 2000 to 2003, Dato' Haji Johar was also an Alternate Director of Lembaga Pengarah Technology Park Malaysia, MIMOS Berhad, SIRIM Berhad, Malaysian Agriculture Research and Development Institute, Malaysia Technology Development Corporation, Composite Technology Research Malaysia Sdn Bhd, Malaysia Design Council and National Science Centre. He was also the Chairman of Audit Committee of MIMOS Berhad and a member of the Board of Tender for MIMOS Berhad and SIRIM Berhad. Currently, he sits on the board of several other private companies.

He has no family relationship with any other Directors or major shareholders of the Company.

He has not been convicted of any offences within the past five years. He has no conflict of interest with the Company.

### **NG CHEE WHYE** Independent Non-Executive Director

- Aged 54, Male, Malaysian
- Appointed to the Board on 31 July 2019
- Member of Audit Committee, Nomination Committee and Remuneration Committee

Ng Chee Whye is a Chartered Accountant with the Chartered Accountants Australia and New Zealand and holds a Bachelor of Commerce degree from the University of Canterbury, New Zealand. He began his professional career with KPMG Peat Marwick in Auckland, New Zealand, gaining experience with clients from varied industries. Following which, he relocated closer to home to assume varied Senior Finance roles with various IT related entities in Singapore and Malaysia, namely Hewlett-Packard Singapore (Pte) Ltd, Creative Technology Ltd and Electronic Data Systems IT Services (M) Sdn Bhd. He

subsequently moved on to assume Chief Financial Officer roles with various Wealth Advisory and Fund Management entities at Prudential Fund Management Bhd, AXA Financial Services and Nexus Financial Services Pte Ltd.

He has no family relationship with any other Directors or major shareholders of the Company.

He has not been convicted of any offences within the past five years. He has no conflict of interest with the Company.

## BOARD OF DIRECTORS' PROFILE (cont'd)

**GERALD CHIU YOONG CHIAN**  
Non-Independent Non-Executive  
Director

- Aged 46, Male, Singaporean
- Appointed to the Board on 31 July 2019
- Member of Audit Committee and Nomination Committee

Gerald Chiu Yoong Chian holds a BA (First Class Honours) in Engineering and Master's in Engineering (with distinction), both from the University of Cambridge, United Kingdom. He joined Dymon Asia Capital in 2012, helped establish Dymon Asia Private Equity ("DAPE"), and is a member of DAPE's investment committee. DAPE is focused on making private equity investments in Small and Medium Enterprises in South East Asia, and aims to contribute both capital and expertise to the companies it invests in. DAPE's current funds are

Fund I (SGD300 million) and Fund II (USD450 million). DAPE has offices in Singapore, Malaysia and Thailand, and has invested in 18 companies/exited 5 companies across these geographies.

He has no family relationship with any other Directors or major shareholders of the Company. He is a director of Dazzle Clean Ltd, a major shareholder of the Company.

He has not been convicted of any offences within the past five years. He has no conflict of interest with the Company.

## SENIOR MANAGEMENT'S PROFILE

### GEORGE I. LAGOS President, Frontken Philippines Inc. ("FPI")

- Aged 60, Male, Filipino
- Appointed in 2003

George I. Lagos graduated from Don Bosco Technical College, Industrial Technology Course. He has extensive working experience in the oil and gas industry, power and related industrial fields. Prior to joining FPI in 2003, he has held various senior positions in multinational companies and has gathered a wealth of experience that encompasses maintenance of various types of rotating and static machinery in the oil and gas, power and general industry.

He was appointed as the President in 2003 and is the chairman of the Board of FPI.

He has no family relationship with any other Directors or major shareholders of the Company.

He has not been convicted of any offences within the past five years. He has no conflict of interest with the Company.

### HEE KOK HIONG Chief Financial Officer

- Aged 48, Male, Malaysian
- Appointed in 2012

He has more than twenty years working experience in the areas of finance and administration where he started his career as an audit assistant at Ernst & Young in 1996 where he led and managed various statutory and special audits of companies in a wide spectrum of industries. He left the firm in 2001 to join a co-operative society as its Manager for Finance & Administration Department. Prior to joining Frontken Corporation Berhad ("FCB") as the Group Financial Controller in 2009, he was the Group Financial Controller of a private company with business operations worldwide, where he spend 5 years overseeing its finance, administration and human resource functions.

Mr Hee also sits on the board of FCB's subsidiaries, namely, Ares Green Technology Corporation, Frontken Philippines Inc., TTES Frontken Integrated Services Sdn Bhd, Frontken Projects Sdn Bhd and PT Frontken Indonesia.

He has no family relationship with any other Directors or major shareholders of the Company.

He has not been convicted of any offences within the past five years. He has no conflict of interest with the Company.

Hee Kok Hiong is a Fellow member of the Association of Chartered Certified Accountants (UK) and Chartered Accountant of Malaysia Institute of Accountants.

### LEE BOON TIAN Director of Frontken Malaysia Sdn Bhd ("FMSB")

- Aged 47, Male, Malaysian
- Appointed in 2016

Lee Boon Tian holds a Diploma in Mechanical Engineering from the Federal Institute of Technology and has the combined entrepreneurial acumen with engineering studies and business management skills to drive revenue, profit performance and market share.

He has extensive working experience in the semiconductor related field with the first seven years attached to one of the largest semiconductor equipment manufacturers in the divisions of parts cleaning and cleanroom consumable sales.

In 2007, he joined FMSB, a wholly-owned subsidiary of FCB, as a senior sales and marketing manager and was promoted to General Manager in 2010. He was later appointed as a Board member of FMSB in 2016.

He has no family relationship with any other Directors or major shareholders of the Company.

He has not been convicted of any offences within the past five years. He has no conflict of interest with the Company.

## SENIOR MANAGEMENT'S PROFILE (cont'd)

**MOHD SHUKRI BIN HITAM**  
Managing Director of  
TTES Frontken Integrated  
Services Sdn Bhd ("TFIS")

- Aged 54, Male, Malaysian
- Appointed in 2000

Mohd Shukri Bin Hitam holds a Bachelor of Science in Aerospace Engineering, Bachelor of Science in Aeronautics (specialised in Aircraft Maintenance Engineering), Associate Science (Diploma) in Aircraft Maintenance Management Technology and Certificate in Airframe and Power Plant Mechanic.

He has extensive working experience in engineering related fields. Prior to the incorporation of TFIS, he worked in various organisations as engineer and consulting specialist in rotating equipment and turbomachinery engineering and technical services.

He is the Managing Director of TFIS and is responsible to oversee the overall operations of TFIS, engineering and technical services and directs various engineering and technical consultancy services at joint-service and consultancy companies.

He has no family relationship with any other Directors or major shareholders of the Company.

He has not been convicted of any offences within the past five years. He has no conflict of interest with the Company.

**PNG ENG WAH**  
Senior Vice President, Frontken  
(Singapore) Pte Ltd ("FS")

- Aged 56, Male, Singaporean
- Appointed in 2004

Png Eng Wah holds a Diploma in Mechanical Engineering from Ngee Ann Polytechnic, Singapore.

He has extensive working experience in the business of surface metamorphosis technology including special process development, technology transfer and setting up of research and development and engineering application in thermal coating processes prior to joining FS in 1997.

He was appointed the Senior Vice President of FS in 2004, responsible for the overall operations of FS's semiconductor division.

He has no family relationship with any other Directors or major shareholders of the Company.

He has not been convicted of any offences within the past five years. He has no conflict of interest with the Company.

**TSAI YU MIN**  
General Manager, Ares Green  
Technology Corporation ("AGTC")

- Aged 43, Male, Taiwanese
- Appointed in 2013

Tsai Yu Min holds a Degree in Chemical Engineering from Taiwan Taichung Feng Chia University.

He has extensive working experience in sales and marketing and general management and has been working with AGTC, a subsidiary of FCB, since 2000. Before his appointment as General Manager in 2013, he was the sales manager, responsible for

formulation of sales and marketing strategies for AGTC.

He has no family relationship with any other Directors or major shareholders of the Company.

He has not been convicted of any offences within the past five years. He has no conflict of interest with the Company.

Save as disclosed on pages 15 to 19, none of the Directors and members of Key Senior Management hold any other directorship in any public company and/or listed issuer in Malaysia.

## SUSTAINABILITY REPORT

# Messages from Sustainability Committee

**“Frontken Group has been in the business for more than 20 years, using advanced innovative technology to develop sustainable products and services that make critical parts last longer, perform better and look beautiful and recyclable over numerous critical production processes in many domain industries.”**

For the past decades, Frontken Group has been committed to health, safety, environmental and corporate responsibility and sustainability development. We are focused on providing our customers around the world with products, services and technologies that helps to improve and achieve the Society 5.0 and make an explicit and positive contribution to the challenges of the Sustainable Development Goals today.

In financial year 2019 (“FY2019”), we have strengthened the Frontken Group’s commitments to various aspects of sustainability development. Our sustainability report covers our accomplishments in FY2019 during which time we took important steps to strengthen and integrate our sustainability vision, which is key to the long-term sustainable growth, development and profitability of the Frontken Group. We have dedicated additional resources to fully control and integrate our sustainability initiatives. These initiatives are aimed to recognise opportunities for profitability, continuous improvement, build enterprise value, preserves business integrity and protects our reputation.

At Frontken Group, we build advanced technology to help our customers to develop sustainable products and services that make their critical parts last longer, perform better and look beautiful and recyclable in their critical processes. In short, we research, develop and build advanced technology to support and extend the critical processes for our customers’ businesses. Frontken technology help customers to (a) PROTECT the surfaces of their critical parts used in everyday production; (b) PRESERVE their critical parts materials, so that they last longer in everyday production; (c) PROVIDE for a sustainable future via recycling, repairing, refurbishment and re-coating.

We continue to develop business opportunities in alignment with our Sustainable Development Goals that are most relevant for Frontken Group by re-engineering more shared values from fewer resources and turning societal concerns and environmental challenges into our product and services innovations for our global customers. We believe in delivering both shareholder and social values for the long-term growth by building excellence corporate governance that will contribute positively to the society and the environment. We have spent considerable time and resources in shifting the business models of our businesses towards becoming more sustainable. We have also focused on identifying new opportunities, as evidenced by our investments in for example the re-engineering of our water usage and conservation systems as well as our waste treatment and discharge systems, that have become the leader in terms of semiconductor parts processing support technology as well as in environmental sustainability.

The Frontken Board and Management, through our internal and external stakeholder engagement and materiality assessment of our business, had earlier identified key trends and topics that are critical to the continued success of our business, such as reducing emissions to environmental, reducing energy use and waste and improving safety and productivity, creating an inclusive social platform and good corporate governance, business continuity plan, etc. We have always and constantly reviewed such risks as important opportunities to strengthen our risk management, and create long-term value and sustainable growth for our group. The assessing and improving of our operational sustainability have been integrated as part of the Frontken Group’s strategic formulation. The Board will continue to provide oversight with the support of the Sustainability Management Committee and Risk Management Committee where these materials environmental, social and governance, etc are reviewed and implemented.

In FY2019, Frontken Group continue to strengthen and focus on the five “Core Areas for Action on Sustainability”, these five dimensions of sustainability development are (a) responsible management; (b) responsible innovation and service; (c) responsible green production; (d) responsible workplace; and (e) inclusive society and communities. Based on the material issues we identified, we have laid out a set of strategies and long-term goals in this report as our “Frontken 2025 Vision”. In the long-term vision, we aim to benchmark our sustainability development with the GRI Framework and United Nations Sustainable Development Goals by continuing to make efforts in the economic, environmental, and social dimensions of our business, and make a contribution towards resolving environmental and social issues.

## SUSTAINABILITY REPORT (cont'd)

We continuously improve and equip our engineers and employees to ensure they are able to continuously contribute to our sustainability development vision. For example, every engineer and employee responsibilities are included in their personal objectives and incentives, and is linked to our business operational requirements:

- (a) Innovative Value Creation through product and service portfolios – designed to bring tangible benefits to our customers with competitive advantage and deliver positive social and environmental impact for sustainability development.
- (b) Maximizing Resource Productivity through operations – designed to optimize all resources productivity in our production, operations and supply chain including critical materials used, eliminating waste and reducing variable cost. So as to makes us more competitive and sustainable.

Some of our highlights of our achievements are summarised as follows, with more details within our Frontken Group Sustainability Report FY2019, which the Group measure and report its sustainability performance.

### FY2019 ACHIEVEMENT OF SUSTAINABILITY GOALS

#### I. Responsible Management

Frontken views the sustainable development of its management team characters and capabilities as a key part of its corporate social responsibility. We focus on financial prudence, discipline and integrity with strong risk management. We are committed to high standards of corporate governance to sustain growth and performance, and to safeguard stakeholders' interest and maximize long-term shareholder value. Our guiding principles are summarised as follows:

- (a) Our management activities and practices embrace triple bottom line optimization which include positive triple bottom line that protects, creates, and sustains social, environmental, and economic business value.
- (b) Our management decisions and practices embrace risk management, ethical decision making and create moral excellence in both process and outcome.

#### II. Responsible Innovation and Service

Frontken has long been the trusted technology partner and service provider to the global semiconductor industry. We are a leader in providing next generations of precision cleaning and coating technology to our customers. We help customers quickly enter into production with our precision cleaning and coating capabilities and provide them with competitive advantage in their products and yield performance. In 2019, we led the advanced precision cleaning and coating in the 5nm process technology in Taiwan. We also led the most advanced precision cleaning and coating for the next generation memory wafer process in Singapore. In FY2019, our R&D team researched and developed more environmentally friendly methods for our coating and cleaning process, we improved our production process flow and productivity by 16% and reduced the manpower by 1.3 hours per kit, and most importantly we replace the dangerous steps and processes that are not conducive to the physical and mental health of employees and the environment.

#### III. Responsible Green Production

Frontken Group has continued to improve its green production method to meet the operational challenges that global warming may bring by making progress through innovation. In FY2019, our production capacity has increased while processes continue to grow more complex, but through our efforts, unit production average power usage is 11.20 kWh per part produced; the unit production average water usage is 0.12 cubic meter per part; and unit production average waste produced is 0.00037 ton (0.37kg) per part.

In FY2019, we further optimized our green power to 384,128 KW (an increase from FY2018 of 268,242 KW), directly supporting renewable energy. We continue to adhere to strict waste classification at the source, we have introduced new methods to perform internal recycling of waste water, enabling them to become reusable resources and lowering reliance on outsourcing. In FY2019, we implemented two major waste reduction projects which have resulted a total benefit of 54,443 ton of water saved and 54 ton of waste recycled. As a result of our implementation waste recycling projects, the total water consumption was further reduced in 2019 by 5.8%. We are committed to complying with or exceeding all relevant regulatory requirements, to prevention of pollution and to continual improvement in the environmental, health and safety performance of its operations, processes and products.

## SUSTAINABILITY REPORT (cont'd)

### IV. Responsible Workplace

Frontken group recruits and employs people based on their talents, without regard to their nationality around the world in a fair, open, and just fashion. Frontken strive to groom and retain a diverse and robust talent pool to support and drive our growth through continuous training and development and instilling a strong culture of safety and excellence, whilst encouraging work-life balance. These are implemented through talent development, groom leaders, knowledge training and exchange, health & safety, employee wellness, etc. We employ people based on their talents, without regard to their nationality. We offer good terms of compensation above the industry average, leave and benefits that meet employees' needs, a variety of training courses, and do our utmost to create a safe and healthy work environment.

In FY2019, Frontken employee Retention Rate is 98.94%.

Frontken contributed or invested more than 9,664 hours to train employees.

We have a very low health and safety recordable injury rate of 0.01 hour per 100 Employees.

### V. Inclusive Society and Communities

Frontken aims to be proactive in corporate social responsibility to create a total inclusive society and communities. Through the caring for education of the underprivileged, providing education opportunities, and promoting sports, arts and culture, we encourage employees to participate in public service in reading, guiding, ecology and conservation, and caring for the underprivileged and elderly.

In FY2019, Frontken and its volunteers contributed for a total of 5,282 hours.

We have been supporting schools and non-profit organisations to benefit a total of 9 people.

## CONCLUSION

Our report highlights Frontken Group products and services that contribute to our customers' sustainability goals, such as precision recycle cleaning, refurbishment, re-coatings for critical parts that extend the parts life, products that prevent corrosion and conserve natural resources and other products and services that support the enhanced performance of wafer manufacturing processes. We also report on our efforts to ensure we conduct our business in a socially responsible manner along our entire value chain, from the materials we buy and the production method in which our products and services are used.

Frontken engineers and employees are continuously developing and producing products and services and/or working together with our customers enabling them to optimize the use of our technology. Our employees are critical to our sustained success. Our report explains our efforts to ensure the health and safety of our employees, and at the same time support their development and job satisfaction. We also recognise the important work we do to protect the communities where our employees live and work by ensuring that our production facilities adhered to rigorous environmental standards.

On behalf of the Board and Management of Frontken Group, we would like to thank all our staff, partners and stakeholders who have been with us throughout our sustainability journey. We look forward to your continued engagement, partnership and support. On behalf of all of us at Frontken, we hope this report provides you with new insights into our business and the ways in which we embrace sustainability. Thank you for your time.

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are required by the Companies Act 2016 (“the Act”) to prepare financial statements in accordance with the applicable approved accounting standards set out by Malaysian Accounting Standards Board, and the provisions of the Act and the Main Market Listing Requirements of Bursa Securities, and to lay these before the Company at its Annual General Meeting.

The Directors are responsible for ensuring that the financial statements provide a true and fair view of the financial position of the Group and the Company as at 31 December 2019 and of their financial performance and cash flows for the financial year ended 31 December 2019.

The Directors are responsible to ensure that the Group and the Company keep accounting records which disclose the financial position of the Group and of the Company with reasonable accuracy, enabling them to ensure that the financial statements comply with the Act.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors (“Board”) of Frontken Corporation Berhad (“Company”) implements high standards of corporate governance in the Company for the purpose of safeguarding the interest of its shareholders and other stakeholders, including the Company’s assets. In applying corporate governance practices, the Board is mindful that such practices should consider and reflect transparency, accountability, ethical culture, sustainability and financial performance of the Group.

As such, the Board has embedded in the Group, comprising the Company and its subsidiaries, a culture aimed at delivering a balance between conformance requirements and the need to deliver long-term strategic imperatives through performance, without compromising on personal or corporate ethics and integrity.

This Statement, which is issued pursuant to Paragraph 15.25(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”), provides an overview of the Company’s application of the 3 Principles set out in the Malaysian Code on Corporate Governance (“MCCG”) for the financial year under review and up to the date of this Statement. Specific details on how the Company has applied each of the 36 Practices set out in the MCCG are disclosed in the Corporate Governance Report, which is available for viewing on the Company’s website at [www.frontken.com](http://www.frontken.com).

### PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS

#### I. Board Responsibilities

The Board is collectively responsible to the Company’s shareholders for the long-term success of the Group in terms of strategic direction, values and governance. The Board is led by experienced and knowledgeable Directors who provide the Company with the core competencies and the leadership necessary for the Group to meet its business objectives. An Independent Non-Executive Director, namely Dr Jorg Helmut Holnloser, retired from the Board on 30 May 2019 whilst another Independent Non-Executive Director, namely Aaron Sim Kwee Lein, demised on 30 June 2019. In their stead, two (2) new Directors were appointed on 31 July 2019, namely Gerald Chiu Yoong Chian, a Non-Independent Non-Executive Director, and Ng Chee Whye, an Independent Non-Executive Director.

The Directors are aware of their responsibility to take decisions objectively which promote the success of the Group for the benefits of shareholders and other stakeholders. The role and responsibilities of the Board, which are delineated in the Board Charter available on the Company’s website at [www.frontken.com](http://www.frontken.com) are summarised as follows:

- Set the strategic direction of the Group and monitor the implementation of strategies by Management;
- Oversee the conduct of the Company’s business;
- Identify principal risks and ensure the implementation of appropriate internal controls and mitigation measures;
- Succession planning;
- Oversee the development and implementation of a shareholder communications policy for the Company; and
- Review the adequacy and integrity of the management information and internal control system of the Company.

The Board Charter is periodically reviewed and updated, with the most recent in February 2019 approved by the Board, to be in line with the Principles and Practices of the MCCG.

In discharging its stewardship role effectively, the Board has delegated and conferred some of its authority and powers to its Committees, namely the Audit Committee, Nomination Committee and Remuneration Committee (“Board Committees”). The Board Committees are entrusted responsibilities to oversee specific aspects of the Company’s affairs according to their respective terms of reference, approved by the Board, and to report to the Board their findings and recommendations. The decision to act on such recommendation lies solely with the Board.

The Chairman of the Board, who is also the Chief Executive Officer, leads the Board in fulfilling its fiduciary and stewardship roles. The Board Charter sets out the Chairman’s responsibilities as follows:

- Lead the Board in deliberating the business and affairs of the Company and its oversight of Management;
- Oversee the Board in discharging of its supervisory and stewardship role;
- Oversee an efficient organisation and conduct of Board’s function and meetings;
- Facilitate the effective contribution by all Directors;
- Brief Directors in relation to issues arising at meetings;

## CORPORATE GOVERNANCE OVERVIEW STATEMENT (cont'd)

### PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

#### I. Board Responsibilities (cont'd)

- Promote constructive and respectful relations amongst Board members and between the Board and Management;
- Commit the time necessary to discharge effectively the designated Chairman roles; and
- Ensure regular and effective evaluation of the Board's performance.

In carrying out his role, the Chairman works with Senior Management, manages the Board, and promotes effective relations with shareholders, other stakeholders and the public.

The role of day-to-day management of the Group's business development and operations, including implementation of Board's policies and decisions, is helmed by the Chief Executive Officer, assisted by his fellow Executive Director. The Board is mindful of the dual role held by Mr Ng Wai Pin as the Board Chairman and Chief Executive Officer which is a departure from Practice 1.3 of the MCCG that states the positions of Chairman and the Chief Executive Officer are to be held by different individuals. The Board is of the view that there is no concentration of power and authority, and that no one individual has unfettered powers for decision making, especially when the Board comprises a majority of Non-Executive Directors. Furthermore, such Non-Executive Directors are individuals of calibre, credibility and are free from any relationship which could materially interfere with the exercise of their objective judgement. These three (3) Non-Executive Directors (two (2) of whom are Independent Non-Executive) are capable of exercising objective and unbiased judgement to ensure fair and objective deliberations at Board meetings.

To enhance accountability, the Board has established clear functions reserved for itself and those delegated to Management. There is a formal schedule of matters reserved to the Board for its deliberation and decision to ensure the direction and control of the Company are in its hands. Key matters reserved for the Board include the approval of annual budgets, quarterly and annual financial statements for announcement, investment and divestiture, as well as monitoring of the Group's financial and operating performance. Such delineation of roles is clearly set out in the Board Charter. Delegation of authorities has also been formalised to ensure a balance between operational efficiency and control over corporate and financial governance.

The Company has a Code of Conduct for its Directors and employees, available on the Company's website. The Board has also formalised in writing its Whistle Blowing Policies and Procedures, including reporting templates, for employees to raise genuine concerns, without fear of reprisal, about possible improprieties on matters pertaining to financial reporting, compliance, malpractices and unethical business conduct within the Group. The Whistle Blowing Policies and Procedures document is uploaded on the Company's website at [www.frontken.com](http://www.frontken.com).

Directors have full access to the Company Secretaries, who are all members of the Malaysian Institute of Chartered Secretaries and Administrators ("MAICSA"), to provide advisory services to the Board, particularly on corporate governance issues and compliance with the relevant policies and procedures, laws and regulatory requirements, in addition to the administrative matters on meetings of the Board, Board Committees and shareholders.

As stipulated in the Board Charter, the Directors are required to devote sufficient time to carry out their responsibilities. The Board obtains this commitment from Directors at the time of appointment. Each Director is expected to commit time as and when required to discharge the relevant duties and responsibilities, besides attending meetings of the Board or Board Committees.

#### **Continuous Professional Development**

The Board encourages its members to enrol in appropriate continuing education programme to equip them to serve the interests of the Company. The Directors are updated by way of circulars on matters relating to changes to the Main Market Listing Requirements and briefing by the Company Secretaries at the Board Meeting following the changes.

All Directors have completed the Mandatory Accreditation Programme as required by the Main Listing Requirements of Bursa Securities. During the financial year under review, the trainings attended by the Directors included briefings, seminars, workshops and conferences conducted by the relevant regulatory authorities and professional bodies. Details of the training programmes attended or participated by the Directors are as follows:

## CORPORATE GOVERNANCE OVERVIEW STATEMENT (cont'd)

### PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

#### I. Board Responsibilities (cont'd)

##### Continuous Professional Development (cont'd)

Directors	Training/Seminar/Conference/Workshop
Ng Wai Pin	<ul style="list-style-type: none"> <li>• ESG Seminar for FTSE4Good Bursa Malaysia Index</li> <li>• Invest Malaysia – Tokyo, Japan</li> <li>• Invest Malaysia KL - The Capital Market Forum</li> <li>• Duties and Responsibilities of Directors under Listing Requirement and the Malaysia Code on Corporate Governance - common breaches of the Listing Requirements and latest amendments to Listing Requirements</li> <li>• CLSA Malaysia Small Cap Access Day – Singapore</li> <li>• Semicon West, San Francisco, USA</li> <li>• SEMICON TAIWAN, Taipei</li> <li>• JPM Asia Rising Dragons – Kuala Lumpur</li> <li>• JPM Asia Rising Dragons – Singapore</li> </ul>
Dr Tay Kiang Meng	<ul style="list-style-type: none"> <li>• CIO2SME Technology Conference 2019 - Technology Inclusion or Infusion?</li> <li>• ConnecTechAsia</li> <li>• The 21st Annual SME Conference and 22nd Infocomm Commerce Conference Techinnovation Singapore organised by Intellectual Property Intermediary Singapore</li> </ul>
Dato' Haji Johar bin Murat @ Murad	<ul style="list-style-type: none"> <li>• Integrated Reporting: Communicating Value Creation</li> </ul>
Ng Chee Whye	<ul style="list-style-type: none"> <li>• Mandatory Accreditation Programme</li> </ul>
Gerald Chiu Yoong Chian	<ul style="list-style-type: none"> <li>• Mandatory Accreditation Programme</li> </ul>

#### II. Board Composition

The Board currently consists of five (5) members, comprising two (2) Executive Directors, one (1) Non-Independent Non-Executive Director and two (2) Independent Non-Executive Directors, the composition of which accords with Main Market Listing Requirements of Bursa Securities, which stipulate that at least two (2) Directors or one-third (1/3) of the Board, whichever is higher, must be independent.

The Non-Executive Directors, which comprise the majority of Board members, provide the necessary checks and balances in the Board's exercise of its functions by providing an objective and unbiased evaluation of the Board's decisions and decision-making process.

The Executive Directors are complemented by the experience and independent views of the Non-Executive Directors who are professionals in the field of finance, accounting, administration, strategic management, and research and development. The Board members possess a fair range of business, finance, administration, research and development, and legal experience. The mix skills and experience are pivotal in directing and supervising the Group's overall business activities in light of the increasingly challenging economic and operating environment in which the Group operates. The profile of each Director is set out on pages 15 to 17 of the Company's 2019 Annual Report.

The Nomination Committee ("NC") is entrusted to assess the adequacy and appropriateness of the Board composition, identifying and recommending suitable candidates for Board membership and also to assess annually the performance of the Directors, succession plans and Board diversity, covering gender, age and ethnicity diversity, training courses for Directors and other qualities of the Board, including core-competencies which the Independent Non-Executive Directors should bring to the Board. The Board has the ultimate responsibility to decide on the appointment. This process ensures that the Board membership accurately reflects the long-term strategic direction and needs of the Company and determines the skill matrix to support the strategic direction and needs of the Company.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT (cont'd)

### PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

#### II. Board Composition (cont'd)

Based on the annual assessment conducted in May 2020, the NC was satisfied with the existing Board composition and concluded that each Director has the requisite competence and capability to serve on the Board and had sufficiently demonstrated their commitment to the Group in terms of time and participation during the financial year under review, and recommended to the Board for the re-election of the retiring Directors at the Company's forthcoming Annual General Meeting ("AGM"). All assessments and evaluations carried by the NC in discharge of its functions were duly documented.

At the end of the financial year under review, the Board has a Director, namely Dato' Haji Johar Bin Murat @ Murad, who has served for more than twelve (12) years as an Independent Non-Executive Director. The Board has assessed, via the Nomination Committee, his independence and, accordingly, recommended him for shareholders' approval to continue to serve as Independent Non-Executive Director of the Company for the ensuing year. Apart from being satisfied that he fulfilled the criteria under the definition of Independent Non-Executive Director provided in the Main Market Listing Requirements of Bursa Securities, the Board believes the following justifications are sufficient and appropriate for it to recommend his extension as Independent Non-Executive Director to be voted on at the forthcoming Annual General Meeting of the Company on a 2-tier voting process:

- He has demonstrated his commitment to the Company by attending all meetings of the Board and Board Committees of which he is a member;
- He brings with him vast experience and expertise to complement the competencies of the other Directors to enhance boardroom discussion and decision;
- He has been with the Company for more than twelve (12) years and accordingly, is familiar with the nuances and understands the Group's business operations; and
- He has exercised due care and diligence during his tenure as Independent Non-Executive Director of the Company and carried out his duties professionally and objectively in the interest of the Company and shareholders.

The NC has conducted an assessment of the independence of Independent Non-Executive Directors in May 2020 based on the criteria on independence adopted by the Board. Following the recommendation of the NC, the Board is of the opinion that the independence of the Independent Non-Executive Directors remained unimpaired and their judgement over business dealings of the Company were not influenced by the interest of the other Directors or substantial shareholders.

The Company does not have a specific policy for setting targets for gender, ethnic or age composition in the Board. The suitability of candidates is evaluated based on the candidates' competency, character, time availability, integrity and experience in meeting the Company's needs. The Board constantly advocates fair and equal participation and opportunity for all individuals of the right calibre.

A summary of key activities undertaken by the NC in discharging its duties during the financial year under review and up to the date of this Statement is set out below:

- Reviewed and assessed the independence of Independent Non-Executive Directors;
- Reviewed and recommended the re-election of retiring Directors, including the deliberation on an Independent Non-Executive Director whose tenure has exceeded twelve (12) years, the continuance of which requires shareholders' approval to be determined at the forthcoming Annual General Meeting;
- Assessed the effectiveness of the Board as a whole, the Board Committees and the contribution of each individual Director;
- Considered the training undertaken by the Directors; and
- Reviewed and assessed the term of office and performance of the Audit Committee and each of its members.

#### III. Remuneration

The Board has established a Remuneration Committee ("RC") comprising three (3) members, the majority of whom are Independent Non-Executive Directors. The RC is entrusted by the Board to implement the policies and procedures on matters relating to the remuneration of the Board and Senior Management and making recommendations on the same to the Board for approval.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT (cont'd)

### PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

#### III. Remuneration (cont'd)

The Board has adopted the said policies as deliberated by the Remuneration Committee to determine the remuneration of Directors and Senior Management, which is aligned with the business strategy and long-term objectives of the Company. The Executive Directors and Senior Management are paid salaries, allowance, performance-based incentive, including bonus, and other customary benefits as appropriate. The remuneration is set based on relevant market relativities, performance, qualifications, experience and geographic location where the personnel is based. The salary level for Executive Directors and Senior Management takes into account the nature of the role, performance of the business and the individual and market positioning.

The remuneration of Independent Non-Executive Directors comprises fees and meeting allowances. The Board ensures that the remuneration for Independent Non-Executive Directors do not conflict with their obligation to bring objectivity and independent judgement on matters discussed at Board meetings.

The respective Directors are required to abstain from deliberation and voting on their own remuneration at Board Meetings.

Pursuant to the Main Market Listing Requirements of Bursa Securities, the Company is required to disclose the remuneration received by its Directors, on a named basis, for the financial year under review from the Company and the Group, covering fees, salaries, bonuses, benefits-in-kind and others. Full details of such remuneration received by the Directors on a named basis are disclosed under Practice 7.1 of the Corporate Governance Report of the Company which is uploaded on the corporate website at [www.frontken.com](http://www.frontken.com).

#### **Meetings of the Board and Board Committees**

During the financial year under review, the Board convened five (5) meetings whilst the Audit Committee, Nomination Committee and Remuneration Committee held four (4), two (2) and one (1) meetings respectively. The attendance of the members at the said meetings is set out below:

Name of Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
Ng Wai Pin <i>Chairman of Board and Remuneration Committee and Chief Executive Officer</i>	5/5	N/A	N/A	1/1
Dr Tay Kiang Meng <i>Executive Director</i>	5/5	N/A	N/A	N/A
Dato' Haji Johar bin Murat @ Murad <i>Independent Non-Executive Director and Chairman of Audit Committee and Nomination Committee</i>	5/5	4/4	2/2	1/1
Ng Chee Whye <i>Independent Non-Executive Director (appointed on 31 July 2019)</i>	1/1	1/1	1/1	1/1
Gerald Chiu Yoong Chian <i>Non-Independent Non-Executive Director (appointed on 31 July 2019)</i>	1/1	1/1	1/1	N/A
Aaron Sim Kwee Lein <i>Senior Independent Non-Executive Director (demised on 30 June 2019)</i>	3/3	3/3	1/1	N/A
Dr Jorg Helmut Holnloser <i>Independent Non-Executive Director (retired on 30 May 2019)</i>	0/3	0/3	0/1	N/A

## CORPORATE GOVERNANCE OVERVIEW STATEMENT (cont'd)

### PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT

#### I. Audit Committee

To assist in the discharge of its duties on financial reporting, the Board has established an Audit Committee, comprising three (3) Non-Executive Directors, with Dato' Haji Johar Bin Murat @ Murad, an Independent Non-Executive Director, as the Committee Chairman. The Committee's composition, including its roles and responsibilities as well as a summary of its activities carried out during the financial year under review, are set out in the Audit Committee Report on pages 37 to 39 of this Annual Report. One of the key responsibilities of the Audit Committee is to ensure that the financial statements of the Group and Company comply with Malaysian Financial Reporting Standards, International Financial Reporting Standards and provisions of the Companies Act 2016. Such financial statements comprise the quarterly financial report announced to Bursa Securities and the annual statutory financial statements.

The Board understands its role in upholding the integrity of financial reporting by the Company. Accordingly, the Audit Committee, which assists the Board in this aspect, has adopted a policy for the types of non-audit services permitted to be provided by the external auditors and/or their affiliates, including the need for obtaining the Audit Committee's approval for such services.

To enhance transparency and governance, the Audit Committee has also formalised a policy that requires a former key audit partner to observe a cooling-off period of at least two (2) years if this person is sought to be appointed as an Audit Committee member.

#### II. Risk Management And Internal Control Framework

The Board has overall responsibility for maintaining a sound system of risk management and internal control of the Group that provides reasonable assurance on efficient business operations, compliance with laws and regulations as well as internal procedures and guidelines to achieve corporate objectives.

The Audit Committee assists the Board in reviewing the adequacy and operating effectiveness of the system of risk management and internal control in the Group. The Audit Committee does this by deploying an independent outsourced internal audit function as well as an in-house internal audit function that conduct internal audit, with findings presented to the Audit Committee, including the remedial measures and action plans agreed by Management to address the matters so highlighted. For more details of Internal Audit, both for the outsourced and in-house functions, refer to the Statement on Risk Management and Internal Control which is included in the Company's 2019 Annual Report as well as the Corporate Governance Report that is made available on the Company's website at [www.frontken.com](http://www.frontken.com).

The Audit Committee is responsible for overseeing the risk management framework and policies while Management of the respective business units and subsidiaries is tasked to manage business risks, including developing, implementing and monitoring mitigating measures to manage such risks to acceptable levels. Details of the Group's Risk Management framework, activities carried out for the financial year under review and reporting processes are set out in the Statement on Risk Management and Internal Control included in this Annual Report.

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

#### I. Communication With Stakeholders

The Board recognises the importance of being transparent and accountable to the Company's shareholders and other stakeholders and acknowledges that continuous communication between the Company and its stakeholders facilitates mutual understanding of each other's objectives and expectations. As such, the Board ensures the supply of clear, comprehensive and timely information to stakeholders by way of various disclosures and announcements, including quarterly and annual financial results which provide investors with up-to-date financial information of the Group. All these announcements and other information about the Company, which are disseminated according to the Company's Corporate Disclosure Policy, are available on the Company's website at [www.frontken.com](http://www.frontken.com) where shareholders, investors and the general public may access.

In addition, the Directors also ensure that engagement with shareholders occurs at least once a year during the AGM to better understand their needs and obtain their feedback.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT (cont'd)

### PRINCIPLE C – INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS (CONT'D)

#### II. Conduct Of General Meetings

The AGM is the principal forum for shareholder dialogue, allowing shareholders to review the Group's performance through the Company's Annual Report and pose questions to the Board for clarification.

At the 15th AGM held on 30 May 2019, all the Directors (including the chair of the Board Committees), with the exception of Dr Jorg Helmut Hohnloser, were present in person to engage directly with and were accountable to the shareholders for their stewardship of the Company. During the AGM, shareholders participated in deliberating resolutions being proposed whilst questions were raised by shareholders on the Group's operations in general, including emerging risks that the Group might be faced with. The Board Chairman and Senior Management appropriately responded to all questions raised and provided clarification as required by the shareholders.

The Board has not adopted electronic voting as the number of shareholders turning up for the AGM was relatively small and the voting for resolutions was expediently carried out by traditional balloting, supervised by an independent scrutineer.

The Board has set up the corporate website at [www.frontken.com](http://www.frontken.com) to encourage shareholders and investors to pose questions and queries to the Company. Questions and queries, if any, are attended to by the Company's Senior Management. In addition, the Board also encourages shareholders and other stakeholders to communicate with the Company through other channels, via post at Suite 301, Block F, Pusat Dagangan Phileo Damansara 1, No. 9, Jalan 16/11, Off Jalan Damansara, 46350 Petaling Jaya, Selangor, Malaysia, fax at (03) 7968 3316 or e-mail at [ir@frontken.com](mailto:ir@frontken.com).

This Statement is dated 12 May 2020.

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

### PURPOSE OF STATEMENT

Paragraph 15.26 (b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) states that a listed issuer must ensure that its Board of Directors issues a statement (“Statement on Risk Management and Internal Control” or “Statement”) about the state of risk management and internal control of the listed issuer as a group. The Statement has to include adequate and meaningful information to enable shareholders and other stakeholders make an informed assessment of the main features and adequacy of the listed issuer’s risk management and internal control system as a group.

Accordingly, the Board of Directors (“Board”) of Frontken Corporation Berhad (“Company”) furnishes this Statement, which outlines the nature and scope of the system of risk management and internal control in the Group (comprising the Company and its subsidiaries) for the financial year ended 31 December 2019 and up to the date of approval of this Statement for inclusion in the Company’s Annual Report. For the purpose of disclosure, this Statement has considered and, where pertinent, included the mandatory contents outlined in the “Statement on Risk Management and Internal Control - Guidelines for Directors of Listed Issuers”, a publication of Bursa Securities, which sets out guidance to listed issuers in drafting the Statement.

### BOARD’S RESPONSIBILITY ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board assumes its overall responsibility for the Group’s system of risk management and internal control to safeguard shareholders’ investment and the Group’s assets as well as reviewing the adequacy and operating effectiveness of this system in meeting the Group’s corporate objectives. The Board is mindful of the need to establish clear roles and responsibilities in discharging its fiduciary and leadership functions in line with the Principles, Practices and Guidance of the Malaysian Code on Corporate Governance (“MCCG”). As such, the Board acknowledges its principal responsibilities as outlined in the following Practices and Guidance of the MCCG insofar as risk management and internal control are concerned:

- Practice 1.1 and Guidance 1.1  
The Board should:
  - ensure a sound framework for internal controls and risk management;
  - understand the principal risks of the Company’s businesses and recognise that business decisions involve the taking of appropriate risks;
  - set the risk appetite within which the Board expects Management to operate and ensure that there is an appropriate risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks;
- Practice 9.1  
The Board should establish an effective risk management and internal control framework; and
- Practice 9.2  
The Board should disclose the features of its risk management and internal control framework, and the adequacy and effectiveness of this framework.

The MCCG also stipulates that the Board should, in its disclosure, include a discussion on how key business risks covering finance, operations, regulatory compliance, reputation, cyber security and sustainability had been evaluated and the controls deployed to mitigate or manage those risks to acceptable levels.

In view of the inherent limitations in any system of risk management and internal control (“System”), the System is designed to manage, rather than eliminate, the risk of failure to achieve the Group’s corporate objectives. The System can, therefore, only provide reasonable, but not absolute, assurance against any material misstatement, financial loss or fraud.

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (cont'd)

### BOARD'S RESPONSIBILITY ON RISK MANAGEMENT AND INTERNAL CONTROL (CONT'D)

In applying Practice 9.1 of the MCCG, the Board has formalised an Enterprise Risk Management framework ("ERM Framework") that encompasses relevant policies and guidelines to streamline the Group's risk management imperatives in a structured and comprehensive manner to safeguard shareholders' investment and the Group's assets. This ERM Framework accords largely with the ISO31000:2018 Risk Management – Guidelines, which set out the key principles, framework and process on risk management. With this ERM Framework, the Board has established an on-going process to identify, evaluate, control, report and monitor significant business risks faced by the Group on an ongoing basis. The Board, through its Audit Committee, reviews the outcome of this process, including mitigating measures implemented by Management to address the key risks as identified. This process has been in place for the financial year under review and up to the date of approval of this Statement for inclusion in the Annual Report of the Company.

### RISK MANAGEMENT FRAMEWORK – EXTENT OF COVERAGE

Risk management is embodied in the Group's key business processes through the ERM Framework, which sets out, amongst others, an easy-to-understand step-by-step approach to identify and evaluate risks faced by business units and, by extension, the Group. To harmonise risk management initiatives and activities, the Board has formalised in writing relevant risk management policies and guidelines for adherence by business units across the Group. The ERM Framework comprises a structured assessment process, culminating in the compilation of specific risk profiles of key business units and companies in the Group by Risk Management Units ("RMUs"), including the semi-annual update of risk profiles to take into account the vagaries of evolving business environment as well as emerging risks.

The individual risks are scored for their likelihood of occurrence and the impact thereof based on a '5 by 5' risk matrix, deploying parameters established for each key business unit or company in the Group. The risk parameters comprise relevant financial and non-financial metrics for risks to be evaluated or quantified, as the case may be, in terms of likelihood of their occurrence and the impact thereof. The use of such metrics essentially articulates the Board's risk appetite, i.e. the extent of risk the Group is prepared to take or seek in achieving its business objectives.

Details of specific risks are documented in individual risk registers, covering the risk description, root causes, risk consequences, internal controls implemented by Management to address the root causes, Management's assessment of the effectiveness of internal controls and the residual risk rating, i.e. the balance of risk after considering the effects of internal controls deployed to manage the exposure. The action plans that Management has taken and/or is taking to mitigate the risks to acceptable levels are reported by the RMUs to the Audit Committee and the outcome is documented in the Audit Committee meeting minutes, including any comments that the Audit Committee may have. The Audit Committee is tasked to brief the Board the outcome of the risk update and mitigating measures deployed, including any significant issues therefrom. For each of the business risks identified, a risk owner is entrusted to ensure appropriate actions are taken to mitigate the risk to an acceptable level within specified timeline. The Risk Coordinator of the Group, when reviewing the risk update carried out by business units, enquires into the status of action plans undertaken by Management of the business units concerned before reporting to the Audit Committee. During the financial year under review, there were two (2) risk updates conducted by the various business units and companies in the Group with the outcome reported by the Risk Coordinator to the Audit Committee and thereafter to the Board for further comments. The business risks as identified encompassed risks on strategies, finance, operations, regulatory compliance, reputation, cyber security and sustainability.

### INTERNAL CONTROL SYSTEM – THE SALIENT FEATURES

Besides those internal controls implemented by Management to mitigate the risks as mentioned above, the Group's internal control system also covers the following salient elements:

- an organisation structure with clearly defined lines of responsibilities and appropriate levels of delegation and authority, including financial limits of authority in approving transactions and activities as well as mandate to operate bank accounts. This structure also sets out clear reporting lines and segregation of duties for key processes like strategic management, operations, sales and collections, procurement and payment, human resource management, capital expenditure, research and development, financial reporting, corporate affairs and investments;

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (cont'd)

### INTERNAL CONTROL SYSTEM – THE SALIENT FEATURES (CONT'D)

- a process of hierarchical reporting which provides a documented and auditable trail of accountability, with appropriate sign-off by personnel entrusted with the responsibilities;
- an annual budgetary exercise that requires all business units and companies in the Group to formulate financial budgets which are then consolidated into a Group budget, presented to the Board for comments and ultimate approval. Quarterly reviews of the Group's performance against budget are carried out at Board meetings where explanations on significant variances or unusual fluctuations are furnished by Management. Management meetings at operational level are conducted to review financial performance against business plans and monitor the respective business unit's performance against budget;
- significant changes in business development are reported by Management to the Board at scheduled meetings. This oversight review enables the Board to evaluate and monitor the Group's business performance vis-à-vis its strategic objectives;
- the Audit Committee, which is entrusted by the Board to oversee, amongst others, the Company's financial reporting process, in particular the quarterly and annual announcements of the Group's financial performance, meets at least quarterly to review the announcements, seeks clarification and explanations from Management before recommending the announcements to the Board for approval;
- internal policies and procedures on key business processes are formalised in writing for application by personnel across the Group. These policies and procedures provide the necessary guidance to personnel on complying with internal control requirements and applicable laws and regulations;
- structured whistle-blower policies and procedures are formalised in writing to enable employees of the Group to raise genuine concerns about suspected improprieties on matters of financial reporting, non-compliance with laws and regulations, malpractices or unethical business conduct within the Group at the earliest opportunity and in an appropriate way without fear of reprisal; and
- where issues arise that affect the reliability and integrity of financial information of any business unit, special audits are commissioned by the Audit Committee or Senior Management, as the case may be, to assist the Board in fulfilling its oversight responsibilities.

### INTERNAL AUDIT FUNCTION – ITS STRUCTURE AND SCOPE OF COVERAGE

The Group has two (2) groups of internal auditors, i.e. one covering the operations of the Group (save for Taiwan operations), and the other covering solely the Taiwan operations. The internal audit function of the Group (save for Taiwan operations) is outsourced to an independent professional firm, namely BDO Governance Advisory Sdn Bhd, whilst the internal audit function for the Taiwan operations is an in-house function, i.e. the internal audit personnel are employees of the subsidiary in Taiwan, namely Ares Green Technology Corporation ("AGTC").

The appointment of the outsourced internal audit service provider followed an assessment of its suitability and capability by the Audit Committee of the Company whilst the performance of the in-house internal audit function is under the oversight of AGTC's Board.

#### Outsourced internal audit coverage – Group (save for Taiwan operations)

The outsourced internal audit team, which is helmed by an average of four (4) professionals from the firm, including the head of the team, Mr Karthigayan Supramaniam, who is a member of the Malaysian Institute of Accountants and the Institute of Internal Auditors, Malaysia, conducted an assessment of the Group's system of internal control during the financial year under review, focusing on selected significant business units and reported its observations, including Management's response and action plans thereto, directly to the Audit Committee. The internal audit function also conducted a follow-up on the status of implementation of action plans by Management on the recommendations highlighted, as deemed relevant. The Audit Committee took note of the issues highlighted and questions were posed to Management on the timeliness of measures to address the issues as reported.

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (cont'd)

### INTERNAL AUDIT FUNCTION – ITS STRUCTURE AND SCOPE OF COVERAGE (CONT'D)

#### Outsourced internal audit coverage – Group (save for Taiwan operations) (cont'd)

The internal audit plan for the financial year was prepared based largely on the Group's financial information and the relative risks of the business units to the achievement of the Group's business objectives. The outsourced internal audit function adopted a risk-based and process life cycle approach in identifying auditable entities within the Group as well as the auditable areas. This approach deployed aligns with the International Professional Practices Framework of the Institute of Internal Auditors Inc. ("IIA"), which encompasses, inter-alia, the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards for the Professional Practice of Internal Auditing, and the IIA Risk Based Internal Auditing Guidance. For the financial year ended 31 December 2019, the following two (2) business units in Malaysia, together with the identified processes, were selected for internal audit with the Audit Committee's concurrence:

Name of business unit	Processes covered by internal audit, addressing the key business risks therein
Frontken Malaysia Sdn Bhd (Kulim Plant)	<ul style="list-style-type: none"> <li>• Sales to receipts (including customer credit management)</li> <li>• Procure to pay (including vendor management)</li> <li>• Health, Safety and Environment</li> </ul>
Frontken (Johor) Sdn Bhd	<ul style="list-style-type: none"> <li>• Sales to receipt (including debt monitoring)</li> <li>• Procure to pay (including vendor management)</li> <li>• Health, Safety and Environment</li> </ul>

Detailed internal audit tests were carried out by the internal audit function to assess the adequacy and operating effectiveness of the business units' system of internal controls in achieving corporate objectives. Transactions and activities were selected for testing on a sample basis. Observations on systems weakness and areas for improvement, including recommended mitigating measures to address the concerns raised, were highlighted in internal audit reports presented to the Audit Committee during the financial year under review.

#### In-house internal audit coverage (only Taiwan operations)

The in-house internal auditor, Miss Kelly Huang, who is an accounting graduate, has a working experience of not less than 20 years covering internal audit, external audit and finance function. Independent of the activities she audits, the in-house internal auditor is tasked to assess the adequacy and operating effectiveness of the system of internal control of AGTC, the Company's subsidiary helming the Taiwan operation. In carrying out her work, she adopted the internal audit guidelines from the Regulations Governing Establishment of Internal Control Systems by Public Companies issued by Taiwan Financial Supervisory Commission. The in-house internal auditor conducted an assessment of AGTC's system of internal control during the financial year under review, focusing on selected significant areas as approved by the Board of AGTC and reported her observations, including Management's response and action plans thereto, directly to the Board of AGTC. The in-house internal auditor also conducted a follow-up on the status of implementation of action plans by Management on the recommendations highlighted in previous reports. The Board of AGTC took note of the issues raised and questions were posed to Management on the timeliness of measures to address the concerns as reported.

The in-house internal audit plan for the financial year under review was prepared based largely on AGTC's financial information and the relative risks to the achievement of AGTC's business objectives. The in-house internal auditor adopted a process life cycle approach in identifying the auditable areas in AGTC. For the financial year ended 31 December 2019, the following areas were selected for internal audit with AGTC's Board's concurrence:

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (cont'd)

### INTERNAL AUDIT FUNCTION – ITS STRUCTURE AND SCOPE OF COVERAGE (CONT'D)

#### In-house internal audit coverage (only Taiwan operations) (cont'd)

Business areas covered	Transactions/activities covered by internal audit, addressing the key business risks therein
Property, plant and equipment management	Acquisition, custody, repairs and maintenance, disposal and insurance of assets
Production management	Inventory and production costing Quality control, product composition labelling and scrap management
Sales and receipts management	Logistics management, order management, invoicing, discounts, returns, collections, credit control and receivables management
Purchases and payments management	Requisition, procurement, acceptance and inspection, payment and supplier management
Information technology management	System development and program modification, application controls, input/output integrity
Research and development management	Blueprint control, R&D operations, custody of documentation and prototype manufacturing and product testing
Computerised information processing system	Segregation of functions, system development & programme management, programme and data access controls, file and equipment security, maintenance of hardware and software, system recovery and information flow security inspection

The internal audit plan and a summary of the findings of the in-house internal auditor were shared with the Audit Committee of the Company for notation and comments, if any.

For the financial year ended 31 December 2019, the Audit Committee of the Company as well as Board of AGTC reviewed the work of the internal audit functions, outsourced and in-house, as the case may be, their observations and recommendations in order to obtain assurance on the adequacy and operating effectiveness of the Group's risk management and internal control system. The total cost incurred by the Group for the internal audit functions (both in-house and outsourced) for the financial year under review amounted to approximately RM214,000 (2018: RM225,000).

#### External Auditors

The external auditors, in the course of their statutory audit of the Group's financial statements, reviewed the Group's system of internal control to the extent of their planned reliance as laid out in their audit planning memorandum. Any significant deficiencies in internal controls identified during the audit, together with the improvement measures to strengthen internal controls, were reported in writing to the Audit Committee by the external auditors vide their presentation deck.

In assisting the Board to assess the adequacy and operating effectiveness of the Group's risk management and internal control system, the Audit Committee reviewed the observations raised by the internal and external auditors, as well as actions taken by Management to address the areas of concern for the financial year ended 31 December 2019. The Audit Committee reported to the Board the outcome of its engagement with the internal and external auditors concerning the adequacy and operating effectiveness of the Group's system of risk management and internal control.

#### BOARD'S COMMENTS ON THE ADEQUACY AND OPERATING EFFECTIVENESS OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Board, assisted by its Audit Committee, has reviewed the adequacy and operating effectiveness of the Group's risk management and internal control system, and that relevant actions have been or were being taken, as the case may be, to remedy the internal control weaknesses identified from the review.

## **STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (cont'd)**

### **BOARD'S COMMENTS ON THE ADEQUACY AND OPERATING EFFECTIVENESS OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM (CONT'D)**

The Board is of the view that the system of risk management and internal control, in place for the financial year under review and up to the date of approval of this Statement for inclusion in the Annual Report of the Company, is sound and sufficient to safeguard shareholders' investment and the Group's assets. Whilst the Board is of the view that there were no material losses incurred during the financial year as a result of weaknesses in the risk management and internal control system, the Board believes that this system must continuously evolve to meet the changing business landscape and environment the Group operates in. Therefore, the Board continues to put in place action plans, as deemed appropriate, to strengthen the system of risk management and internal control from time to time towards achieving the Group's corporate objectives.

### **ASSURANCE BY THE GROUP CHIEF EXECUTIVE OFFICER AND GROUP CHIEF FINANCIAL OFFICER ON THE ADEQUACY AND OPERATING EFFECTIVENESS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM**

The Board has received assurance in writing from the Group Chief Executive Officer and Group Chief Financial Officer stating that the Group's risk management and internal control system operated adequately and effectively, in all material aspects, for the financial year under review and up to the date of this Statement.

### **REVIEW OF STATEMENT BY THE EXTERNAL AUDITORS**

Pursuant to Paragraph 15.23 of Bursa Securities' Main Market Listing Requirements, the external auditors have reviewed this Statement for inclusion in the Company's Annual Report for the financial year ended 31 December 2019. The external auditors have reported to the Board that, based on their review procedures performed and evidence obtained, nothing has come to their attention that caused them to believe that this Statement intended to be included in the Annual Report is not prepared, in all material respects, in accordance with the disclosures required by Paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issues to be set out, nor is the Statement factually inaccurate.

This Statement is made in accordance with the resolution of the Board of Directors dated 12 May 2020.

## AUDIT COMMITTEE REPORT

### (A) COMPOSITION AND ATTENDANCE

Pursuant to Paragraph 15.09(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”), the Company has established an Audit Committee, comprising the following members:

Name	Director	Position
Dato’ Haji Johar Bin Murat @ Murad	Independent Non-Executive	Chairman of Audit Committee
Aaron Sim Kwee Lein <i>Demised on 30 June 2019</i>	Independent Non-Executive	Member
Dr Jorg Helmut Hohnloser <i>Retired on 30 May 2019</i>	Independent Non-Executive	Member
Ng Chee Whye <i>Appointed on 31 July 2019</i>	Independent Non-Executive	Member
Gerald Chiu Yoong Chian <i>Appointed on 31 July 2019</i>	Non-Independent Non-Executive	Member

Members of the Audit Committee are appointed by the Board of Directors from amongst the Directors who fulfil the following requirements:

- (a) the Audit Committee must comprise not less than three (3) members who are financially literate;
- (b) all the Audit Committee members must be Non-Executive Directors, with a majority of them being Independent Non-Executive Directors; and
- (c) at least one (1) member of the Audit Committee:
  - (i) must be a member of the Malaysian Institute of Accountants;
  - (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years of working experience; and:
    - (aa) he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
    - (bb) he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967; or
  - (iii) fulfils such other requirements as prescribed or approved by Bursa Securities.

The Board assesses the performance of the Audit Committee in terms of its effectiveness and contribution of Audit Committee members on an annual basis to determine whether the Audit Committee and its members have carried out their duties in accordance with their terms of reference. The meeting attendance of the Audit Committee members is provided in the Corporate Governance Overview Statement in this Annual Report.

### (B) MEETINGS

There were four (4) meetings held during the financial year under review. The Audit Committee met with the External Auditors privately once during the financial year under review without the presence of the Executive Directors and Management. At this meeting, the Audit Committee enquired into the co-operation extended by Management in the course of the audit, including the supply of information to facilitate the conduct of the external audit and whether the External Auditors encountered any difficulty in obtaining such co-operation and information for the purpose of the External Audit.

Meetings of the Audit Committee are planned ahead so that the members can make the necessary arrangement to attend the meetings. The notice for the meetings, together with meeting papers, is normally served at least one (1) week before each meeting to enable Audit Committee members to read, including an opportunity for them to inquire into the agenda items as well as to seek more information before the meeting.

## AUDIT COMMITTEE REPORT (cont'd)

### (B) MEETINGS (CONT'D)

At each Board meeting, the Audit Committee Chairman briefs the Board pertaining to matters discussed at the Audit Committee meeting held earlier. A copy of the minutes of the Audit Committee meeting is circulated to the Board for notation.

### (C) ROLES AND RESPONSIBILITIES

During the financial year under review, the terms of reference of the Audit Committee were revised to align with the Practices and Guidance promulgated by the Malaysian Code on Corporate Governance and the Main Market Listing Requirements of Bursa Securities, as the case may be. Full details of the Committee's terms of reference have been uploaded on the Company's website at [www.frontken.com](http://www.frontken.com).

### (D) AUTHORITY

The Audit Committee has the authority to:

- Investigate any matter within its terms of reference;
- Have the resources which are required to perform its duties;
- Have full and unrestricted access to any information pertaining to the Group which it requires in the course of performing its duties;
- Have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activities;
- Obtain independent professional or other advice; and
- Convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other Directors and employees of the Group, whenever deemed necessary.

### (E) SUMMARY OF ACTIVITIES CARRIED OUT DURING THE FINANCIAL YEAR

The principal activities undertaken by the Audit Committee during the financial year under review are summarised as follows:

- Reviewed the unaudited quarterly and year-end financial statements prior to recommending the same for the Board's approval, focusing particularly on significant and unusual events and compliance with applicable approved accounting standards and other legal requirements. To assist the Audit Committee in this process, the Chief Financial Officer of the Company provided explanations to elucidate on the fluctuations in Group's financial performance over the four financial quarters, including the financial position of the Group in terms of its cash flows for the quarters concerned;
- Reviewed the Audit Committee Report, Corporate Governance Overview Statement, Corporate Governance Report and the Statement on Risk Management and Internal Control prior to recommending the same for Board's approval for inclusion in the Company's Annual Report;
- Reviewed the appointment of the External and Internal auditors, their independence and effectiveness, including their fees. The amount of fees paid or payable to the External Auditors of the Company or a firm or company affiliated to the External Auditors for the financial year under review in respect of non-audit services rendered to the Company and the Group amounted to approximately RM5,000 and RM10,000 respectively;
- Reviewed with the External Auditors their audit planning memorandum, comprising the scope of audit, areas of audit emphasis, audit approach and timetable;
- Met with the External Auditors on their audit report, Audit Review Memorandum and key audit matters;

## AUDIT COMMITTEE REPORT (cont'd)

### (E) SUMMARY OF ACTIVITIES CARRIED OUT DURING THE FINANCIAL YEAR (CONT'D)

- Reviewed the issues raised by the External Auditors pertaining to the audit carried out on the financial statements, including opportunities for improvement to internal controls based on observations made in the course of the audit;
- Reviewed the adequacy of the scope, functions, competency and resources of the Internal Audit Function, and that it has the necessary authority to carry out its work;
- Reviewed and approved the Internal Audit Plan tabled by the outsourced independent Internal Audit Function, reviewed the scope of work coverage by the outsourced Internal Audit Function for the financial year under review, including the results of evaluation of adequacy of the internal control system, as well as Management's response to recommendations for improvement, on the reports from the outsourced Internal Audit Function;
- Noted the outcome of internal audit work and issues raised by the in-house Internal Auditor covering the Taiwan operations, including Management action plans;
- Briefed the Board the outcome of the meetings of the Audit Committee, covering largely the work and results of the External Auditors and Internal Audit Function, recurrent related party transactions, quarterly announcements and year-end financial statements as well as the risk management update of the Group;
- Reviewed the related party transactions within the Group;
- Reviewed the summary reports on risk management of the Group as presented by the Risk Management Units on the status of risks faced by the Group, including emerging risks, and action plans deployed to manage the risks concerned to acceptable levels. During the financial year under review, there were two (2) risk updates presented to the Audit Committee; and
- Evaluated the performance of the External Auditors in meeting the requirements of the Company before recommending to the Board for the tabling of their re-appointment at the Annual General Meeting for approval by shareholders.

The dates of Audit Committee meetings are pre-planned and communicated to the auditors in advance for them to prepare the Audit Review Memorandum, Audit Planning Memorandum, Internal Audit Plan and Internal Audit reports for presentation to the Audit Committee to meet the respective deadlines. The Audit Committee also noted the internal control deficiencies and/or areas of improvement identified by the Internal Audit Function and action plan for corrective actions or improvement by Management.

The Group has an in-house Internal Auditor who is based at the Company's subsidiary in Taiwan, namely Ares Green Technology Corporation, who conducts internal audit covering solely the Taiwanese operations. As for the Company and other subsidiaries, the Internal Audit Function is outsourced to an independent internal audit service provider, namely BDO Governance Advisory Sdn. Bhd. The principal function of internal audit is to undertake systematic reviews of the internal control system within the Group in accordance with approved internal audit plan, so as to provide assurance that such a system is adequate and operating effectively as intended. The Internal Audit Function's responsibilities are to provide independent and objective reports on the state of internal controls of the various operating units within the Group to the Audit Committee and provide recommendations for the improvement of the control procedures, so that remedial actions are taken to mitigate weaknesses noted in the system and controls of the respective operating units.

Details of internal audit activities, scope of coverage and cost incurred on the combined Internal Audit Function for the financial year under review, are set out in the Statement on Risk Management and Internal Control included in this Annual Report.

This Report is dated 12 May 2020.

## ADDITIONAL DISCLOSURE

### 1. SHARE BUY-BACK

At the Fifteenth Annual General Meeting held on 30 May 2019, the shareholders of the Company granted authority to the Company to purchase its own shares provided that the aggregate number of shares purchased shall not exceed 10% of the total number of issued shares of the Company at the time of purchase.

There were no transactions carried out under the Company's share buy-back during the financial year.

As at 31 December 2019, the Company held 5,466,600 treasury shares out of its total number of issued shares of 1,053,435,130 ordinary shares. Such treasury shares were held at a carrying amount of RM663,237. There was no resale or cancellation of treasury shares during the financial year.

### 2. AUDIT FEES AND NON-AUDIT FEES

During the financial year, the audit fees paid or payable by the Company and the Group to our external auditors in respect of audit of the financial statements for the financial year ended 31 December 2019 amounted to approximately RM111,000 and RM556,000 respectively.

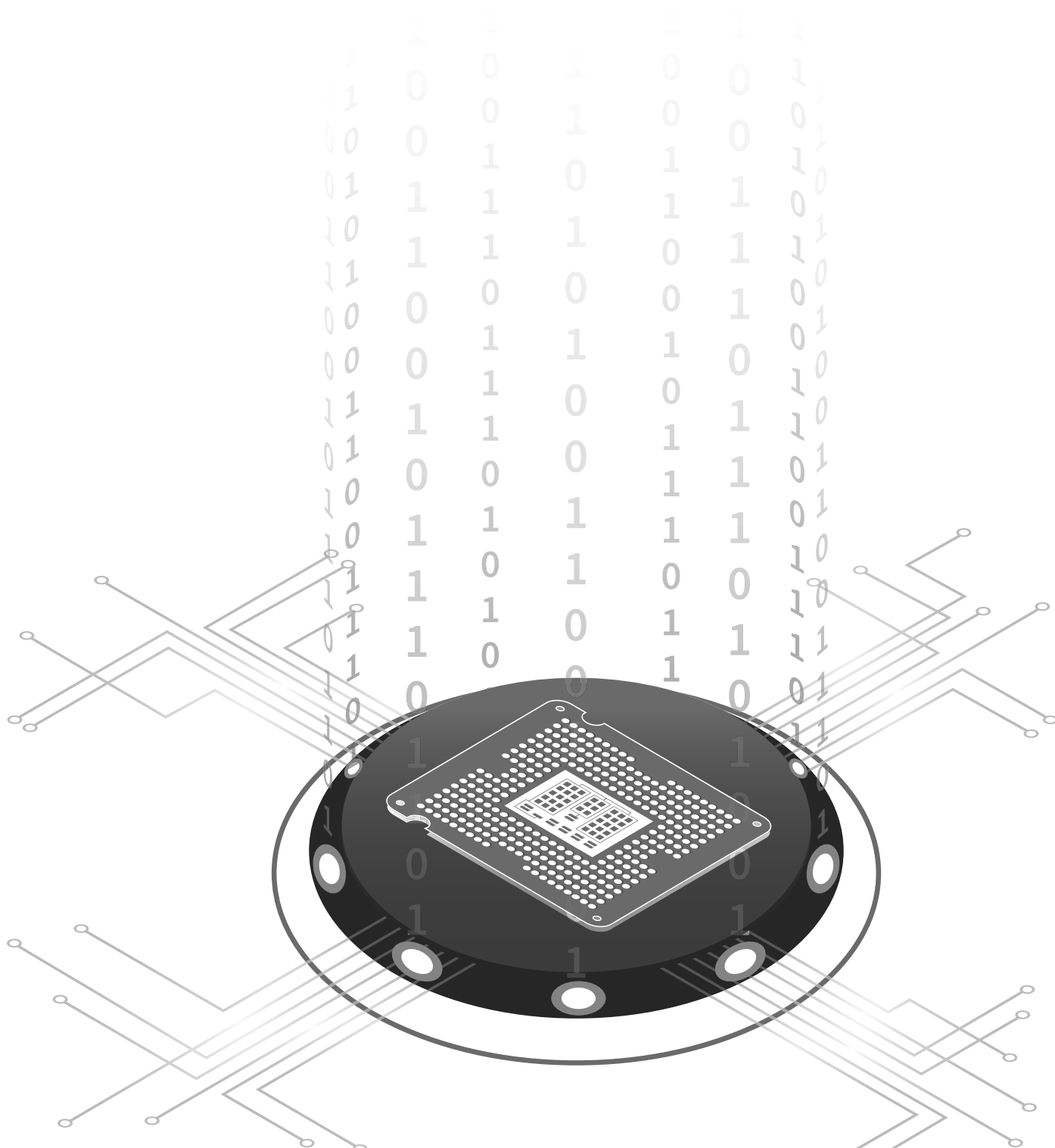
The non-audit fees paid or payable to a member firm of external auditors, Crowe Malaysia PLT by the Company and the Group during the financial year ended 31 December 2019 amounted to approximately RM5,000 and RM10,000 respectively.

### 3. MATERIAL CONTRACT

There were no material contracts entered into by the Company and its subsidiaries involving the interest of the Directors and/or major shareholders of the Company, either still subsisting at the end of the financial year, or which were entered into since the end of the previous financial year.

# FINANCIAL STATEMENTS

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## Directors' Report

The directors of **FRONTKEN CORPORATION BERHAD** have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2019.

### PRINCIPAL ACTIVITIES

The principal activities of the Company are that of investment holding and provision of management services to its subsidiaries.

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

### FINANCIAL RESULTS

	<b>The Group RM</b>	<b>The Company RM</b>
Profit after taxation for the financial year	74,228,348	23,272,268
<hr/>		
Attributable to:-		
Owners of the Company	69,170,350	23,272,268
Non-controlling interests	5,057,998	-
	<hr/>	<hr/>
	74,228,348	23,272,268
	<hr/>	<hr/>

### DIVIDENDS

The dividends on ordinary shares paid or declared by the Company since the end of the previous financial year in respect of the financial year ended 31 December 2019 were as follows:-

	<b>RM</b>
- First interim single-tier dividend of 1.0 sen per ordinary share on 1,047,968,530 ordinary shares, paid on 27 September 2019	10,479,685
	<hr/>

On 21 February 2020, the Company declared and approved a second interim single-tier dividend of 1.5 sen per ordinary share on 1,047,968,530 ordinary shares, payable on 13 April 2020, in respect of the financial year ended 31 December 2019 amounting to RM15,719,528. The financial statements for the current financial year do not reflect this interim dividend. Such dividend will be accounted for in the shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2020.

### RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

### ISSUES OF SHARES AND DEBENTURES

During the financial year:-

- (a) there were no changes in the issued and paid-up share capital of the Company; and
- (b) there were no issues of debentures by the Company.

## Directors' Report (cont'd)

### TREASURY SHARES

During the financial year, the Company did not purchase its issued ordinary shares from the open market. The shares purchased are being held as treasury shares in accordance with Section 127(6) of the Companies Act 2016 and are presented as a deduction from total equity.

As at 31 December 2019, the Company held 5,466,600 treasury shares at a carrying amount of RM663,237. The details on the treasury shares are disclosed in Note 23 to the financial statements.

### SHARE OPTIONS

No options have been granted by the Company to any parties during the financial year to take up unissued shares of the Company.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Company. As of the end of the financial year, there were no unissued shares of the Company under options.

### OTHER FINANCIAL INFORMATION

Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps:-

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for impairment losses on receivables, and satisfied themselves that there are no known bad debts and that adequate allowance had been made for impairment losses on receivables; and
- (b) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

At the date of this report, the directors are not aware of any circumstances:-

- (a) which would require the writing off of bad debts, or the additional allowance for impairment losses on receivables in the financial statements of the Group and of the Company; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or
- (d) not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:-

- (a) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

No contingent 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, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the directors, 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 and of the Company for the financial year in which this report is made.

## Directors' Report (cont'd)

### DIRECTORS

The following names of directors who served on the Board of the Company during the financial year and up to the date of this report:-

Ng Wai Pin  
Dato' Haji Johar Bin Murat @ Murad  
Dr. Tay Kiang Meng  
Chiu Yoong Chian Gerald (Appointed on 31 July 2019)  
Ng Chee Whye (Appointed on 31 July 2019)  
Aaron Sim Kwee Lein (Demised on 30 June 2019)  
Dr. Jorg Helmut Hohnloser (Retired on 30 May 2019)

The names of directors of the Company's subsidiaries who served during the financial year and up to the date of this report, not including those directors mentioned above, are as follows:-

Hee Kok Hiong  
Sia Chiok Meng  
Lee Boon Tian  
Mohd. Shukri Bin Hitam  
Fauziah Binti Hamlawi  
Mok Siew Wai  
George I.Lagos  
Andres Seno, Jr.  
Glenn A.Lagos  
Jolene Chay (Appointed on 8 May 2019)  
Wong Chee Wai (Appointed on 4 December 2019)

### DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors holding office at the end of the financial year in shares of the Company and its related corporations during the financial year are as follows:-

	At 1.1.2019	Number of Ordinary Shares		At 31.12.2019
		Bought	Sold	
<b>Shares in the Company</b>				
<b>Direct Interests</b>				
Ng Wai Pin	6,592,900	-	-	6,592,900
Dr. Tay Kiang Meng	9,404,808	-	-	9,404,808
<b>Indirect Interests</b>				
Ng Wai Pin <sup>1</sup>	290,991,473	-	-	290,991,473
Ng Chee Whye <sup>2</sup>	-	125,720	-	125,720

<sup>1</sup> Deem interested by virtue of their direct substantial shareholdings in Dazzle Clean Ltd.

<sup>2</sup> Deem interested through spouse's shareholdings in the Company.

By virtue of his shareholdings in the Company, Ng Wai Pin is deemed to have interests in shares in its related corporations during the financial year to the extent of the Company's interests, in accordance with Section 8 of the Companies Act 2016.

The other directors holding office at the end of the financial year had no interests in the shares of the Company or its related corporations during the financial year.

## Directors' Report (cont'd)

### DIRECTORS' BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by directors shown in the financial statements, or the fixed salary of a full-time employee of the Company or related corporations) by reason of a contract made by the Company or a related corporation with the 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 for any benefits which may be deemed to arise from transactions entered into in the ordinary course of business with companies in which certain directors have substantial financial interests as disclosed in Note 19 to the financial statements.

Neither during nor at the end of the financial year was the Group or the Company a party to any arrangements whose object is to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### DIRECTORS' REMUNERATION

The details of the directors' remuneration paid or payable to the directors of the Company during the financial year are disclosed in Note 8 to the financial statements.

### INDEMNITY AND INSURANCE COST

During the financial year, there is no indemnity given to or professional indemnity insurance effected for directors, officers or auditors of the Company.

### SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 13 to the financial statements.

### SIGNIFICANT EVENT OCCURRING AFTER THE REPORTING PERIOD

The significant event occurring after the reporting period is disclosed in Note 33 to the financial statements.

### AUDITORS

The auditors, Crowe Malaysia PLT, have expressed their willingness to continue in office.

The details of the auditors' remuneration are disclosed in Note 8 to the financial statements.

Signed on behalf of the Board  
in accordance with a resolution of the Directors,

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**NG WAI PIN**

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**DATO' HAJI JOHAR BIN MURAT @ MURAD**

12 May 2020

## Independent Auditors' Report To The Members Of Frontken Corporation Berhad

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

We have audited the financial statements of Frontken Corporation Berhad, which comprise the statements of financial position as at 31 December 2019 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 financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 50 to 137.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

#### Basis for Opinion

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

#### Independence and Other Ethical Responsibilities

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

#### Key Audit Matters

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

## Independent Auditors' Report To The Members Of Frontken Corporation Berhad (cont'd)

### Key Audit Matters (Cont'd)

We have determined the matters described below to be the key audit matters to be communicated in our report.

<p><b>Impairment of Goodwill on Consolidation</b></p> <p>Refer to Note 15 to the financial statements.</p>	
<p><b>Key Audit Matter</b></p>	<p><b>How our audit address the Key Audit Matter</b></p>
<p>The Group has goodwill of approximately RM33.8 million comprised within the 3 cash-generating units ("CGU").</p> <p>For the CGUs which comprised goodwill, the determination of recoverable amount, being the higher of fair value less costs to sell and value-in-use, requires judgement on the part of management in identifying and then valuing the relevant CGUs.</p> <p>The value-in-use models used to assess the risk of impairment are based on assumptions including revenue forecasts, gross and operating margins and discount rates, all of which are country-specific.</p> <p>We focused on this area because of the inherent judgement involved in determining key assumptions such as future sales growth, profit margins, discount rates and terminal value.</p>	<p>Our procedures included, amongst others:-</p> <p>a) Making enquiries of and challenging the management on the key assumptions made, including:-</p> <p style="margin-left: 20px;">i. the achievement of the business plan; and</p> <p style="margin-left: 20px;">ii. sales growth, operating margin, discount rates and long-term growth rates;</p> <p>b) Performing sensitivity analysis on key assumptions and agreeing with management's conclusion to ascertain the extent of change that individually, or in combination, would be required for the goodwill to be impaired; and</p> <p>c) Assessing the adequacy of disclosure of goodwill in the financial statements.</p>
<p><b>Recoverability of Trade Receivables</b></p> <p>Refer to Note 19 to the financial statements.</p>	
<p><b>Key Audit Matter</b></p>	<p><b>How our audit address the Key Audit Matter</b></p>
<p>The trade receivables of the Group amounted to approximately RM86 million and it constituted 26% of the total current assets of the Group.</p> <p>We focused on this area due to the outstanding receivable balances which exceeded the credit term of 90 days granted by the Group. The total outstanding balances which exceeded the credit term amounted to approximately RM13.3 million is considered to be of a major credit risk. The assessment of recoverability of these outstanding receivables involved judgement and estimation of uncertainty by Management.</p>	<p>Our procedures included, amongst others:-</p> <p>a) Testing the adequacy of the Group's allowance for impairment losses on trade receivables by assessing the Group's policy and historical data from the Group's previous collection experience;</p> <p>b) Reviewing the Group's subsequent collection after the financial year for major receivables;</p> <p>c) Reviewing the expected credit loss assessment by challenging whether the historic experience is representative of the current circumstances and of recent losses incurred in the receivables and assessing the reasonableness of forward-looking adjustments; and</p> <p>d) Assessing the adequacy of disclosure in the financial statements.</p>

## **Independent Auditors' Report To The Members Of Frontken Corporation Berhad (cont'd)**

### **Information Other than the Financial Statements and Auditors' Report Thereon**

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

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

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

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

### **Responsibilities of the Directors for the Financial Statements**

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

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

### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

## Independent Auditors' Report To The Members Of Frontken Corporation Berhad (cont'd)

### Auditors' Responsibilities for the Audit of the Financial Statements (Cont'd)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

### OTHER MATTERS

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

**Crowe Malaysia PLT**  
201906000005 (LLP0018817-LCA) & AF 1018  
Chartered Accountants

Kuala Lumpur

12 May 2020

**Ngiam Mia Teck**  
03000/07/2020 J  
Chartered Accountant

## Statements Of Profit Or Loss And Other Comprehensive Income For The Financial Year Ended 31 December 2019

	Note	The Group		The Company	
		2019 RM	2018 RM	2019 RM	2018 RM
Revenue	5	339,911,215	327,217,653	28,588,423	23,571,768
Cost of sales		(191,805,811)	(200,645,515)	-	-
<b>Gross profit</b>		<b>148,105,404</b>	<b>126,572,138</b>	<b>28,588,423</b>	<b>23,571,768</b>
Other income		3,888,752	5,428,239	604,127	660,501
Administrative expenses		(43,908,541)	(44,130,245)	(5,424,522)	(5,155,816)
Other expenses		(11,070,833)	(10,841,990)	(243,507)	(257,817)
Finance costs	6	(755,525)	(568,006)	(9,480)	(56,109)
Net impairment losses on financial assets	7	2,200	(922,838)	271,455	(1,242,999)
Share of results in associates, net of tax		-	78,115	-	-
<b>Profit before tax</b>	8	<b>96,261,457</b>	<b>75,615,413</b>	<b>23,786,496</b>	<b>17,519,528</b>
Income tax expense	9	(22,033,109)	(18,612,981)	(514,228)	(2,437,333)
<b>Profit after tax</b>		<b>74,228,348</b>	<b>57,002,432</b>	<b>23,272,268</b>	<b>15,082,195</b>
<b>Other comprehensive income, net of tax</b>					
<b>Items that Will Not be Reclassified Subsequently to Profit or Loss</b>					
Actuarial gain		4,334	397,811	-	-
<b>Items that Will be Reclassified Subsequently to Profit or Loss</b>					
Foreign currency translation differences		2,261,473	(1,570,946)	-	-
<b>Total comprehensive income for the financial year</b>		<b>76,494,155</b>	<b>55,829,297</b>	<b>23,272,268</b>	<b>15,082,195</b>
<b>Profit after tax attributable to:-</b>					
Owners of the Company		69,170,350	52,256,898	23,272,268	15,082,195
Non-controlling interests		5,057,998	4,745,534	-	-
		<b>74,228,348</b>	<b>57,002,432</b>	<b>23,272,268</b>	<b>15,082,195</b>
<b>Total comprehensive income attributable to:-</b>					
Owners of the Company		71,290,923	51,317,151	23,272,268	15,082,195
Non-controlling interests		5,203,232	4,512,146	-	-
		<b>76,494,155</b>	<b>55,829,297</b>	<b>23,272,268</b>	<b>15,082,195</b>
<b>Earnings per ordinary share attributable to owners of the Company</b>					
Basic (sen)	10	6.60	4.99		
Diluted (sen)	10	6.60	4.99		

The accompanying Notes form an integral part of these Financial Statements.

## Statements Of Financial Position

### At 31 December 2019

	Note	The Group		The Company	
		2019 RM	2018 RM	2019 RM	2018 RM
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property, plant and equipment	11	125,735,869	140,400,220	2,177	19,382
Right-of-use assets	12	19,730,568	-	94,956	-
Investments in subsidiaries	13	-	-	143,556,689	140,919,708
Investment in an associate	14	-	-	-	-
Goodwill on consolidation	15	33,760,856	33,760,856	-	-
Deferred tax assets	16	2,295,497	2,155,621	-	-
Fixed deposits with licensed banks	17	-	1,176,576	-	-
<b>Total Non-Current Assets</b>		<b>181,522,790</b>	<b>177,493,273</b>	<b>143,653,822</b>	<b>140,939,090</b>
<b>Current Assets</b>					
Inventories	18	15,101,449	13,710,671	-	-
Trade receivables	19	86,299,711	106,845,857	-	-
Other receivables, deposits and prepaid expenses	19	7,380,110	6,727,231	79,779	76,088
Amount owing by subsidiaries	20	-	-	162,000	172,800
Current tax assets		-	376,409	-	-
Short-term investments	21	10,684,259	13,288,430	9,219,642	11,858,212
Fixed deposits with licensed banks	17	17,575,702	3,626,961	-	-
Cash and bank balances		197,161,206	132,991,602	2,302,262	2,251,996
<b>Total Current Assets</b>		<b>334,202,437</b>	<b>277,567,161</b>	<b>11,763,683</b>	<b>14,359,096</b>
<b>Total Assets</b>		<b>515,725,227</b>	<b>455,060,434</b>	<b>155,417,505</b>	<b>155,298,186</b>

The accompanying Notes form an integral part of these Financial Statements.

## Statements Of Financial Position

### At 31 December 2019 (cont'd)

	Note	2019 RM	The Group 2018 RM	2019 RM	The Company 2018 RM
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	22	118,925,352	118,925,352	118,925,352	118,925,352
Treasury shares	23	(663,237)	(663,237)	(663,237)	(663,237)
Reserves	24	258,709,709	206,778,415	29,738,270	25,329,435
Equity attributable to owners of the company		376,971,824	325,040,530	148,000,385	143,591,550
Non-controlling interests		21,776,257	19,603,901	-	-
<b>Total Equity</b>		<b>398,748,081</b>	<b>344,644,431</b>	<b>148,000,385</b>	<b>143,591,550</b>
<b>Non-Current Liabilities</b>					
Term loans	25	-	7,533,055	-	-
Hire purchase payables	26	-	1,341,277	-	-
Lease liabilities	27	11,930,743	-	-	-
Other payables	28	2,714,783	2,792,672	-	-
Deferred tax liabilities	16	407,841	680,550	-	-
<b>Total Non-Current Liabilities</b>		<b>15,053,367</b>	<b>12,347,554</b>	<b>-</b>	<b>-</b>
<b>Current Liabilities</b>					
Trade payables	28	16,889,347	18,117,811	-	-
Other payables and accrued expenses	28	67,123,212	63,466,967	3,888,523	3,385,377
Amount owing to subsidiaries	20	-	-	3,431,325	8,321,259
Term loans	25	843,865	3,914,913	-	-
Hire purchase payables	26	-	862,253	-	-
Lease liabilities	27	3,033,211	-	97,272	-
Current tax liabilities		14,034,144	11,706,505	-	-
<b>Total Current Liabilities</b>		<b>101,923,779</b>	<b>98,068,449</b>	<b>7,417,120</b>	<b>11,706,636</b>
<b>Total Liabilities</b>		<b>116,977,146</b>	<b>110,416,003</b>	<b>7,417,120</b>	<b>11,706,636</b>
<b>Total Equity and Liabilities</b>		<b>515,725,227</b>	<b>455,060,434</b>	<b>155,417,505</b>	<b>155,298,186</b>

The accompanying Notes form an integral part of these Financial Statements.

## Statements Of Changes In Equity

### For The Financial Year Ended 31 December 2019

The Group	Non-distributable			Distributable		Total Equity RM		
	Share capital RM	Treasury shares RM	Foreign currency translation reserve RM	Statutory reserve RM	Retained earnings RM		Attributable to owners of the Company RM	Non-controlling interests RM
Balance at 1 January 2018	118,925,352	(663,237)	28,983,354	6,046,518	128,308,024	281,600,011	24,372,710	305,972,721
Other comprehensive income recognised for the financial year:	-	-	-	-	371,079	371,079	26,732	397,811
- defined benefit plan actuarial gain	-	-	(1,310,826)	-	-	(1,310,826)	(260,120)	(1,570,946)
- foreign currency translation differences	-	-	-	-	52,256,898	52,256,898	4,745,534	57,002,432
Profit after tax for the financial year	-	-	-	-	-	-	-	-
Total comprehensive income for the financial year	-	-	(1,310,826)	-	52,627,977	51,317,151	4,512,146	55,829,297
Contributions by and distributions to owners of the Company:	-	-	-	-	-	-	-	-
- Dividends:	-	-	-	-	(7,335,779)	(7,335,779)	-	(7,335,779)
- by the Company	-	-	-	-	-	-	-	-
- by subsidiaries to non-controlling interests	-	-	-	-	-	-	(2,688,727)	(2,688,727)
- Transfer to statutory reserve	-	-	-	3,064,332	(3,064,332)	-	-	-
- Changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	-	-	(540,853)	(540,853)	(6,592,228)	(7,133,081)
Balance at 31 December 2018	118,925,352	(663,237)	27,672,528	9,110,850	169,995,037	325,040,530	19,603,901	344,644,431

The accompanying Notes form an integral part of these Financial Statements.

## Statements Of Changes In Equity

### For The Financial Year Ended 31 December 2019 (cont'd)

	Non-distributable			Distributable		Total Equity RM		
	Share capital RM	Treasury shares RM	Foreign currency translation reserve RM	Statutory reserve RM	Retained earnings RM		Attributable to owners of the Company RM	Non-controlling interests RM
<b>The Group</b>								
Balance at 1 January 2019	118,925,352	(663,237)	27,672,528	9,110,850	169,995,037	325,040,530	19,603,901	344,644,431
Initial application of MFRS 16	-	-	-	-	(53,139)	(53,139)	-	(53,139)
Balance at 1 January 2019 (restated)	118,925,352	(663,237)	27,672,528	9,110,850	169,941,898	324,987,391	19,603,901	344,591,292
Other comprehensive income recognised for the financial year:								
- defined benefit plan actuarial gain	-	-	-	-	11,323	11,323	(6,989)	4,334
- foreign currency translation differences	-	-	2,109,250	-	-	2,109,250	152,223	2,261,473
Profit after tax for the financial year	-	-	-	-	69,170,350	69,170,350	5,057,998	74,228,348
Total comprehensive income for the financial year	-	-	2,109,250	-	69,181,673	71,290,923	5,203,232	76,494,155
Contributions by and distributions to owners of the Company:								
- Dividends:								
- by the Company	-	-	-	-	(18,863,433)	(18,863,433)	-	(18,863,433)
- by subsidiaries to non-controlling interests	-	-	-	-	-	-	(836,952)	(836,952)
- Transfer to statutory reserve	-	-	-	3,897,777	(3,897,777)	-	-	-
- Changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	-	-	(443,057)	(443,057)	(2,193,924)	(2,636,981)
Balance at 31 December 2019	118,925,352	(663,237)	29,781,778	13,008,627	215,919,304	376,971,824	21,776,257	398,748,081

The accompanying Notes form an integral part of these Financial Statements.

## Statements Of Changes In Equity

### For The Financial Year Ended 31 December 2019 (cont'd)

The Company	Share capital RM	Treasury shares RM	<u>Distributable</u> Retained earnings RM	Total Equity RM
Balance at 1 January 2018	118,925,352	(663,237)	17,583,019	135,845,134
Profit after taxation/Total comprehensive income for the financial year	-	-	15,082,195	15,082,195
Contribution by and distributions to owners of the Company:				
- Dividend	-	-	(7,335,779)	(7,335,779)
<b>Balance at 31 December 2018</b>	<b>118,925,352</b>	<b>(663,237)</b>	<b>25,329,435</b>	<b>143,591,550</b>
Balance at 1 January 2019	118,925,352	(663,237)	25,329,435	143,591,550
Profit after taxation/Total comprehensive income for the financial year	-	-	23,272,268	23,272,268
Contribution by and distributions to owners of the Company:				
- Dividend	-	-	(18,863,433)	(18,863,433)
<b>Balance at 31 December 2019</b>	<b>118,925,352</b>	<b>(663,237)</b>	<b>29,738,270</b>	<b>148,000,385</b>

The accompanying Notes form an integral part of these Financial Statements.

## Statements Of Cash Flows

### For The Financial Year Ended 31 December 2019

	The Group		The Company	
	2019 RM	2018 RM	2019 RM	2018 RM
<b>CASH FLOWS FROM/(FOR) OPERATING ACTIVITIES</b>				
Profit before tax	96,261,457	75,615,413	23,786,496	17,519,528
Adjustments for:				
Depreciation of property, plant and equipment	15,777,521	17,300,505	17,205	17,331
Depreciation of right-of-use assets	2,040,669	-	94,956	-
Interest expense	755,525	568,006	9,480	56,109
Unrealised (gain)/loss on foreign exchange	(81,588)	(616,303)	20,673	190,487
Allowance for impairment losses on amount owing by subsidiaries	-	-	-	1,242,999
Allowance for impairment losses on receivables	-	932,838	-	-
Bad debt written off	-	153,130	-	-
Gain on disposal of an associate	-	(672,207)	-	-
Property, plant and equipment written off	35	10,678	-	-
Share of results in an associate	-	(78,115)	-	-
Interest income	(1,150,023)	(917,220)	(455,564)	(549,987)
Gain on disposal of property, plant and equipment	(14,417)	(164,099)	-	-
Writeback of allowance for impairment losses on amount owing by subsidiaries	-	-	(271,455)	-
Writeback of allowance for impairment losses on trade receivables	(2,200)	(10,000)	-	-
Dividend income from subsidiaries	-	-	(28,541,623)	(23,527,968)
Operating Profit/(Loss) Before Working Capital Changes	113,586,979	92,122,626	(5,339,832)	(5,051,501)
(Increase)/Decrease in:				
Inventories	(1,274,623)	(379,713)	-	-
Trade receivables	20,924,616	(16,590,199)	-	-
Other receivables and prepaid expenses	(564,806)	(1,492,450)	(3,691)	(27,867)
Amount owing by an associate	-	1,330,780	-	-
(Decrease)/Increase in:				
Trade payables	(1,313,328)	(826,277)	-	-
Other payables and accrued expenses	3,319,226	3,376,361	503,145	1,190,933
Cash Generated From/(For) Operations	134,678,064	77,541,128	(4,840,378)	(3,888,435)
Taxes paid	(19,777,287)	(14,218,858)	-	-
Net Cash From/(For) Operating Activities	114,900,777	63,322,270	(4,840,378)	(3,888,435)

The accompanying Notes form an integral part of these Financial Statements.

## Statements Of Cash Flows

### For The Financial Year Ended 31 December 2019 (cont'd)

	The Group		The Company	
	2019 RM	2018 RM	2019 RM	2018 RM
<b>CASH FLOWS (FOR)/FROM INVESTING ACTIVITIES</b>				
Repayment from subsidiaries	-	-	271,455	1,514,464
Purchase of property, plant and equipment	(7,016,576)	(7,492,297)	-	(3,689)
Addition of right-of-use assets	(15,434)	-	-	-
Dividend received from subsidiaries	-	-	28,038,195	21,039,335
Additional investment/acquisition of subsidiaries (Note 13)	(2,636,981)	(7,133,082)	(2,636,981)	(7,133,082)
Proceeds from disposal of an associate	-	2,496,557	-	-
Proceeds from disposal of property, plant and equipment	14,901	1,077,256	-	-
Net (placement)/withdrawal of fixed deposits with licensed banks	(3,608,920)	2,992,578	-	1,104,683
Interest received	1,150,023	917,220	455,564	549,987
<b>Net Cash (For)/From Investing Activities</b>	<b>(12,112,987)</b>	<b>(7,141,768)</b>	<b>26,128,233</b>	<b>17,071,698</b>
<b>CASH FLOWS FOR FINANCING ACTIVITIES</b>				
(Decrease)/Increase in amount owing to subsidiaries (Note 32(a))	-	-	(4,851,365)	591,745
Repayment of term loans (Note 32(a))	(10,677,444)	(16,712,117)	-	(2,037,933)
Interest paid	(755,525)	(568,006)	(9,480)	(56,109)
Dividend paid by the Company (Note 29)	(18,863,433)	(7,335,779)	(18,863,433)	(7,335,779)
Dividend paid by a subsidiary to non-controlling interests	(1,048,152)	(2,626,027)	-	-
Payment of hire purchase payables (Note 32(a))	-	(544,511)	-	-
Payment of lease liabilities	(2,366,158)	-	(92,640)	-
<b>Net Cash For Financing Activities</b>	<b>(33,710,712)</b>	<b>(27,786,440)</b>	<b>(23,816,918)</b>	<b>(8,838,076)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>69,077,078</b>	<b>28,394,062</b>	<b>(2,529,063)</b>	<b>4,345,187</b>
Effect of exchange rate changes	1,651,600	293,086	(59,241)	8,004
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>148,940,067</b>	<b>120,252,919</b>	<b>14,110,208</b>	<b>9,757,017</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 32(b))</b>	<b>219,668,745</b>	<b>148,940,067</b>	<b>11,521,904</b>	<b>14,110,208</b>

Notes:-

- (a) In the previous financial year, the Group and the Company acquired property, plant and equipment at an aggregate cost of RM9,892,297 and RM3,689, respectively, of which RM2,400,000 and Nil, respectively, was acquired under hire-purchase arrangements.
- (b) In the current financial year, the Group acquired right-of-use assets at an aggregate cost of RM3,162,097, of which RM129,434 was acquired under hire-purchase arrangements.

The accompanying Notes form an integral part of these Financial Statements.

## Notes To The Financial Statements

### 1. GENERAL INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Market of Bursa Malaysia Securities Berhad.

The principal activities of the Company are that of investment holding and provision of management services to its subsidiaries.

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

The registered office of the Company is located at B-11-10, Level 11, Megan Avenue II, Jalan Yap Kwan Seng, 50450 Kuala Lumpur, Malaysia.

The principal place of business of the Company is located at Suite 301, 3rd Floor, Block F, Pusat Dagangan Phileo Damansara 1, No. 9, Jalan 16/11, Off Jalan Damansara, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia.

The financial statements of the Group and of the Company have been authorised by the Board of Directors for issuance on 12 May 2020.

### 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

2.1 During the current financial year, the Group has adopted the following new accounting standards and/or interpretations (including the consequential amendments, if any):-

#### **MFRSs and IC Interpretations (Including The Consequential Amendments)**

MFRS 16 Leases

IC Interpretation 23 Uncertainty Over Income Tax Treatments

Amendments to MFRS 9: Prepayment Features with Negative Compensation

Amendments to MFRS 119: Plan Amendment, Curtailment or Settlement

Amendments to MFRS 128: Long-term Interests in Associates and Joint Ventures

Annual Improvements to MFRS Standards 2015 – 2017 Cycles

The adoption of the above accounting standards and/or interpretations (including the consequential amendments, if any) did not have any material impact on the Group's financial statements other than the new classification of leasehold land as right-of-use assets as disclosed in Note 12 to the financial statements. The Group has adopted MFRS 16 using the modified retrospective application and hence, the cumulative financial impact of initial application is recognised as an adjustment to the retained profits as at 1 January 2019 (date of initial application) without restating any comparative information.

## Notes To The Financial Statements (cont'd)

### 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)

2.2 The Group has not applied in advance the following accounting standards and interpretations (including the consequential amendments, if any) that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the current financial year:-

<b>MFRSs and/or IC Interpretations (Including The Consequential Amendments)</b>	<b>Effective Date</b>
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 3: Definition of a Business	1 January 2020
Amendments to MFRS 9, MFRS 139 and MFRS 7: Interest Rate Benchmark Reform	1 January 2020
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred
Amendments to MFRS 101 and MFRS 108: Definition of Material	1 January 2020
Amendments to References to the Conceptual Framework in MFRS Standards	1 January 2020

The adoption of the above accounting standards and/or interpretations (including the consequential amendments, if any) is expected to have no material impact on the financial statements of the Group upon their initial application.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Critical Accounting Estimates And Judgements

##### *Key Sources of Estimation Uncertainty*

Management believes that there are no key assumptions made concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year other than as disclosed below:-

(i) Impairment of Goodwill on Consolidation

The assessment of whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at the reporting date is disclosed in Note 15 to the financial statements.

(ii) Impairment of Property, Plant and Equipment and Right-Of-Use Assets

The Group determines whether an item of its property, plant and equipment and right-of-use assets is impaired by evaluating the extent to which the recoverable amount of the asset is less than its carrying amount. This evaluation is subject to changes such as market performance, economic and political situation of the country. A variety of methods is used to determine the recoverable amount, such as valuation reports and discounted cash flows. For discounted cash flows, significant judgement is required in the estimation of the present value of future cash flows generated by the assets, which involve uncertainties and are significantly affected by assumptions used and judgements made regarding estimates of future cash flows and discount rates. The carrying amounts of property, plant and equipment and right-of-use assets as at the reporting date are disclosed in Notes 11 and 12 to the financial statements.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Critical Accounting Estimates And Judgements (Cont'd)

##### *Key Sources of Estimation Uncertainty (Cont'd)*

(iii) Depreciation of Property, Plant and Equipment and Right-Of-Use Assets

The estimates for the residual values, useful lives and related depreciation charges for the property, plant and equipment and right-of-use assets are based on commercial factors which could change significantly as a result of technical innovations and competitors' actions in response to the market conditions. The Group anticipates that the residual values of its property, plant and equipment will be insignificant. As a result, residual values are not being taken into consideration for the computation of the depreciable amount. Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amounts of property, plant and equipment and right-of-use assets as at the reporting date are disclosed in Notes 11 and 12 to the financial statements.

(iv) Income Taxes

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. The Group recognises tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax expense and deferred tax balances in the year in which such determination is made. The carrying amounts of current tax assets and liabilities as at the reporting date are nil and RM14,034,144 (2018: RM376,409 and RM11,706,505) respectively.

(v) Deferred Tax Assets

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unabsorbed capital allowances to the extent that it is probable that future taxable profits would be available against which the deductible temporary differences, unused tax losses and unabsorbed capital allowances could be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the assessment of the probability of the future taxable profits. The carrying amount of deferred tax assets as at the reporting date is disclosed in Note 16 to the financial statements.

(vi) Impairment of Trade Receivables

The Group uses the simplified approach to estimate a lifetime expected credit loss allowance for all trade receivables. The Group develops the expected loss rates based on the payment profiles of past sales and the corresponding historical credit losses, and adjusts for qualitative and quantitative reasonable and supportable forward-looking information. If the expectation is different from the estimation, such difference will impact the carrying value of trade receivables. The carrying amount of trade receivables as at the reporting date is disclosed in Note 19 to the financial statements.

(vii) Write-down of Inventories

Reviews are made periodically by management on damaged, obsolete and slow-moving inventories. These reviews require judgement and estimates. Possible changes in these estimates could result in revisions to the valuation of inventories. The carrying amount of inventories as at the reporting date is disclosed in Note 18 to the financial statements.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Critical Accounting Estimates And Judgements (Cont'd)

##### *Key Sources of Estimation Uncertainty (Cont'd)*

##### (viii) Impairment of Non-Trade Receivables

The loss allowances for non-trade financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting appropriate inputs to the impairment calculation, based on the past payment trends, existing market conditions as well as forward-looking estimates at the end of each reporting period. The carrying amounts of other receivables and amount owing by subsidiaries as at the reporting date are disclosed in Notes 19 and 20 to the financial statements.

##### *Critical Judgements Made in Applying Accounting Policies*

Management believes that there are no instances of application of critical judgement in applying the Group's accounting policies which will have a significant effect on the amounts recognised in the financial statements other than as disclosed below:-

##### (a) Lease Terms

Some leases contain extension options exercisable by the Group before the end of the non-cancellable contract period. In determining the lease term, management considers all facts and circumstances including the past practice and any cost that will be incurred to change the asset if an option to extend is not taken. An extension option is only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

#### Operating Segments

Operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

#### Revenue from Contracts with Customers and Other Income

##### (i) Revenue from Contracts with Customers

Revenue is recognised by reference to each distinct performance obligation in the contract with customer and is measured at the consideration specified in the contract of which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, net of sales and service tax, returns, rebates and discounts.

The Group recognises revenue when (or as) it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good or service at a point in time unless one of the following overtime criteria is met:-

- The customer simultaneously receives and consumes the benefits provided as the Group performs.
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- The Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Revenue from Contracts with Customers and Other Income (Cont'd)

(i) Revenue from Contracts with Customers (Cont'd)

Sale of Goods

Revenue from sale of goods is recognised when the Group has transferred control of the goods to the customer, being when the goods have been delivered to the customer and upon its acceptance. Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, and bears the risks of obsolescence and loss in relation to the goods.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Rendering of Services

Revenue from services is recognised at a point in time in which the services have been rendered to a customer. Following the rendered of services, the Group has a present right to payment for the services rendered and the customer has obtained the remaining benefits from the services.

(ii) Management Fee

Management fee is recognised on an accrual basis.

(iii) Interest Income

Interest income is recognised on an accrual basis using the effective interest method.

(iv) Dividend Income

Dividend income from investment is recognised when the right to receive dividend payment is established.

(v) Lease Income

Lease income is recognised on an accrual basis over the lease term.

#### Income Taxes

(i) Current Tax

Current tax assets and liabilities are expected amount of income tax recoverable or payable to the taxation authorities.

Current taxes are measured using tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period and 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).

(ii) Deferred Tax

Deferred tax is recognised using the liability method for all temporary differences other than those that arise from goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Income Taxes (Cont'd)

##### (ii) Deferred Tax (Cont'd)

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

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Current and deferred tax items are recognised in correlation to the underlying transactions either in profit or loss, other comprehensive income or directly in equity. Deferred tax arising from a business combination is adjusted against goodwill or negative goodwill.

Current tax assets and liabilities or deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxable entity (or on different tax entities but they intend to settle current tax assets and liabilities on a net basis) and the same taxation authority.

##### (iii) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of GST except for the GST in a purchase of assets or services which are not recoverable from the taxation authorities, the GST are included as part of the costs of the assets acquired or as part of the expense item whichever is applicable.

In addition, receivables and payables are also stated with the amount of GST included (where applicable).

The net amount of the GST recoverable from or payable to the taxation authorities at the end of the reporting period is included in other receivables or other payables.

#### Government Grants

Grants from the government are recognised initially as deferred income at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Grants that compensate the Group for expenses incurred are recognised in profit or loss over the periods necessary to match the grants with the related expenses which they are intended to compensate for. These grants are presented as other income in profit or loss or a deduction in reporting the related expenses in profit or loss.

#### Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of those assets, until such time as the assets are ready for their intended use or sale. The capitalisation of borrowing costs is suspended during extended periods in which active development is interrupted.

All other borrowing costs are recognised in profit or loss as expenses in the period in which they are incurred.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Employee Benefits

(i) Short-term Benefits

Wages, salaries, paid annual leave and bonuses are measured on an undiscounted basis and are recognised in profit or loss in the period in which the associated services are rendered by employees of the Group.

(ii) Defined Contribution Plans

The Group's contributions to defined contribution plans are recognised in profit or loss in the period to which they relate. Once the contributions have been paid, the Group has no further liability in respect of the defined contribution plans.

(iii) Defined Benefit Plans

The liability or asset recognised in the statements of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets.

The present value of the defined benefit obligation is calculated using the projected unit credit method by independent actuaries annually, determined by discounting the estimated future benefits that employees have earned in the current and prior periods, using market yields of private corporate debt securities which have currency and terms to maturity approximating the terms of the related obligation.

The Group determines the net interest expense or income on the net defined liability or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual reporting period to the then net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. The net interest expense or income is recognised in profit or loss under the staff costs.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income and will not be reclassified to profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss.

The Group recognises gains or losses on the settlement of a defined benefit plan when the settlement occurs.

#### Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to the end of the reporting period.

Subsidiaries are entities (including structured entities, if any) controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Subsidiaries are consolidated from the date on which control is transferred to the Group up to the effective date on which control ceases, as appropriate.

Intragroup transactions, balances, income and expenses are eliminated on consolidation. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Basis of Consolidation (Cont'd)

##### (a) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. Under the acquisition method, the consideration transferred for acquisition of a subsidiary is the fair value of the assets transferred, liabilities incurred and the equity interests issued by the Group at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs, other than the costs to issue debt or equity securities, are recognised in profit or loss when incurred.

In a business combination achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

Non-controlling interests in the acquiree may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets at the date of acquisition. The choice of measurement basis is made on a transaction-by-transaction basis.

##### (b) Non-controlling Interests

Non-controlling interests are presented within equity in the consolidated statement of financial position, separately from the equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

##### (c) Changes in Ownership Interests in Subsidiaries Without Change of Control

All changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of consideration paid or received is recognised directly in the equity of the Group.

##### (d) Loss of Control

Upon the loss of control of a subsidiary, the Group recognises any gain or loss on disposal in profit or loss which is calculated as the difference between:-

- (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest in the former subsidiary; and
- (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the former subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the former subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of (i.e. reclassified to profit or loss or transferred directly to retained profits). The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value of initial recognition for subsequent accounting under MFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Goodwill

Goodwill is measured at cost less accumulated impairment losses, if any. The carrying value of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. The impairment value of goodwill is recognised immediately in profit or loss. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Under the acquisition method, any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interests recognised 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 at the date of acquisition is recorded as goodwill.

Where the latter amount exceeds the former, after reassessment, the excess represents a bargain purchase gain and is recognised in profit or loss immediately.

#### Functional and Foreign Currencies

##### (i) Functional and Presentation Currency

The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which the entity operates, which is the functional currency.

The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional and presentation currency.

##### (ii) Foreign Currency Transactions and Balances

Transactions in foreign currencies are converted into the respective functional currencies on initial recognition, using the exchange rates at the transaction dates. Monetary assets and liabilities at the end of the reporting period are translated at the rates ruling as of that date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. All exchange differences are recognised in profit or loss.

##### (iii) Foreign Operations

Assets and liabilities of foreign operations (including any goodwill and fair value adjustments arising on acquisition) are translated to the Group's presentation currency at the exchange rates at the end of the reporting period. Income, expenses and other comprehensive income of foreign operations are translated at exchange rates at the dates of the transactions. All exchange differences arising from translation are taken directly to other comprehensive income and accumulated in equity; attributed to the owners of the Company and non-controlling interests, as appropriate.

Goodwill and fair value adjustments arising from the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the end of the reporting period.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign subsidiary, or a partial disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that foreign operation attributable to the owners of the Company are reclassified to profit or loss as part of the gain or loss on disposal. The portion related to non-controlling interests is derecognised but is not reclassified to profit or loss.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Functional and Foreign Currencies (Cont'd)

##### (iii) Foreign Operations (Cont'd)

In addition, in relation to partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. When the Group disposes of only part of its investment in an associate that includes a foreign operation while retaining significant influence, the proportionate share of the accumulative exchange differences is reclassified to profit or loss.

In the consolidated financial statements, when the settlement of an intragroup loan is neither planned nor likely to occur in the foreseeable future, the exchange differences arising from translating such monetary item are considered to form part of a net investment in the foreign operation and are recognised in other comprehensive income.

#### Financial Instruments

Financial assets and financial liabilities are recognised in the statements of financial position when the Group has become a party to the contractual provisions of the instruments.

Financial instruments are classified as financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual arrangement and their definition in MFRS 132. Interest, dividends, gains and losses relating to a financial instrument classified as liability are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

A financial instrument is recognised initially at its fair value (other than trade receivables without significant financing component which are measured at transaction price as defined in MFRS 15 - Revenue from Contracts with Customers at inception). Transaction costs that are directly attributable to the acquisition or issue of the financial instrument (other than a financial instrument at fair value through profit or loss) are added to/deducted from the fair value on initial recognition, as appropriate. Transaction costs on the financial instrument at fair value through profit or loss are recognised immediately in profit or loss.

Financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

##### (i) Financial Assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value (through profit or loss, or other comprehensive income), depending on the classification of the financial assets.

#### *Debt Instruments*

- Amortised Cost

The financial asset is held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset. When the asset has subsequently become credit-impaired, the interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Financial Instruments (Cont'd)

##### (i) Financial Assets (Cont'd)

###### *Debt Instruments (Cont'd)*

- Amortised Cost (Cont'd)

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), excluding expected credit losses, through the expected life of the financial asset or a shorter period (where appropriate).

- Fair Value through Other Comprehensive Income

The financial asset is held for both collecting contractual cash flows and selling the financial asset, where the asset's cash flows represent solely payments of principal and interest. Movements in the carrying amount are taken through other comprehensive income and accumulated in the fair value reserve, except for the recognition of impairment, interest income and foreign exchange difference which are recognised directly in profit or loss. Interest income is calculated using the effective interest rate method.

- Fair Value through Profit or Loss

All other financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.

The Group reclassifies debt instruments when and only when its business model for managing those assets change.

###### *Equity Instruments*

All equity investments are subsequently measured at fair value with gains and losses recognised in profit or loss except where the Group has elected to present the subsequent changes in fair value in other comprehensive income and accumulated in the fair value reserve at initial recognition.

The designation at fair value through other comprehensive income is not permitted if the equity investment is either held for trading or is designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise.

Dividend income from this category of financial assets is recognised in profit or loss when the Group's right to receive payment is established unless the dividends clearly represent a recovery of part of the cost of the equity investments.

##### (ii) Financial Liabilities

- Financial Liabilities at Fair Value through Profit or Loss

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. The changes in fair value of these financial liabilities are recognised in profit or loss.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Financial Instruments (Cont'd)

##### (ii) Financial Liabilities (Cont'd)

- Other Financial Liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), through the expected life of the financial liability or a shorter period (where appropriate).

##### (iii) Equity Instruments

Equity instruments classified as equity are measured initially at cost and are not remeasured subsequently.

- Ordinary Shares

Ordinary shares are classified as equity and recorded at the proceeds received, net of directly attributable transaction costs.

Dividends on ordinary shares are recognised as liabilities when approved for appropriation.

- Treasury Shares

When the Company's own shares recognised as equity are bought back, the amount of the consideration paid, including all costs directly attributable, are recognised as a deduction from equity. Own shares purchased that are not subsequently cancelled are classified as treasury shares and are presented as a deduction from total equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of treasury shares.

Where treasury shares are reissued by resale, the difference between the sales consideration received and the carrying amount of the treasury shares is recognised in equity.

Where treasury shares are cancelled, their costs are transferred to retained profits.

##### (iv) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset measured at amortised cost, the difference between the carrying amount of the asset and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of a debt instrument classified as fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified from equity to profit or loss. In contrast, there is no subsequent reclassification of the fair value reserve to profit or loss following the derecognition of an equity investment.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Financial Instruments (Cont'd)

##### (v) Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised initially as liabilities at fair value, net of transaction costs. Subsequent to initial recognition, financial guarantee contracts are recognised as income in profit or loss over the period of the guarantee or, when there is no specific contractual period, recognised in profit or loss upon discharge of the guarantee. If the debtor fails to make payment relating to a financial guarantee contract when it is due and the Group, as the issuer, is required to reimburse the holder for the associated loss, the liability is measured at the higher of the amount of the credit loss determined in accordance with the expected credit loss model and the amount initially recognised less cumulative amortisation.

#### Property, Plant and Equipment

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that are directly attributable to the acquisition of the asset and other costs directly attributable to bringing the asset to working condition for its intended use.

Subsequent to initial recognition, all property, plant and equipment, other than freehold land, are stated at cost less accumulated depreciation and any impairment losses.

Freehold land is stated at cost less impairment losses, if any and is not depreciated.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation on property, plant and equipment is charged to profit or loss (unless it is included in the carrying amount of another asset) on a straight-line method to write off the depreciable amount of the assets over their estimated useful lives. Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. The principal annual rates used for this purpose are:-

Freehold buildings	25 - 50 years
Long-term leasehold buildings	50 years
Long-term leasehold land	Not applicable (2018 - 47 - 60 years)
Factory and office renovation	5% - 10%
Plant and machinery	10% - 20%
Workshop tools	10% - 20%
Office equipment	33.3% - 80%
Furniture and fittings	10% - 33.3%
Motor vehicles	10% - 20%
Computers	33.3% - 85.7%

Capital work-in-progress is stated at cost. Cost comprises the direct expenditure incurred on the construction and commissioning of the capital asset. Capital work-in-progress is not depreciated until its completion and availability for commercial use.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Property, Plant and Equipment (Cont'd)

The depreciation method, useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period to ensure that the amounts, method and periods of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment. Any changes are accounted for as a change in estimate.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset, being the difference between the net disposal proceeds and the carrying amount, is recognised in profit or loss.

#### Investments in Subsidiaries

Investments in subsidiaries are stated at cost in the statement of financial position of the Company, and are reviewed for impairment at the end of the reporting period if events or changes in circumstances indicate that the carrying values may not be recoverable. The cost of the investments includes transaction costs.

On the disposal of the investments in subsidiaries, the difference between the net disposal proceeds and the carrying amount of the investments is recognised in profit or loss.

#### Investments in Associates

An associate is an entity in which the Group has a long-term equity interest and where it exercises significant influence over the financial and operating policies.

The investment in an associate is accounted for in the consolidated financial statements using the equity method based on the financial statements of the associate. The Group's share of the post-acquisition profits and other comprehensive income of the associate is included in the consolidated statement of profit or loss and other comprehensive income, after adjustment if any, to align the accounting policies with those of the Group, from the date that significant influence commences up to the effective date on which significant influence ceases or when the investment is classified as held for sale. The Group's investment in the associate is carried in the consolidated statement of financial position at cost plus the Group's share of the post-acquisition retained profits and reserves. The cost of investment includes transaction costs.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation.

Unrealised gains or losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are eliminated unless cost cannot be recovered.

When the Group ceases to have significant influence over an associate and the retained interest in the former associate is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as the initial carrying amount of the financial asset in accordance with MFRS 9. Furthermore, the Group also reclassifies its share of the gain or loss previously recognised in other comprehensive income of that associate to profit or loss when the equity method is discontinued.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Impairment

##### (i) Impairment of Financial Assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost and on trade receivables.

The expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Group always recognises lifetime expected credit losses for trade receivables using the simplified approach. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience and are adjusted for forward-looking information (including time value of money where appropriate).

For all other financial instruments, the Group recognises lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at fair value through other comprehensive income, for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve, and does not reduce the carrying amount of the financial asset in the statements of financial position.

##### (ii) Impairment of Non-financial Assets

The carrying values of assets, other than those to which MFRS 136 - Impairment of Assets does not apply, are reviewed at the end of each reporting period for impairment when an annual impairment assessment is compulsory or there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. When the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount and an impairment loss shall be recognised. The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and its value-in-use, which is measured by reference to discounted future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs.

An impairment loss is recognised in profit or loss immediately.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in profit or loss immediately.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Leases

The Group assesses whether a contract is or contains a lease, at the inception of the contract. The Group recognises a right-of-use asset and corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for low-value assets and short-term leases with 12 months or less. For these leases, the Group recognises the lease payments as an operating expense on a straight-line method over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use assets and the associated lease liabilities are presented as a separate line item in the statements of financial position.

The right-of-use asset is initially measured at cost. Cost includes the initial amount of the corresponding lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any incentives received.

The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses, and adjustment for any remeasurement of the lease liability. The depreciation starts from the commencement date of the lease. If the lease transfers ownership of the underlying asset to the Group or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those property, plant and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in the future lease payments (other than lease modification that is not accounted for as a separate lease) with the corresponding adjustment is made to the carrying amount of the right-of-use asset or is recognised in profit or loss if the carrying amount has been reduced to zero.

#### Accounting Policies Applied Until 31 December 2018

##### (i) Finance Leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability is included in the statement of financial position as hire purchase payables.

Minimum lease payments made under finance leases are apportioned between the finance costs and the reduction of the outstanding liability. The finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the profit or loss and allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each accounting period.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Leases (Cont'd)

##### Accounting Policies Applied Until 31 December 2018 (Cont'd)

#### (ii) Operating Leases

All leases that do not transfer substantially to the Group all the risks and rewards incidental to ownership are classified as operating leases and, the leased assets are not recognised on the statement of financial position of the Group and of the Company.

Payments made under operating leases are recognised as an expense in the profit or loss on a straight-line method over the term of the lease. Lease incentives received are recognised as a reduction of rental expense over the lease term on a straight-line method. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out method and comprises the purchase price and incidentals incurred in bringing the inventories to their present location and condition.

Net realisable value represents the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

#### Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposit, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value with original maturity periods of three months or less.

The Group excluded deposits pledged to financial institutions from cash and cash equivalents for the purpose of the statements of cash flows.

#### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the provision is the present value of the estimated expenditure required to settle the obligation. The discount rate shall be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as interest expense in profit or loss.

#### 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, regardless of whether that price is directly observable or estimated using a valuation technique. The measurement assumes that the transaction takes place either in the principal market or in the absence of a principal market, in the most advantageous market. For non-financial asset, the fair value measurement 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.

## Notes To The Financial Statements (cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Fair Value Measurements (Cont'd)

For financial reporting purposes, the fair value measurements are analysed into level 1 to level 3 as follows:-

Level 1 : Inputs are quoted prices (unadjusted) in active markets for identical assets or liability that the entity can access at the measurement date;

Level 2 : Inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 : Inputs are unobservable inputs for the asset or liability.

The transfer of fair value between levels is determined as of the date of the event or change in circumstances that caused the transfer.

#### Earnings Per Ordinary Share

Basic earnings per ordinary share is calculated by dividing the consolidated profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period, adjusted for own shares held.

Diluted earnings per ordinary share is determined by adjusting the consolidated profit or loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

### 4. OPERATING SEGMENTS

The Group has one reportable segment as the Group is principally engaged in one business segment which is the provision of engineering services.

The Group Chief Executive Officer (the chief operating decision maker) review internal management report at least on a quarterly basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

The Group is organised into the following geographical segments:

- Malaysia
- Singapore
- Philippines
- Taiwan
- Indonesia



## Notes To The Financial Statements (cont'd)

### 4. OPERATING SEGMENTS (CONT'D)

The Group 2019	Geographical segment					Elimination RM	Reportable segment Total RM
	← Malaysia RM	Singapore RM	Philippines RM	Taiwan RM	Indonesia RM		
<b>Assets</b>							
Non-current assets							
- Property, plant and equipment	15,468,204	23,741,235	1,746,343	83,466,190	1,313,897	-	125,735,869
- Right-of-use assets	7,176,411	8,176,488	2,852,025	745,020	780,624	-	19,730,568
- Deferred tax assets	-	-	8,006	2,287,491	-	-	2,295,497
- Goodwill	33,760,856	-	-	-	-	-	33,760,856
Current assets	18,336,552	97,125,488	19,420,525	179,957,753	801,828	18,560,291	334,202,437
Consolidated total assets							<u>515,725,227</u>
<b>Liabilities</b>							
Tax liabilities	1,021,450	4,451,206	39,406	8,929,923	-	-	14,441,985
Segment liabilities	25,837,938	16,771,503	6,024,021	68,060,094	9,499,629	(23,658,024)	102,535,161
Consolidated total liabilities							<u>116,977,146</u>
<b>Other Information</b>							
Capital expenditure	1,208,275	943,251	96,661	4,891,544	6,279	-	7,146,010
Depreciation	3,205,675	4,476,054	881,613	8,999,096	255,752	-	17,818,190
Other non-cash items							
- income	778,781	9,112	-	-	211,358	-	999,251
- expenses	405,795	175,983	148,277	171,026	-	-	901,081



## Notes To The Financial Statements (cont'd)

### 4. OPERATING SEGMENTS (CONT'D)

The Group 2018	Geographical segment					Reportable segment Total RM
	← Malaysia RM	Singapore RM	Philippines RM	Taiwan RM	Indonesia RM	
<b>Assets</b>						
Non-current assets						
- Property, plant and equipment	22,584,698	26,646,814	2,311,450	86,588,806	2,268,452	- 140,400,220
- Deferred tax assets	-	-	-	2,155,621	-	- 2,155,621
- Goodwill	33,760,856	-	-	-	-	- 33,760,856
- Others	1,176,576	-	-	-	-	- 1,176,576
Current assets	23,205,482	89,200,664	17,713,850	139,387,673	905,693	277,567,161
Consolidated total assets						<u>455,060,434</u>
<b>Liabilities</b>						
Tax liabilities	489,534	3,750,725	50,268	8,096,528	-	- 12,387,055
Segment liabilities	36,992,314	11,345,062	4,547,105	71,949,255	9,501,314	(36,306,102) 98,028,948
Consolidated total liabilities						<u>110,416,003</u>
<b>Other Information</b>						
Capital expenditure	3,571,885	871,413	55,168	5,393,831	-	- 9,892,297
Depreciation	2,959,132	5,280,298	707,080	8,055,821	298,174	- 17,300,505
Other non-cash items						
- income	168,924	647,518	247,650	325,784	13,710	- 1,403,586
- expenses	325,597	29,870	-	1,020,413	333,950	- 1,709,830

## Notes To The Financial Statements (cont'd)

### 4. OPERATING SEGMENTS (CONT'D)

Other significant non-cash expenses/(income) consists of the following:-

	<b>The Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>RM</b>	<b>RM</b>
Allowance for impairment losses on receivables	-	932,838
Bad debt written off	-	153,130
Inventories written off	-	-
Unrealised loss on foreign exchange	901,046	613,184
Property, plant and equipment written off	35	10,678
	<b>901,081</b>	<b>1,709,830</b>
Writeback of allowance for impairment losses on trade receivables	(2,200)	(10,000)
Gain on disposal of property, plant and equipment	(14,417)	(164,099)
Unrealised gain on foreign exchange	(982,634)	(1,229,487)
	<b>(999,251)</b>	<b>(1,403,586)</b>

Major customers

The major customers with revenue equal to or more than 10% of the Group's total revenue are as follows:-

	<b>Revenue</b>		<b>Segment</b>
	<b>2019</b>	<b>2018</b>	
	<b>RM</b>	<b>RM</b>	
Customer 1	103,684,268	97,684,931	Engineering services
Customer 2	-	33,138,386	Engineering services

### 5. REVENUE

	<b>The Group</b>		<b>The Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Provision of services	305,136,879	290,695,100	-	-
Sale of goods	34,774,336	36,522,553	-	-
Dividend income from subsidiaries	-	-	28,541,623	23,527,968
Management fee from subsidiaries	-	-	46,800	43,800
	<b>339,911,215</b>	<b>327,217,653</b>	<b>28,588,423</b>	<b>23,571,768</b>

The revenue represents sales which were recognised at a point in time.

## Notes To The Financial Statements (cont'd)

### 6. FINANCE COSTS

	The Group		The Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Interest expense on:-				
Term loans	89,799	298,652	-	56,109
Hire purchase	-	76,454	-	-
Lease liabilities	665,726	-	9,480	-
Money market loan	-	138,510	-	-
Bank overdrafts	-	54,390	-	-
	755,525	568,006	9,480	56,109

### 7. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	The Group		The Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Impairment losses:-				
- trade receivables	-	932,838	-	-
- amount owing by subsidiaries	-	-	-	1,242,999
Writeback of impairment losses:-				
- trade receivables	(2,200)	(10,000)	-	-
- amount owing by subsidiaries	-	-	(271,455)	-
	(2,200)	922,838	(271,455)	1,242,999

### 8. PROFIT BEFORE TAX

Profit before tax is arrived at after crediting/(charging) the following:-

	The Group		The Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Interest income from:-				
- Subsidiaries	-	-	-	70,885
- Third parties	1,150,023	917,220	455,564	479,102
Gain/(Loss) on foreign exchange - net:-				
- Unrealised	81,588	616,303	(20,673)	(190,487)
- Realised	(561,779)	(152,105)	109,821	39,099
Gain on disposal short-term investments	45,867	68,790	34,962	68,790
Gain on disposal of property, plant and equipment	14,417	164,099	-	-

## Notes To The Financial Statements (cont'd)

### 8. PROFIT BEFORE TAX (CONT'D)

Profit before tax is arrived at after crediting/(charging) the following:- (Cont'd)

	The Group		The Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Gain on disposal of an associate	-	672,207	-	-
Lease income from property, plant and equipment	408,851	-	-	-
Staff costs	(98,438,454)	(98,134,256)	(988,152)	(985,240)
Depreciation of property, plant and equipment	(15,777,521)	(17,300,505)	(17,205)	(17,331)
Depreciation of right-of-use assets	(2,040,669)	-	(94,956)	-
Directors' remuneration:				
- directors of the Company:				
- fee	(244,868)	(283,512)	(244,868)	(283,512)
- salaries and other emoluments	(7,995,278)	(7,401,953)	(3,630,001)	(3,141,590)
- directors of the Subsidiaries:				
- salaries and other emoluments	(2,334,829)	(2,284,443)	-	-
Auditors' remuneration:				
- audit fee				
- current financial year				
- auditors of the Company	(209,500)	(205,500)	(111,000)	(111,000)
- other auditors	(345,167)	(341,429)	-	-
- (under)/overprovision in prior year				
- auditors of the Company	(1,000)	2,000	-	2,000
- other auditors	(600)	-	-	-
- non-audit fee				
- auditors of the Company	(5,000)	(5,000)	(5,000)	(5,000)
- member firms of the auditors of the Company	(5,300)	(25,100)	-	(4,000)
Property, plant and equipment written off	(35)	(10,678)	-	-
Bad debt written off	-	(153,130)	-	-
Lease expenses:				
- short-term leases	(1,449,156)	-	-	-
- low value assets	(29,410)	-	-	-
- rental of equipment	-	(286,493)	-	-
- rental of motor vehicles	-	(263,294)	-	(102,120)
- rental of properties	-	(2,894,289)	-	-
- rental of others	-	(400,629)	-	-

#### (a) Staff costs

Staff costs include salaries, bonuses, contributions to statutory defined contribution plans, defined benefits plan and all other staff related expenses. Contributions to statutory defined contribution plans and defined benefits plan, included in staff costs, made by the Group and by the Company during the financial year are as follows:-

	The Group		The Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Defined contribution plan	4,159,401	4,269,779	105,092	117,500
Defined benefits plan	37,629	184,449	-	-

## Notes To The Financial Statements (cont'd)

### 8. PROFIT BEFORE TAX (CONT'D)

#### (b) Key management personnel compensation

The remuneration of the members of key management is as follows:-

	The Group		The Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Directors of the Company	8,240,146	7,685,465	3,874,869	3,425,102
Directors of the Subsidiaries	2,334,829	2,284,443	-	-
Other Key Management Personnel	4,560,780	4,291,701	380,114	393,800
	15,135,755	14,261,609	4,254,983	3,818,902

In addition to the above disclosure, there is an unallocated provision of director fees in a subsidiary amounting to RM1,788,613 (2018: RM1,542,196).

#### (c) Directors' remuneration

Contributions to provident fund, included in directors' remuneration, made by the Group and by the Company during the current financial year are as follows:-

	The Group		The Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Contributions to provident funds:				
Directors of the Company	631,438	552,380	579,500	501,524
Directors of the Subsidiaries	190,716	187,716	-	-
	822,154	740,096	579,500	501,524

## Notes To The Financial Statements (cont'd)

### 9. INCOME TAX EXPENSE

	The Group		The Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Estimated current tax payable:				
Malaysian:				
- Current year	4,286,075	2,620,952	-	-
- Under/(Over) provision in prior years	39,175	(32,230)	-	-
	4,325,250	2,588,722	-	-
Foreign:				
- Current year	16,291,730	13,627,745	-	-
- Underprovision in prior years	1,268,408	842,882	-	-
	17,560,138	14,470,627	-	-
Withholding tax	514,228	2,437,333	514,228	2,437,333
	22,399,616	19,496,682	-	-
Deferred tax (Note 16):				
- Current year	(366,507)	(815,216)	-	-
- Overprovision in prior years	-	(68,485)	-	-
	(366,507)	(883,701)	-	-
	22,033,109	18,612,981	514,228	2,437,333

## Notes To The Financial Statements (cont'd)

### 9. INCOME TAX EXPENSE (CONT'D)

A reconciliation of income tax expense at the applicable statutory income tax rate to income tax expense at the effective income tax rate is as follows:-

	The Group		The Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Profit before tax	96,261,457	75,615,413	23,786,496	17,519,528
Tax at the applicable tax rate of 24%	23,102,750	18,147,699	5,708,759	4,204,687
Effect of different tax rates of other tax jurisdictions	(4,430,074)	(3,679,175)	-	-
Tax effects of:				
Non-deductible expenses	1,737,385	1,710,528	1,251,163	1,516,854
Income not subject to tax	(86,037)	(320,604)	(6,959,922)	(5,721,541)
Utilisation of deferred tax assets previously not recognised	(161,814)	(41,124)	-	-
Tax incentives	-	(251,734)	-	-
Income tax exemption	(88,681)	(512,800)	-	-
Taxable income subjected at regular income tax rate	102,114	-	-	-
Deferred tax assets not recognised for the year	35,655	399,439	-	-
Under/(Over)provision in prior years				
- Current tax	1,307,583	810,652	-	-
- Deferred tax	-	(68,485)	-	-
Effect of share of results in associates	-	(18,748)	-	-
Withholding tax	514,228	2,437,333	514,228	2,437,333
<b>Income tax expense</b>	<b>22,033,109</b>	<b>18,612,981</b>	<b>514,228</b>	<b>2,437,333</b>

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% of the estimated assessable profit for the financial year. The taxation of other jurisdictions is calculated at the rates prevailing in the respective jurisdiction.

## Notes To The Financial Statements (cont'd)

### 10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit after taxation attributable to owners of the Company by the weighted average number of ordinary shares in issue during the financial year.

	2019	The Group 2018
Profit after taxation attributable to owners of the Company (RM)	69,170,350	52,256,898
<hr/>		
Number of shares in issue as of 1 January	1,053,435,130	1,053,435,130
Effects of:		
Treasury shares acquired	(5,466,600)	(5,466,600)
<hr/>		
Weighted average number of ordinary shares for basic earnings per share computation as of 31 December	1,047,968,530	1,047,968,530
<hr/>		
Basic earnings per ordinary share attributable to equity holders of the Company (sen)	6.60	4.99
<hr/>		

The Group has not issued any dilutive potential ordinary shares and hence, the diluted earnings per share is equal to the basic earnings per share.

## Notes To The Financial Statements (cont'd)

### 11. PROPERTY, PLANT AND EQUIPMENT

The Group	COST						As at 31 December 2018 RM
	As at 1 January 2018 RM	Foreign currency translation differences RM	Reclassifications RM	Additions RM	Write-offs RM	Disposals RM	
Freehold land	20,607,266	(180,903)	-	-	-	-	20,426,363
Freehold buildings	60,581,670	(600,275)	1,145,387	-	-	-	61,126,782
Long-term leasehold land	4,755,346	(37,046)	-	-	-	-	4,718,300
Long-term leasehold buildings	41,311,176	(112,815)	-	-	-	-	41,198,361
Factory and office renovation	26,604,127	(115,563)	-	2,335,564	-	-	28,824,128
Plant and machinery	193,280,373	(1,137,376)	3,573,137	2,656,777	(1,546,234)	(3,077,799)	193,748,878
Workshop tools	2,415,351	-	-	-	-	(12,000)	2,403,351
Office equipment	7,973,441	(33,487)	-	70,463	(121,229)	-	7,889,188
Furniture and fittings	965,281	(5,583)	-	2,300	(12,078)	-	949,920
Motor vehicles	8,254,080	(48,238)	-	397,773	-	(155,558)	8,448,057
Computers	1,434,382	(7,731)	-	24,184	(251,828)	-	1,199,007
Capital work-in-progress	1,181,133	(17,390)	(4,718,524)	4,405,236	-	-	850,455
<b>Total</b>	<b>369,363,626</b>	<b>(2,296,407)</b>	<b>-</b>	<b>9,892,297</b>	<b>(1,931,369)</b>	<b>(3,245,357)</b>	<b>371,782,790</b>

## Notes To The Financial Statements (cont'd)

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

The Group	COST							
	As at 1 January 2019 RM	Foreign currency translation differences RM	Transfer to right-of-use assets RM	Reclassifications RM	Additions RM	Write-offs RM	Disposals RM	As at 31 December 2019 RM
Freehold land	20,426,363	132,277	-	-	-	-	-	20,558,640
Freehold buildings	61,126,782	471,212	-	968,949	328,545	(459,772)	-	62,435,716
Long-term leasehold land	4,718,300	-	(4,718,300)	-	-	-	-	-
Long-term leasehold buildings	41,198,361	95,297	-	-	-	-	-	41,293,658
Factory and office renovation	28,824,128	93,895	(2,105,293)	-	398,275	-	-	27,211,005
Plant and machinery	193,748,878	961,913	(589,145)	1,413,293	1,651,976	(43,000)	(1,000)	197,142,915
Workshop tools	2,403,351	-	-	-	48,835	-	-	2,452,186
Office equipment	7,889,188	31,277	-	-	405,423	(199,069)	-	8,126,819
Furniture and fittings	949,920	4,336	-	-	-	-	-	954,256
Motor vehicles	8,448,057	42,603	(277,389)	68,936	379,649	-	(138,430)	8,523,426
Computers	1,199,007	12,247	-	304,139	67,752	(5,179)	-	1,577,966
Capital work-in-progress	850,455	25,134	-	(2,755,317)	3,736,121	-	-	1,856,393
<b>Total</b>	<b>371,782,790</b>	<b>1,870,191</b>	<b>(7,690,127)</b>	<b>-</b>	<b>7,016,576</b>	<b>(707,020)</b>	<b>(139,430)</b>	<b>372,132,980</b>

## Notes To The Financial Statements (cont'd)

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

The Group	ACCUMULATED DEPRECIATION					
	As at 1 January 2018 RM	Foreign currency translation differences RM	Charge for the year RM	Write-offs RM	Disposals RM	As at 31 December 2019 RM
Freehold land	-	-	-	-	-	-
Freehold buildings	21,420,997	(195,900)	2,042,602	-	-	23,267,699
Long-term leasehold land	719,825	-	68,291	-	-	788,116
Long-term leasehold buildings	16,252,462	(23,704)	1,433,381	-	-	17,662,139
Factory and office renovation	19,238,063	(56,996)	1,717,549	-	-	20,898,616
Plant and machinery	141,482,294	(636,682)	10,973,061	(1,535,572)	(2,164,643)	148,118,458
Workshop tools	2,234,863	-	58,833	-	(11,999)	2,281,697
Office equipment	7,185,028	(25,114)	305,516	(121,214)	-	7,344,216
Furniture and fittings	950,833	(5,178)	6,489	(12,078)	-	940,066
Motor vehicles	6,352,273	(34,243)	598,834	-	(155,558)	6,761,306
Computers	1,217,650	(5,170)	95,949	(251,827)	-	1,056,602
Capital work-in-progress	-	-	-	-	-	-
<b>Total</b>	<b>217,054,288</b>	<b>(982,987)</b>	<b>17,300,505</b>	<b>(1,920,691)</b>	<b>(2,332,200)</b>	<b>229,118,915</b>

## Notes To The Financial Statements (cont'd)

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

The Group	ACCUMULATED DEPRECIATION						
	As at 1 January 2019 RM	Foreign currency translation differences RM	Transfer to right-of-use assets RM	Charge for the year RM	Write-offs RM	Disposals RM	As at 31 December 2019 RM
Freehold land	-	-	-	-	-	-	-
Freehold buildings	23,267,699	203,902	-	2,173,642	(459,771)	-	25,185,472
Long-term leasehold land	788,116	-	(788,116)	-	-	-	-
Long-term leasehold buildings	17,662,139	39,614	-	1,453,397	-	-	19,155,150
Factory and office renovation	20,898,616	65,445	(52,632)	1,302,971	-	-	22,214,400
Plant and machinery	148,118,458	736,208	(42,906)	9,876,075	(42,998)	(517)	158,644,320
Workshop tools	2,281,697	-	-	57,462	-	-	2,339,159
Office equipment	7,344,216	26,184	-	330,692	(199,040)	-	7,502,052
Furniture and fittings	940,066	4,245	-	5,369	-	-	949,680
Motor vehicles	6,761,306	32,432	(148,440)	435,500	-	(138,429)	6,942,369
Computers	1,056,602	7,015	-	142,413	(5,176)	-	1,200,854
Capital work-in-progress	-	-	-	-	-	-	-
<b>Total</b>	<b>229,118,915</b>	<b>1,115,045</b>	<b>(1,032,094)</b>	<b>15,777,521</b>	<b>(706,985)</b>	<b>(138,946)</b>	<b>244,133,456</b>

## Notes To The Financial Statements (cont'd)

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

The Group	As at 1 January 2018		Foreign currency translation differences		Impairment loss		Foreign currency translation differences		As at 31 December 2018		As at 31 December 2019		As at 31 December 2018		As at 31 December 2019		
	RM	RM	RM	RM	Recognised for the year	As at 31 December 2018/1 January 2019	RM	RM	Recognised for the year	As at 31 December 2019	RM	RM	RM	RM	RM	RM	
Freehold land	-	-	-	-	-	-	-	-	-	-	-	-	-	20,558,640	20,426,363	-	-
Freehold buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	37,250,244	37,859,083	-	-
Long-term leasehold land	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,930,184	-	-
Long-term leasehold buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	22,138,508	23,536,222	-	-
Factory and office renovation	-	-	-	-	-	-	-	-	-	-	-	-	-	4,996,605	7,925,512	-	-
Plant and machinery	2,263,655	-	-	-	-	2,263,655	-	-	-	2,263,655	-	-	-	36,234,940	43,366,765	-	-
Workshop tools	-	-	-	-	-	-	-	-	-	-	-	-	-	113,027	121,654	-	-
Office equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	624,767	544,972	-	-
Furniture and fittings	-	-	-	-	-	-	-	-	-	-	-	-	-	4,576	9,854	-	-
Motor vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	1,581,057	1,686,751	-	-
Computers	-	-	-	-	-	-	-	-	-	-	-	-	-	377,112	142,405	-	-
Capital work-in-progress	-	-	-	-	-	-	-	-	-	-	-	-	-	1,856,393	850,455	-	-
<b>Total</b>	<b>2,263,655</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,263,655</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,263,655</b>	<b>-</b>	<b>-</b>	<b>2,263,655</b>	<b>125,735,869</b>	<b>140,400,220</b>	<b>-</b>	<b>-</b>

## Notes To The Financial Statements (cont'd)

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

The Company	COST				ACCUMULATED DEPRECIATION				CARRYING AMOUNT	
	As at 1 January 2018 RM	Addition RM	Write-off RM	As at 31 December 2018/1 January 2019 RM	As at 31 December 2018/1 January 2019 RM	Charge for the year RM	Write-off January 2019 RM	As at 31 December 2019 RM	As at 31 December 2019 RM	As at 31 December 2018 RM
Office renovation	151,775	-	-	151,775	-	15,129	-	151,775	-	15,129
Office equipment	36,777	-	-	36,777	-	277	-	36,547	230	507
Furniture and fittings	71,000	-	-	71,000	-	-	-	71,000	-	-
Computers	39,748	3,689	(6,367)	37,070	(6,367)	1,799	-	35,123	1,947	3,746
<b>Total</b>	<b>299,300</b>	<b>3,689</b>	<b>(6,367)</b>	<b>296,622</b>	<b>(6,367)</b>	<b>17,205</b>	<b>-</b>	<b>294,445</b>	<b>2,177</b>	<b>19,382</b>
The Company	As at 1 January 2018 RM	Addition RM	Write-off RM <td>As at 31 December 2018/1 January 2019 RM</td> <td>As at 31 December 2018/1 January 2019 RM</td> <td>Charge for the year RM</td> <td>Write-off January 2019 RM</td> <td>As at 31 December 2019 RM</td> <td>As at 31 December 2019 RM</td> <td>As at 31 December 2018 RM</td>	As at 31 December 2018/1 January 2019 RM	As at 31 December 2018/1 January 2019 RM	Charge for the year RM	Write-off January 2019 RM	As at 31 December 2019 RM	As at 31 December 2019 RM	As at 31 December 2018 RM
Office renovation	121,469	-	-	136,646	136,646	15,129	-	151,775	-	15,129
Office equipment	35,993	-	-	36,270	36,270	277	-	36,547	230	507
Furniture and fittings	70,770	-	-	71,000	71,000	-	-	71,000	-	-
Computers	38,044	1,647	(6,367)	33,324	33,324	1,799	-	35,123	1,947	3,746
<b>Total</b>	<b>266,276</b>	<b>17,331</b>	<b>(6,367)</b>	<b>277,240</b>	<b>277,240</b>	<b>17,205</b>	<b>-</b>	<b>294,445</b>	<b>2,177</b>	<b>19,382</b>

## Notes To The Financial Statements (cont'd)

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

- (a) The details of the Group's property, plant and equipment charged as collateral to certain banks for term loans granted to the Group as mentioned in Note 25 to the financial statements are analysed as follows:-

	Carrying Amount	
	2019 RM	2018 RM
Freehold land	-	18,873,729
Freehold building	-	37,066,872
Long-term leasehold building	16,907,636	18,196,598
	16,907,636	74,137,199

- (b) The details of the Group's property, plant and equipment under hire purchase arrangement were analysed as follows:-

	Carrying Amount 2018 RM
Plant and machinery	589,145
Motor vehicles	136,524
Factory renovation	2,105,293
	2,830,962

- (c) Certain plant and equipment and office space of the Group are leased to customers under operating leases with rentals payable monthly. Each of the leases contains an initial non-cancellable average period of 2 years and the subsequent renewals are negotiated separately on a contract by contract basis.

The Group does not require a financial guarantee on its lease arrangements.

The undiscounted operating lease payments receivable are as follows:-

	The Group 2019 RM
Within 1 year	491,131
Between 1 and 2 years	233,873
	725,004

The comparative information is not presented as the Group has applied MFRS 16 using the modified retrospective approach.

## Notes To The Financial Statements (cont'd)

12. RIGHT-OF-USE ASSETS	CARRYING AMOUNT						
	Initial application of MFRS 16 RM	1 January 2019 Transfer from property, plant and equipment RM	As restated RM	Additions RM	Depreciation charges RM	Foreign currency translation differences RM	As at 31 December 2019 RM
The Group							
Leasehold land	8,693,500	3,930,184	12,623,684	-	(624,730)	42,195	12,041,149
Factories and buildings	2,556,973	-	2,556,973	2,996,597	(881,931)	22,460	4,694,099
Factory renovation	-	2,052,661	2,052,661	-	(210,529)	-	1,842,132
Plant and machinery	-	546,239	546,239	-	(58,915)	-	487,324
Motor vehicles	634,717	128,949	763,666	165,500	(264,564)	1,262	665,864
	11,885,190	6,658,033	18,543,223	3,162,097	(2,040,669)	65,917	19,730,568
The Group							
Leasehold land			13,454,251		(1,413,102)		12,041,149
Factories and buildings			6,012,656		(1,318,557)		4,694,099
Factory renovation			2,105,293		(263,161)		1,842,132
Plant and machinery			589,145		(101,821)		487,324
Motor vehicles			1,082,458		(416,594)		665,864
			23,243,803		(3,513,235)		19,730,568

## Notes To The Financial Statements (cont'd)

### 12. RIGHT-OF-USE ASSETS (CONT'D)

	← Carrying Amount →		
	As at 1 January 2019/ Initial application of MFRS 16 RM	Depreciation charges RM	As at 31 December 2019 RM
<b>The Company</b>			
Building	189,912	(94,956)	94,956
<hr/>			
	Cost RM	Accumulated depreciation RM	Carrying amount RM
<b>The Company</b>			
Building	189,912	(94,956)	94,956
<hr/>			

The comparative information is not presented as the Group and the Company have applied MFRS 16 using the modified retrospective approach.

(a) The details of the Group's lease assets under hire purchase arrangements are analysed as follows:-

	Carrying Amount 2019 RM
Plant and machinery	487,324
Motor vehicles	213,778
Factory renovation	1,842,132
<hr/>	
	2,543,234
<hr/>	
Effective interest rates	2.80% - 5.28%
Remaining lease terms	1 – 2 years
<hr/>	

(b) The leasing activities of the remaining lease assets are summarised below:-

- (i) Leasehold land      The Group has entered into 5 non-cancellable operating lease agreements for the use of land. The leases are for a period ranging from 30 to 60 years. The leases do not allow the Group to assign, transfer or sublease or create any charge, lien or trust in respect of or dispose of the whole or any part of the land. A tenancy is, however, allowed with the consent of the lessor.
- (ii) Factories and buildings and motor vehicles      The Group has leased a number of factories and buildings, and motor vehicles that run between 1 to 5 years, with an option to renew the lease after that date. The Company has leased a building for 2 years, with an option to renew the lease after that date.

## Notes To The Financial Statements (cont'd)

### 13. INVESTMENTS IN SUBSIDIARIES

	<b>The Company</b>	
	<b>2019</b>	<b>2018</b>
	<b>RM</b>	<b>RM</b>
Unquoted shares, at cost:-		
At beginning of the year	141,906,949	134,773,867
Addition during the year	2,636,981	7,133,082
Accumulated impairment losses	144,543,930 (987,241)	141,906,949 (987,241)
	143,556,689	140,919,708

The details of the subsidiaries are as follows:-

<b>Name of Subsidiaries</b>	<b>Principal Place of Business/ Country of Incorporation</b>	<b>Percentage of Issued Share Capital Held</b>		<b>Principal Activities</b>
		<b>by Parent</b>		
		<b>2019</b>	<b>2018</b>	
<b>Subsidiaries of the Company</b>		<b>%</b>	<b>%</b>	
Frontken Malaysia Sdn. Bhd. ("FMSB")	Malaysia	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Frontken (Singapore) Pte. Ltd. ("FSPL") <sup>1</sup>	Singapore	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
PT Frontken Indonesia <sup>1</sup>	Indonesia	95	95	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
TTES Frontken Integrated Services Sdn. Bhd. ("TTES") <sup>2</sup>	Malaysia	45	45	Engaged in the business of turbo machinery technical engineering services.
Ares Green Technology Corporation ("AGTC") <sup>1</sup>	Taiwan	90.85	89.59	Provision of surface treatment and advanced precision cleaning for the TFT - LCD (Thin Film Transistor - Liquid Crystal Display) and semi-conductor industries.

## Notes To The Financial Statements (cont'd)

### 13. INVESTMENTS IN SUBSIDIARIES (CONT'D)

The details of the subsidiaries are as follows:- (Cont'd)

Name of Subsidiaries	Principal Place of Business/ Country of Incorporation	Percentage of Issued Share Capital Held by Parent		Principal Activities
		2019 %	2018 %	
<b>Subsidiaries of FMSB</b>				
Frontken (East Malaysia) Sdn. Bhd. ("FEM") <sup>1</sup>	Malaysia	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Frontken (Johor) Sdn. Bhd.	Malaysia	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering services.
Frontken Projects Sdn. Bhd.	Malaysia	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering services.
<b>Subsidiaries of FSPL</b>				
Frontship Pte. Ltd. <sup>1</sup>	Singapore	100	100	Procurement of materials, equipment consumable parts and engineering services.
Frontken Projects Pte. Ltd. <sup>1</sup>	Singapore	100	100	General contractors and process and individual plant engineering services.
Frontken Philippines Inc <sup>1</sup>	Philippines	99.99	99.99	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
<b>Subsidiary of AGTC</b>				
Ares Green International Corporation <sup>1</sup>	Samoa	100	100	Investment holding.

<sup>1</sup> The financial statements of the subsidiaries are audited by auditors other than the auditors of the Company.

<sup>2</sup> TTES is considered a subsidiary of the Group as the Group has control over the operating and management policies of this subsidiary via the board of directors appointed by the Group.

## Notes To The Financial Statements (cont'd)

### 13. INVESTMENTS IN SUBSIDIARIES (CONT'D)

The non-controlling interests at the end of the reporting period comprise the following:-

	Effective Equity Interest		The Group	
	2019 %	2018 %	2019 RM	2018 RM
AGTC	9.15	10.41	19,024,855	17,101,317
TTES	55	55	4,770,242	4,504,474
Other individually immaterial subsidiaries			(2,018,840)	(2,001,890)
			21,776,257	19,603,901

The summarised financial information (before intra-group elimination) for each subsidiary that has non-controlling interests that are material to the Group is as follows:-

	2019 RM	AGTC 2018 RM
<u>At 31 December</u>		
Non-current assets	90,905,320	93,117,748
Current assets	179,655,424	139,081,688
Non-current liabilities	(2,717,517)	(9,108,383)
Current liabilities	(74,272,500)	(70,937,400)
Net assets	193,570,727	152,153,653
<u>Financial Year Ended 31 December</u>		
Revenue	189,487,937	186,242,260
Profit for the financial year	44,256,764	38,938,273
Total comprehensive income	45,969,923	37,866,538
Total comprehensive income attributable to non-controlling interests	4,591,414	4,178,491
Dividends paid to non-controlling interests	(473,952)	(2,477,527)
Net cash from operating activities	71,639,707	46,078,848
Net cash for investing activities	(7,647,187)	(5,803,272)
Net cash for financing activities	(13,833,622)	(22,646,402)

## Notes To The Financial Statements (cont'd)

### 13. INVESTMENTS IN SUBSIDIARIES (CONT'D)

The summarised financial information (before intra-group elimination) for each subsidiary that has non-controlling interests that are material to the Group is as follows:- (Cont'd)

	2019 RM	TTES 2018 RM
<u>At 31 December</u>		
Non-current assets	1,878,463	2,696,260
Current assets	11,277,366	7,860,708
Non-current liabilities	(366,866)	(104,507)
Current liabilities	(4,116,002)	(2,262,508)
<b>Net assets</b>	<b>8,672,961</b>	<b>8,189,953</b>
<u>Financial Year Ended 31 December</u>		
Revenue	24,711,266	17,125,230
Profit for the financial year	1,143,214	639,512
Total comprehensive income	1,143,214	639,512
Total comprehensive income attributable to non-controlling interests	628,768	351,732
Dividends paid to non-controlling interests	(363,000)	(211,200)
Net cash from/(for) operating activities	2,824,006	(821,816)
Net cash from investing activities	79,184	1,594,276
Net cash for financing activities	(1,319,472)	(378,522)

During the financial year, in the month of September 2019, the Company acquired 431,534 ordinary shares of NT\$10 each representing 1.26% of the issued and paid-up share capital of AGTC for a total cash consideration of NT\$19,355,830 (including incidental costs) (equivalent to RM2,636,981). Following the acquisition, the Group's interest in AGTC increased from 89.59% to 90.85%. The carrying amount of AGTC's net assets shared by the Group on the date of the acquisition was RM159,622,107. The Group recognised a decrease in non-controlling interests of RM2,193,924 and a decrease in retained earnings of RM443,057.

The following summarises the effect of changes in equity interest in AGTC that is attributable to owners of the Company:-

	AGTC 2019 RM
Equity interest at 1 January 2019	135,052,335
Effect of increase in Company's ownership interest	2,193,924
Share of comprehensive income	37,299,613
<b>Equity interest at 31 December 2019</b>	<b>174,545,872</b>

## Notes To The Financial Statements (cont'd)

### 13. INVESTMENTS IN SUBSIDIARIES (CONT'D)

In the previous financial year:-

- (i) In the month of January 2018, the Company acquired 1,313,116 ordinary shares of NT\$10 each representing 3.85% of the issued and paid-up share capital of AGTC for a total cash consideration of NT\$39,393,480 (including incidental costs) (equivalent to RM5,490,245). Following the acquisition, the Group's interest in AGTC increased from 84.65% to 88.50%. The carrying amount of AGTC's net assets shared by the Group on the date of the acquisition was RM113,090,059. The Group recognised a decrease in non-controlling interests of RM5,037,019 and a decrease in retained earnings of RM453,225.
- (ii) In the month of March 2018, the Company acquired 91,985 ordinary shares of NT\$10 each representing 0.27% of the issued and paid-up share capital of AGTC for a total cash consideration of NT\$2,759,550 (equivalent to RM372,498). Following the acquisition, the Group's interest in AGTC increased from 88.50% to 88.77%. The carrying amount of AGTC's net assets shared by the Group on the date of the acquisition was RM121,788,780. The Group recognised a decrease in non-controlling interests of RM364,477 and a decrease in retained earnings of RM8,021.
- (iii) In the month of November 2018, the Company acquired 278,298 ordinary shares of NT\$10 each representing 0.82% of the issued and paid-up share capital of AGTC for a total cash consideration of NT\$9,353,279 (equivalent to RM1,270,339). Following the acquisition, the Group's interest in AGTC increased from 88.77% to 89.59%. The carrying amount of AGTC's net assets shared by the Group on the date of the acquisition was RM131,297,655. The Group recognised a decrease in non-controlling interests of RM1,190,732 and a decrease in retained earnings of RM79,607.

The following summarises the effect of changes in equity interest in AGTC that is attributable to owners of the Company:-

	<b>AGTC 2018 RM</b>
Equity interest at 1 January 2018	114,356,212
Effect of increase in Company's ownership interest	6,592,228
Share of comprehensive income	14,103,895
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Equity interest at 31 December 2018	135,052,335
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### 14. INVESTMENT IN AN ASSOCIATE

	<b>The Group</b>	
	<b>2019 RM</b>	<b>2018 RM</b>
Unquoted shares, at cost	-	1,193,279
Share of post-acquisition results	-	309,291
Foreign currency translation differences	-	562,232
<hr/>		
Disposed during the year	-	2,064,802
<hr/>		
	-	(2,064,802)
<hr/>		
	-	-
<hr/>		

## Notes To The Financial Statements (cont'd)

### 14. INVESTMENT IN AN ASSOCIATE (CONT'D)

In the previous financial year, on 6 September 2018, FSPL, a wholly-owned subsidiary of the Company, entered into a Sale and Purchase agreement to dispose of 1,172,004 ordinary shares, representing its entire 49% equity interest in Frontken (Thailand) Co., Ltd. for a cash consideration of SGD830,000 (equivalent to RM2,496,557).

### 15. GOODWILL ON CONSOLIDATION

	<b>The Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>RM</b>	<b>RM</b>
At 1 January/31 December	33,760,856	33,760,856

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating unit ("CGU") that is expected to benefit from that business combination.

The carrying amounts of the goodwill allocated to each CGU are as follows:-

	<b>The Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>RM</b>	<b>RM</b>
FEM	805,812	805,812
AGTC	24,588,453	24,588,453
TTES	8,366,591	8,366,591
	33,760,856	33,760,856

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined using the value in use approach, and this is derived from the present value of the future cash flows from each CGU computed based on the projections of financial forecast covering a period of 5 years. The key assumptions used in the determination of the recoverable amounts are as follows:-

	<b>2019</b>	<b>2018</b>
	<b>%</b>	<b>%</b>
Budgeted gross margin	15 to 51	18 to 48
Growth rates		
- Year 1	-40 to 12	1 to 23
- Year 2 to 5	3 to 12	1 to 17
Pre-tax discount rates	17 to 18	15 to 19

## Notes To The Financial Statements (cont'd)

### 15. GOODWILL ON CONSOLIDATION (CONT'D)

- (i) Budgeted gross margin Management determines budgeted gross margin based on past performance and its expectations of market development.
- (ii) Growth rates The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. These calculations use pre-tax cash flow projections based on financial budgets approved by management and extrapolated cash flows for a five-year period based on growth rates consistent with the long-term average growth rate for the industry.
- (iii) Discount rates Management estimates discount rate using pre-tax rate that reflect current market assessments of the time value of money and the risk specific to the CGU. The rate used to discount the forecasted cash flows reflects specific risks and expected returns relating to the industry.
- (iv) Terminal value Terminal value is based on zero growth of projected present value of particular subsidiaries from year 2024 until infinity.

The management believes that there is no reasonable change in the above key assumptions which would cause the carrying amount of the goodwill to exceed its recoverable amounts.

### 16. DEFERRED TAX ASSETS/LIABILITIES

	The Group	
	2019 RM	2018 RM
<u>Deferred tax assets</u>		
At 1 January	2,155,621	1,681,320
Transfer from profit or loss (Note 9)	91,083	448,594
Transfer to other comprehensive expenses	30,336	37,904
Foreign currency translation differences	18,457	(12,197)
<b>At 31 December</b>	<b>2,295,497</b>	<b>2,155,621</b>
<u>Deferred tax liabilities</u>		
At 1 January	680,550	1,122,761
Transfer to profit or loss (Note 9)	(275,424)	(435,107)
Foreign currency translation differences	2,715	(7,104)
<b>At 31 December</b>	<b>407,841</b>	<b>680,550</b>

The net deferred tax liabilities and assets are in respect of the tax effects of the following:-

	The Group Deferred Tax (Assets)/Liabilities	
	2019 RM	2018 RM
Temporary differences arising from property, plant and equipment	224,549	462,997
Others	(2,112,205)	(1,938,068)
	<b>(1,887,656)</b>	<b>(1,475,071)</b>

## Notes To The Financial Statements (cont'd)

### 16. DEFERRED TAX ASSETS/LIABILITIES (CONT'D)

As mentioned in Note 3, the tax effects of deductible temporary differences, unused tax losses and unused tax credits which would give rise to deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. As of 31 December 2019, the estimated amount of net deferred tax assets, calculated at the current tax rate which has not been recognised in the financial statements of the Group due to uncertainty of its realisation, is as follows:-

	<b>The Group Deferred Tax Assets/(Liabilities)</b>	
	<b>2019 RM</b>	<b>2018 RM</b>
Unutilised tax losses	1,020,037	1,197,575
Unabsorbed capital allowances	-	130,084
Temporary differences arising from property, plant and equipment	254,880	14,160
	1,274,917	1,341,819

The unutilised tax losses and unabsorbed capital allowances are subject to the agreement of the tax authorities.

### 17. FIXED DEPOSITS WITH LICENSED BANKS

Fixed deposits with licensed banks of the Group at the end of the reporting period bore effective interest rates ranging from 0.25% to 3.35% (2018: 0.25% to 3.35%) per annum. The fixed deposits of the Group have maturity periods ranging from 30 to 365 days (2018: 30 to 365 days).

The fixed deposits of the Group amounting to RM2,068,434 (2018: RM1,961,948) are pledged to licensed banks as security for banking facilities granted to the Group as disclosed in Note 25 to the financial statements.

In the previous financial year, pursuant to the Service Agreements entered between TTES and its customer, TTES was required to pledge the fixed deposits with licensed bank amounted to RM1,176,576 as security for the bank guarantee which were provided for projects that were secured by TTES. As the availability period of the bank guarantee facility for these projects were more than a year, hence the fixed deposits with licensed banks were classified as non-current assets.

### 18. INVENTORIES

	<b>The Group</b>	
	<b>2019 RM</b>	<b>2018 RM</b>
Raw materials	4,945,032	4,119,988
Work-in-progress	5,001,806	3,257,330
Finished goods	5,154,611	6,333,353
	15,101,449	13,710,671
Recognised in profit or loss:-		
Inventories recognised as cost of sales	26,149,118	27,330,731
Reversal of inventories previously written down	(6,208)	-

The reversal of write-down was in respect of inventories sold above their carrying amounts during the financial year.

## Notes To The Financial Statements (cont'd)

### 19. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAID EXPENSES

Trade receivables of the Group comprise amounts outstanding for the provision of services and sale of goods. The credit periods granted to the customers range from 30 to 180 days (2018: 30 to 180 days).

	2019 RM	The Group 2018 RM
Trade receivables	88,438,785	108,977,255
Allowance for impairment losses	(2,139,074)	(2,131,398)
	<b>86,299,711</b>	<b>106,845,857</b>

Movement in allowance for impairment losses on trade receivables is as follows:-

	2019 RM	The Group 2018 RM
At 1 January	2,131,398	1,783,238
Allowance for impairment losses	-	932,838
Writeback of allowance for impairment losses	(2,200)	(10,000)
Written off as bad debts	-	(568,190)
Exchange difference	9,876	(6,488)
At 31 December	<b>2,139,074</b>	<b>2,131,398</b>

Included in trade receivables of the Group are the following amount owing by the related parties:-

	2019 RM	The Group 2018 RM
AMT Engineering Sdn. Bhd.	7,495	-
Tenaga-Tech (M) Sdn. Bhd.	50,599	-
	<b>58,094</b>	<b>-</b>

The said amount, which arises mainly from trade transactions, is unsecured, interest-free and repayable on demand. The amount owing is to be settled in cash.

The related parties and their relationships with the Group are as follows:-

Name of related parties	Relationship
A & I Engine Rebuilders Sdn. Bhd.	A company in which Sia Chiok Meng, a director of a subsidiary, is also a director and has a financial interest.
AMT Engineering Sdn. Bhd.	A company in which Sia Chiok Meng, a director of a subsidiary, is also a director and has a financial interest.
Tenaga-Tech (M) Sdn. Bhd.	A company in which Mohd Shukri Bin Hitam and Fauziah Binti Hamlawi, directors of a subsidiary, are also directors and have financial interest.

## Notes To The Financial Statements (cont'd)

### 19. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAID EXPENSES (CONT'D)

Transactions undertaken with related parties during the financial year are as follows:-

	The Group	
	2019 RM	2018 RM
<b>A &amp; I Engine Rebuilders Sdn. Bhd.</b>		
Sales	-	380
<b>AMT Engineering Sdn. Bhd.</b>		
Sales	19,769	5,410
Purchases	1,450	4,668
Rental expense	144,000	144,000
<b>Tenaga-Tech (M) Sdn. Bhd.</b>		
Sales	52,904	42,975
Purchases	106,063	87,336
Other expenses	5,302	9,708
Other income	12,789	10,675

Other receivables, deposits and prepaid expenses consist of:-

	The Group		The Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Other receivables	4,781,847	3,960,723	53,694	46,439
Deposits	1,674,468	1,864,851	4,850	4,950
Prepaid expenses	923,795	901,657	21,235	24,699
	7,380,110	6,727,231	79,779	76,088

### 20. AMOUNTS OWING BY/(TO) SUBSIDIARIES

	The Company	
	2019 RM	2018 RM
Amount owing by:-		
Advances	2,989,079	3,343,579
Non-trade balances	162,000	1,316,671
	3,151,079	4,660,250
Allowance for impairment losses	(2,989,079)	(4,487,450)
	162,000	172,800
Amount owing to:-		
Non-trade balances	(3,431,325)	(8,321,259)

## Notes To The Financial Statements (cont'd)

### 20. AMOUNTS OWING BY/(TO) SUBSIDIARIES (CONT'D)

	The Company	
	2019 RM	2018 RM
Allowance for impairment losses:-		
At 1 January	(4,487,450)	(3,244,451)
Allowance for impairment losses	-	(1,242,999)
Writeback of allowance for impairment losses	271,455	-
Written off as bad debts	1,226,916	-
<b>At 31 December</b>	<b>(2,989,079)</b>	<b>(4,487,450)</b>

The amounts owing arose mainly from unsecured advances and payments made on behalf. In the previous financial year, the amount arising from unsecured advances bear interest ranging from 3.0% to 4.9% per annum and was partially settled in cash and waiver of debt. Whilst, the amount arising from payments made on behalf is interest-free. The amount owing is to be settled in cash.

### 21. SHORT-TERM INVESTMENTS

	The Group		The Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Unit trust	10,684,259	13,288,430	9,219,642	11,858,212
<b>Fair value</b>	<b>10,684,259</b>	<b>13,288,430</b>	<b>9,219,642</b>	<b>11,858,212</b>

### 22. SHARE CAPITAL

	The Group/The Company			
	2019 Number of Shares	2018 Number of Shares	2019 RM	2018 RM
<b>Issued and fully paid-up</b>				
At 1 January/31 December	1,053,435,130	1,053,435,130	118,925,352	118,925,352

The holders of ordinary shares (except treasury shares) are entitled to receive dividends as and when declared by the Company, and are entitled to one vote per ordinary share at meetings of the Company. The ordinary shares have no par value.

### 23. TREASURY SHARES

During the financial year, the Company did not purchase its issued ordinary shares from the open market. The shares purchased are being held as treasury shares in accordance with Section 127(6) of the Companies Act 2016 and are presented as a deduction from total equity.

As at 31 December 2019, the Company held 5,466,600 (2018: 5,466,600) treasury shares at a carrying amount of RM663,237 (2018: RM663,237).

As at 31 December 2019, the number of outstanding ordinary shares in issue after the set-off of 5,466,600 (2018: 5,466,600) treasury shares held by the Company is 1,047,968,530 (2018: 1,047,968,530) ordinary shares.

## Notes To The Financial Statements (cont'd)

### 24. RESERVES

	The Group		The Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Non-distributable:-				
Foreign currency translation reserve	29,781,778	27,672,528	-	-
Statutory reserve	13,008,627	9,110,850	-	-
Distributable:-				
Retained earnings	215,919,304	169,995,037	29,738,270	25,329,435
	258,709,709	206,778,415	29,738,270	25,329,435

#### Foreign currency translation reserve

Foreign currency translation differences arose from the translation of the financial statements of foreign subsidiaries and the Group's share of an associate's foreign currency translation differences are taken to the foreign currency translation reserve as described in the significant accounting policies.

#### Statutory reserve

The statutory reserve is maintained by the Group's subsidiary in Taiwan in accordance with the regulations in that country.

### 25. TERM LOANS

	The Group	
	2019 RM	2018 RM
Current liabilities	843,865	3,914,913
Non-current liabilities	-	7,533,055
	843,865	11,447,968

The non-current portion is repayable as follows:-

Later than one year but not later than five years	-	7,533,055
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(a) The term loans are secured by:-

- (i) legal charges over certain freehold land and buildings of the Group as disclosed in Note 11 to the financial statements;
- (ii) legal charges over the long-term leasehold land and buildings of the Group as disclosed in Notes 11 and 12 to the financial statements;
- (iii) corporate guarantees of the Company; and
- (iv) fixed deposits as disclosed in Note 17 to the financial statements.

(b) During the financial year, certain term loans have been fully settled and the legal charges over the freehold land and buildings of the Group as per mentioned above (a)(i) have been discharged.

## Notes To The Financial Statements (cont'd)

### 25. TERM LOANS (CONT'D)

(c) The interest rate profile of the term loans is summarised below:-

	Effective Interest Rate		The Group	
	2019 %	2018 %	2019 RM	2018 RM
Floating rate term loans	3.40 - 3.76	1.40 - 3.40	843,865	11,447,968

### 26. HIRE PURCHASE PAYABLES

	The Group 2018 RM
Total outstanding	2,356,236
Less: Interest-in-suspense	(152,706)
Present value of payments	2,203,530
Less: Amount due within 12 months (included under current liabilities)	(862,253)
Non-current portion	1,341,277

The non-current portion is payable as follows:-

Later than one year but not later than five years	1,341,277
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- (a) The hire purchase payables have been represented as 'lease liabilities' as shown in Note 27 to the financial statement following the application of MFRS 16 by the Group using the modified retrospective approach.
- (b) In the previous financial year, the hire purchase arrangements were expiring from 1 to 3 years. The interest rates implicit in the hire purchase obligations range from 2.80% to 5.28% per annum.
- (c) In the previous financial year, the Group's hire purchase payables were secured by the financial institutions' charge over the assets under hire purchase as disclosed in Note 11 to the financial statements.

## Notes To The Financial Statements (cont'd)

### 27. LEASE LIABILITIES

	The Group 2019 RM	The Company 2019 RM
At 1 January		
- Initial application of MFRS 16	14,141,859	189,912
Interest expense recognised in profit and loss	665,726	9,480
Repayment of principal	(2,366,158)	(92,640)
Repayment of interest expense	(665,726)	(9,480)
Addition	3,146,663	-
Exchange difference	41,590	-
<b>At 31 December</b>	<b>14,963,954</b>	<b>97,272</b>
Analysed by:-		
Current liabilities	3,033,211	97,272
Non-current liabilities	11,930,743	-
<b>At 31 December</b>	<b>14,963,954</b>	<b>97,272</b>

The comparative information is not presented as the Group and the Company have applied MFRS 16 using the modified retrospective approach.

### 28. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES

Trade payables of the Group comprise amounts outstanding for trade purchases. The credit periods granted to the Group for trade purchases range from 30 to 90 days (2018: 30 to 90 days). Included in trade payables is Nil (2018: RM6,365) owing to a related party.

Included in other payables is RM3,100 (2018: Nil) owing to a related party.

Other payables and accrued expenses consist of:-

	The Group		The Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Other payables	30,531,243	29,894,936	5,750	28,481
Accrued expenses	39,306,752	36,364,703	3,882,773	3,356,896
	69,837,995	66,259,639	3,888,523	3,385,377
Less: Other payables (included under non-current liabilities)	(2,714,783)	(2,792,672)	-	-
<b>Current liabilities</b>	<b>67,123,212</b>	<b>63,466,967</b>	<b>3,888,523</b>	<b>3,385,377</b>

## Notes To The Financial Statements (cont'd)

### 28. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES (CONT'D)

Included in other payables are defined benefit plan as detailed below:-

	<b>2019</b>	<b>The Group</b>
	<b>RM</b>	<b>2018</b>
		<b>RM</b>
Defined benefit plan (Overseas subsidiaries)		
- Taiwan	2,128,431	2,156,890
- Philippines	194,474	201,538
- Indonesia	391,878	434,244
	2,714,783	2,792,672

(a) Defined benefit plan – Taiwan

	<b>2019</b>	<b>The Group</b>
	<b>RM</b>	<b>2018</b>
		<b>RM</b>
Fair value of plan assets	(6,367,119)	(5,876,339)
Present value of plan obligations	8,495,550	8,033,229
	2,128,431	2,156,890

The Group contributes to a defined benefit plan that provides retirement benefits for employees upon retirement based on the following:-

- i) 2 months average salary for each year for the first 15 years of working; and
- ii) 1 month average salary for each year subsequent to 15 years of working.

A maximum entitlement for a retired employee is 45 months average salary. The average salary of a retired employee is calculated based on the average 6 months' salary prior to his retirement date.

Plan assets comprise:-

	<b>2019</b>	<b>The Group</b>
	<b>RM</b>	<b>2018</b>
		<b>RM</b>
Cash at bank	1,035,930	827,388
Short-term investments	273,149	180,404
Debentures	448,882	483,623
Fixed income investments	1,102,148	933,750
Equity securities	2,884,942	2,975,778
Others	622,068	475,396
	6,367,119	5,876,339

## Notes To The Financial Statements (cont'd)

### 28. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES (CONT'D)

(a) Defined benefit plan – Taiwan (Cont'd)

Movement in the present value of defined benefit obligations:-

	The Group	
	2019 RM	2018 RM
At 1 January	8,033,229	8,022,735
Current service costs and interest	62,208	127,281
Actuarial losses/(gains) in other comprehensive income	332,059	(4,388)
Defined plan payable	-	(30,694)
Exchange difference	68,054	(81,705)
<b>At 31 December</b>	<b>8,495,550</b>	<b>8,033,229</b>

Movement in the fair value of plan assets:-

	The Group	
	2019 RM	2018 RM
At 1 January	5,876,339	5,554,990
Expected return on plan assets	81,233	82,934
Actuarial gains in other comprehensive income	180,380	144,483
Contribution paid into the plan	176,763	177,922
Defined plan payable	-	(30,695)
Exchange difference	52,404	(53,295)
<b>At 31 December</b>	<b>6,367,119</b>	<b>5,876,339</b>

Expenses recognised in profit or loss:-

	The Group	
	2019 RM	2018 RM
Current service costs and interests	62,208	127,281
Expected return on plan assets	(81,233)	(82,934)
<b>Net benefit expense</b>	<b>(19,025)</b>	<b>44,347</b>

Actuarial gains and losses recognised directly in other comprehensive income:-

	The Group	
	2019 RM	2018 RM
Actuarial (losses)/gains recognised during the year	(121,342)	186,775

## Notes To The Financial Statements (cont'd)

### 28. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES (CONT'D)

#### (a) Defined benefit plan – Taiwan (Cont'd)

The Group's defined benefit plan based on the actuarial valuation performed by an independent actuary adopting the Projected Unit Credit With Service Increment method, with the following principal actuarial assumptions:-

	2019	The Group 2018
i) Retirement age	65	65
ii) Disability rate (per annum)	10% of mortality rate	10% of mortality rate
iii) Discount rate (per annum)	1.00%	1.375%
iv) Expected rate of salary increases (per annum)	3.00%	3.00%

	2019 (Decrease)/ Increase RM	The Group 2018 (Decrease)/ Increase RM
<b>Effect on defined benefit obligations</b>		
Discount rate (per annum)		
- strengthened by 0.25%	(328,470)	(302,242)
- weakened by 0.25%	345,253	317,950
Expected rate of salary increases (per annum)		
- strengthened by 0.25%	333,451	307,794
- weakened by 0.25%	(319,115)	(294,117)

#### (b) Defined benefit plan – Philippines

The Group conforms to the minimum regulatory benefit under prevailing law and regulations which is of the defined benefit type.

The normal retirement age is 60. The plan provides a benefit equal to 22.5 days' salary for every year of credited service. The regulatory benefits are paid in lump sum upon retirement.

## Notes To The Financial Statements (cont'd)

### 28. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES (CONT'D)

(b) Defined benefit plan – Philippines (Cont'd)

Movement in the present value of defined benefit obligations:-

	The Group	
	2019 RM	2018 RM
At 1 January	201,538	240,191
Current service costs and interest	31,365	34,757
Actuarial gains in other comprehensive income	(43,406)	(65,268)
Exchange difference	4,977	(8,142)
<b>At 31 December</b>	<b>194,474</b>	<b>201,538</b>

Expenses recognised in profit or loss:-

	The Group	
	2019 RM	2018 RM
Current service costs and interests	31,365	34,757

Actuarial gains and losses recognised directly in other comprehensive income:-

	The Group	
	2019 RM	2018 RM
Actuarial gain recognised during the year	43,406	65,268

The Group defined benefit plan based on the actuarial valuation performed by an independent actuary adopting the Projected Unit Credit method, with the following principal actuarial assumptions:-

	The Group	
	2019	2018
i) Retirement age	60	60
ii) Discount rate (per annum)	5.16%	7.49%
iii) Expected rate of salary increases (per annum)	2.00%	2.00%

## Notes To The Financial Statements (cont'd)

### 28. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES (CONT'D)

(b) Defined benefit plan – Philippines (Cont'd)

	<b>2019</b>	<b>2018</b>
	<b>(Decrease)/ Increase RM</b>	<b>(Decrease)/ Increase RM</b>
<b>The Group</b>		
<b>Effect on defined benefit obligations</b>		
Discount rate (per annum)		
- strengthened by 1%	(2,415)	(2,983)
- weakened by 1%	2,535	3,132
Expected rate of salary increases (per annum)		
- strengthened by 1%	2,589	3,272
- weakened by 1%	(2,512)	(3,170)

(c) Defined benefit plan – Indonesia

The Group conforms to the obligations relating to the employee benefits due under the prevailing law and regulations.

Movement in the present value of defined benefit obligations:-

	<b>2019</b>	<b>2018</b>
	<b>RM</b>	<b>RM</b>
<b>The Group</b>		
At 1 January	434,244	517,391
Current service costs and interest	25,289	105,345
Actuarial gains in other comprehensive income	(82,270)	(145,768)
Defined plan payable	-	(21,467)
Exchange difference	14,615	(21,257)
<b>At 31 December</b>	<b>391,878</b>	<b>434,244</b>

Expenses recognised in profit or loss:-

	<b>2019</b>	<b>2018</b>
	<b>RM</b>	<b>RM</b>
<b>The Group</b>		
Current service costs and interests	25,289	105,345

## Notes To The Financial Statements (cont'd)

### 28. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES (CONT'D)

(c) Defined benefit plan – Indonesia (Cont'd)

Actuarial gains and losses recognised directly in other comprehensive income:-

	<b>The Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>RM</b>	<b>RM</b>
Actuarial gains recognised during the year	82,270	145,768

The Group defined benefit plan based on the actuarial valuation performed by an independent actuary adopting the Projected Unit Credit method, with the following principal actuarial assumptions:-

	<b>The Group</b>	
	<b>2019</b>	<b>2018</b>
i) Retirement age	55	55
ii) Disability rate (per annum)	1% of mortality rate	1% of mortality rate
iii) Discount rate (per annum)	7.10%	8.20%
iv) Expected rate of salary increases (per annum)	8.00%	10.00%

	<b>The Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>(Decrease)/ Increase</b>	<b>(Decrease)/ Increase</b>
	<b>RM</b>	<b>RM</b>
<b>Effect on defined benefit obligations</b>		
Discount rate (per annum)		
- strengthened by 1%	(18,159)	(32,677)
- weakened by 1%	20,216	37,682
Expected rate of salary increases (per annum)		
- strengthened by 1%	23,319	40,970
- weakened by 1%	(21,257)	(36,094)

## Notes To The Financial Statements (cont'd)

### 29. DIVIDENDS

	<b>The Group/The Company</b>	
	<b>2019</b>	<b>2018</b>
	<b>RM</b>	<b>RM</b>
First interim single-tier dividend of 0.7 sen per ordinary share in respect of the financial year ended 31 December 2018, paid on 21 December 2018	-	7,335,779
Second interim single-tier dividend of 0.8 sen per ordinary share in respect of the financial year ended 31 December 2018, paid on 25 March 2019	8,383,748	-
First interim single-tier dividend of 1.0 sen per ordinary share in respect of the current financial year, paid on 27 September 2019	10,479,685	-
	18,863,433	7,335,779

On 21 February 2020, the Company declared and approved a second interim single-tier dividend of 1.5 sen per ordinary share on 1,047,968,530 ordinary shares, payable on 13 April 2020, in respect of the financial year ended 31 December 2019 amounting to RM15,719,528. The financial statements for the current financial year do not reflect this interim dividend. Such dividend will be accounted for in the shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2020.

### 30. FINANCIAL INSTRUMENTS

The Group's activities are exposed to a variety of market risk (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

#### (a) Financial Risk Management Policies

The Group's policies in respect of the major areas of treasury activity are as follows:-

##### Market Risk

#### (i) Foreign currency risk

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than the respective functional currencies of entities within the Group. The currencies giving rise to this risk are primarily United States Dollar, Singapore Dollar, New Taiwan Dollar and Philippine Peso. Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level. The Group also holds cash and cash equivalents denominated in foreign currencies for working capital purposes.

## Notes To The Financial Statements (cont'd)

### 30. FINANCIAL INSTRUMENTS (CONT'D)

#### (a) Financial Risk Management Policies (Cont'd)

##### Market Risk (Cont'd)

##### (i) Foreign currency risk (Cont'd)

The Group's exposure to foreign currency is as follows:-

The Group 2019	Singapore Dollar RM	Ringgit Malaysia RM	United States Dollar RM	Philippine Peso RM	New Taiwan Dollar RM	Others* RM	Total RM
<u>Financial assets</u>							
Trade receivables	9,864,859	14,931,136	12,995,511	4,564,188	43,732,810	211,207	86,299,711
Other receivables	1,271,329	271,581	1,163,212	926,722	747,833	48,065	4,428,742
Short-term investments	-	8,623,912	2,060,347	-	-	-	10,684,259
Fixed deposits with licensed banks	9,584,143	4,307,571	-	-	3,683,988	-	17,575,702
Cash and bank balances	26,749,603	15,688,479	40,519,546	1,075,934	112,699,723	427,921	197,161,206
	47,469,934	43,822,679	56,738,616	6,566,844	160,864,354	687,193	316,149,620
<u>Financial liabilities</u>							
Trade payables	1,380,638	3,107,696	675,895	282,998	11,350,436	91,684	16,889,347
Other payables and accrued expenses	4,992,552	6,735,006	334,860	366,591	52,487,206	133,835	65,050,050
Term loans	843,865	-	-	-	-	-	843,865
	7,217,055	9,842,702	1,010,755	649,589	63,837,642	225,519	82,783,262
Net financial assets	40,252,879	33,979,977	55,727,861	5,917,255	97,026,712	461,674	233,366,358
Less: Net financial assets denominated in the respective entities' functional currencies	(40,600,139)	(33,979,977)	-	(5,917,255)	(97,026,712)	(456,425)	(177,980,508)
Currency exposure	(347,260)	-	55,727,861	-	-	5,249	55,385,850

\* Denominated in Euro, Great Britain Pound and Indonesian Rupiah.

## Notes To The Financial Statements (cont'd)

### 30. FINANCIAL INSTRUMENTS (CONT'D)

#### (a) Financial Risk Management Policies (Cont'd)

##### Market Risk (Cont'd)

##### (i) Foreign currency risk (Cont'd)

The Group's exposure to foreign currency is as follows:- (Cont'd)

The Group 2018	Singapore Dollar RM	Ringgit Malaysia RM	United States Dollar RM	Philippine Peso RM	New Taiwan Dollar RM	Others* RM	Total RM
<u>Financial assets</u>							
Trade receivables	6,717,339	16,033,345	22,354,748	2,023,761	59,613,633	103,031	106,845,857
Other receivables	499,634	395,491	730,561	760,614	1,306,529	46,598	3,739,427
Short-term investments	-	13,288,430	-	-	-	-	13,288,430
Fixed deposits with licensed banks	465,880	4,337,657	-	-	-	-	4,803,537
Cash and bank balances	18,959,290	18,510,846	29,762,772	834,775	64,240,135	683,784	132,991,602
	26,642,143	52,565,769	52,848,081	3,619,150	125,160,297	833,413	261,668,853
<u>Financial liabilities</u>							
Trade payables	1,666,679	4,621,401	554,083	195,554	11,051,344	28,750	18,117,811
Other payables and accrued expenses	5,136,882	6,749,837	460,261	283,607	49,153,960	31,502	61,816,049
Term loans	2,526,641	-	-	-	8,921,327	-	11,447,968
Hire purchase payables	-	2,203,530	-	-	-	-	2,203,530
	9,330,202	13,574,768	1,014,344	479,161	69,126,631	60,252	93,585,358
Net financial assets	17,311,941	38,991,001	51,833,737	3,139,989	56,033,666	773,161	168,083,495
Less: Net financial assets denominated in the respective entities' functional currencies	(17,651,142)	(38,991,001)	-	(3,139,989)	(56,033,666)	(761,789)	(116,577,587)
Currency exposure	(339,201)	-	51,833,737	-	-	11,372	51,505,908

\* Denominated in Euro, Great Britain Pound and Indonesian Rupiah.

## Notes To The Financial Statements (cont'd)

### 30. FINANCIAL INSTRUMENTS (CONT'D)

#### (a) Financial Risk Management Policies (Cont'd)

##### (i) Foreign currency risk (Cont'd)

<b>The Company 2019</b>	<b>Ringgit Malaysia RM</b>	<b>United States Dollar RM</b>	<b>Total RM</b>
<u>Financial assets</u>			
Short-term investments	7,159,295	2,060,347	9,219,642
Cash and bank balances	1,933,175	369,087	2,302,262
	9,092,470	2,429,434	11,521,904
<u>Financial liability</u>			
Amount owing to subsidiaries	-	3,431,325	3,431,325
Net financial asset/(liability)	9,092,470	(1,001,891)	8,090,579
Less: Net financial asset denominated in the entity's functional currency	(9,092,470)	-	(9,092,470)
Currency exposure	-	(1,001,891)	(1,001,891)
<b>The Company 2018</b>	<b>Ringgit Malaysia RM</b>	<b>United States Dollar RM</b>	<b>Total RM</b>
<u>Financial asset</u>			
Cash and bank balances	1,872,136	379,860	2,251,996
<u>Financial liability</u>			
Amount owing to subsidiaries	700,000	7,621,259	8,321,259
Net financial asset/(liability)	1,172,136	(7,241,399)	(6,069,263)
Less: Net financial asset denominated in the entity's functional currency	(1,172,136)	-	(1,172,136)
Currency exposure	-	(7,241,399)	(7,241,399)

## Notes To The Financial Statements (cont'd)

### 30. FINANCIAL INSTRUMENTS (CONT'D)

#### (a) Financial Risk Management Policies (Cont'd)

##### (i) Foreign currency risk (Cont'd)

##### Foreign Currency Risk Sensitivity Analysis

The following table details the sensitivity analysis to a reasonably possible change in the foreign currencies at the end of the reporting period, with all other variables held constant:-

	The Group		The Company	
	2019 Increase/ (Decrease) RM	2018 Increase/ (Decrease) RM	2019 Increase/ (Decrease) RM	2018 Increase/ (Decrease) RM
Effects on profit after taxation/equity				
Singapore Dollar:				
- strengthened by 5%	(17,363)	(16,960)	-	-
- weakened by 5%	17,363	16,960	-	-
United States Dollar:				
- strengthened by 5%	2,786,393	2,591,687	(50,095)	(362,070)
- weakened by 5%	(2,786,393)	(2,591,687)	50,095	362,070
Others*:				
- strengthened by 5%	262	569	-	-
- weakened by 5%	(262)	(569)	-	-

\* Denominated in Euro, Great Britain Pound and Indonesian Rupiah.

##### (ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises mainly from long-term borrowings with variable rates. The Group's policy is to obtain the most favourable interest rates available and by maintaining a balanced portfolio of mix of fixed and floating rate borrowings.

The Group's fixed deposits with licensed banks and hire purchase payables are carried at amortised cost. Therefore, they are not subject to interest rate risk as defined in MFRS 7 since neither carrying amounts nor the future cash flows will fluctuate because of a change in market interest rates.

The Group's exposure to interest rate risk based on the carrying amounts of the financial instruments at the end of the reporting period is disclosed in Note 25 to the financial statements.

##### Interest Rate Risk Sensitivity Analysis

An increase of 100 basis points in interest rates of floating rate term loans at the end of the reporting period would have decreased the Group's profit after taxation by RM7,004 (2018: RM96,200). The analysis assumes that all other variables remain constant. A decrease of 100 basis points in the interest rates would have had an equal but opposite effect on the Group's profit after taxation. The Company does not have any floating rate borrowings and hence, no sensitivity analysis is presented.

## Notes To The Financial Statements (cont'd)

### 30. FINANCIAL INSTRUMENTS (CONT'D)

#### (a) Financial Risk Management Policies (Cont'd)

##### (iii) Equity price risk

The Group's principal exposure to equity price risk arises mainly from changes in quoted investment prices. The Group manages its exposure to equity price risk by maintaining a portfolio of equities with different risk profiles.

##### Equity Price Risk Sensitivity Analysis

If prices for quoted investments at the end of the reporting period strengthened by 10% (2018: 10%) with all other variables being held constant, the Group's and the Company's profit after taxation or other comprehensive income would have increased by RM1,068,426 and RM921,964 (2018: RM1,328,843 and RM1,185,821) respectively. A 10% (2018: 10%) weakening in the quoted prices would have had an equal but opposite effect on the Group's and the Company's profit after taxation or other comprehensive income.

##### (iv) Credit risk

The Group's exposure to credit risk, or the risk of counterparties defaulting, arises mainly from receivables. The Group manages its exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis. For other financial assets (including cash and bank balances), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

The Company's exposure to credit risk arises principally from loans and advances to subsidiaries, and corporate guarantee given to financial institutions for credit facilities granted to certain subsidiaries. The Company monitors the results of these subsidiaries regularly and repayments made by the subsidiaries.

##### Credit risk concentration profile

The Group's major concentration of credit risk relates to the amounts owing by 2 (2018: 2) customers which constituted approximately 29% (2018: 41%) of its total trade receivables as at the end of the reporting period.

##### Exposure to credit risk

At the end of the reporting period, the maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position of the Group and of the Company after deducting any allowance for impairment losses (where applicable).

In addition, the Company's maximum exposure to credit risk also includes corporate guarantees provided to its subsidiaries as disclosed under the 'Maturity Analysis' of item (v) below, representing the outstanding banking facilities of the subsidiaries as at the end of the reporting period. These corporate guarantees have not been recognised in the Company's financial statements since their fair value on initial recognition were not material.

## Notes To The Financial Statements (cont'd)

### 30. FINANCIAL INSTRUMENTS (CONT'D)

#### (a) Financial Risk Management Policies (Cont'd)

##### (iv) Credit risk (Cont'd)

##### Assessment of impairment losses

At each reporting date, the Group assesses whether any of the financial assets at amortised cost are credit impaired.

The gross carrying amounts of financial assets are written off when there is no reasonable expectation of recovery (i.e. the debtor does not have assets or sources of income to generate sufficient cash flows to repay the debt) despite the fact that they are still subject to enforcement activities.

- Trade receivables

The Group applies the simplified approach to measure expected credit losses which uses a lifetime expected credit loss allowances for all trade receivables.

To measure the expected credit losses, trade receivables (including related parties) have been grouped based on shared credit risk characteristics and the days past due.

For certain large customers or customers with a high risk of default, the Group assesses the risk of loss of each customer individually based on their financial information, past trends of payments and external credit rating, where applicable.

Also, the Group considers any trade receivables having financial difficulty or in default with significant balances outstanding for more than a year are deemed credit impaired and assesses for their risk of loss individually.

The expected loss rates are based on the payment profiles of sales over a period of one month from the measurement date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle their debts.

The information about the exposure to credit risk and the loss allowances calculated under MFRS 9 for trade receivables are summarised below:-

The Group 2019	Gross Amount RM	Individual Impairment RM	Collective Impairment RM	Carrying Amount RM
Not past due	72,997,238	-	-	72,997,238
Past due:-				
- less than 1 month	7,650,548	-	-	7,650,548
- 1 to 9 months	5,608,690	-	(103,035)	5,505,655
- over 9 months	2,182,309	(1,963,552)	(72,487)	146,270
<b>Trade receivables</b>	<b>88,438,785</b>	<b>(1,963,552)</b>	<b>(175,522)</b>	<b>86,299,711</b>

## Notes To The Financial Statements (cont'd)

### 30. FINANCIAL INSTRUMENTS (CONT'D)

#### (a) Financial Risk Management Policies (Cont'd)

#### (iv) Credit risk (Cont'd)

##### Assessment of impairment losses (Cont'd)

- Trade receivables (Cont'd)

The information about the exposure to credit risk and the loss allowances calculated under MFRS 9 for trade receivables are summarised below:- (Cont'd)

The Group 2018	Gross Amount RM	Individual Impairment RM	Collective Impairment RM	Carrying Amount RM
Not past due	89,476,978	(115,116)	-	89,361,862
Past due:-				
- less than 1 month	10,103,676	(74,601)	-	10,029,075
- 1 to 9 months	8,273,172	(658,032)	(174,195)	7,440,945
- over 9 months	1,123,429	(1,109,454)	-	13,975
<b>Trade receivables</b>	<b>108,977,255</b>	<b>(1,957,203)</b>	<b>(174,195)</b>	<b>106,845,857</b>

The movement in the allowance for impairment losses is disclosed in Note 19 to the financial statements.

- Other receivables

The Group applies the 3-stage general approach to measuring expected credit losses for its other receivables. Under this approach, the Group assesses whether there is a significant increase in credit risk on the receivables by comparing their risk of default as at the reporting date with the risk of default as at the date of initial recognition based on available reasonable and supportable forward-looking information. Regardless of the assessment, a significant increase in credit risk is presumed if a receivable is more than 30 days past due in making a contractual payment.

The Group considers a receivable is credit impaired when the receivable is in significant financial difficulty, for instances, the receivable is in breach of financial covenants or insolvent. Receivables that are credit impaired are assessed individually while other receivables are assessed on a collective basis.

Based on the assessment performed, the identified impairment loss was immaterial and hence, it is not provided for.

- Fixed deposits with licensed banks, cash and bank balances

The Group considers these banks and financial institutions have low credit risks. In addition, some of the bank balances are insured by Government agencies. Therefore, the Group is of the view that the loss allowance is immaterial and hence, it is not provided for.

## Notes To The Financial Statements (cont'd)

### 30. FINANCIAL INSTRUMENTS (CONT'D)

#### (a) Financial Risk Management Policies (Cont'd)

##### (iv) Credit risk (Cont'd)

##### Assessment of impairment losses (Cont'd)

- Amount owing by subsidiaries

The Company applies the 3-stage general approach to measure expected credit losses for amount owing by subsidiaries. At the end of the reporting period, there was no indication that the amount owing is/are not recoverable other than those which had already impaired in the previous financial year.

The movements in the loss allowances are disclosed in Note 20 to the financial statements.

- Financial Guarantee Contracts

All of the financial guarantee contracts are considered to be performing, have low risks of default and historically there were no instances where these financial guarantee contracts were called upon by the parties of which the financial guarantee contracts were issued to. Accordingly, no loss allowances were identified based on 12-month expected credit losses.

##### (v) Liquidity risk

Liquidity risk arises mainly from general funding and business activities. The Group practises prudent risk management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities.

##### Maturity analysis

The following table sets out the maturity profile of the financial liabilities at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period):-

The Group 2019	Weighted Average Effective Interest Rate %	Carrying Amount RM	Contractual Undiscounted Cash Flows RM	Within 1 year RM	1 – 5 years RM	Over 5 years RM
<u>Non-derivative financial liabilities</u>						
Lease liabilities	2.80 - 5.25	14,963,954	19,593,182	3,612,250	7,339,684	8,641,248
Term loans	3.40 - 3.76	843,865	852,884	852,884	-	-
Trade payables	-	16,889,347	16,889,347	16,889,347	-	-
Other payables and accrued expenses	-	65,050,050	65,050,050	65,050,050	-	-
		<b>97,747,216</b>	<b>102,385,463</b>	<b>86,404,531</b>	<b>7,339,684</b>	<b>8,641,248</b>

## Notes To The Financial Statements (cont'd)

### 30. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(v) Liquidity risk (Cont'd)

Maturity analysis (Cont'd)

The following table sets out the maturity profile of the financial liabilities at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period):- (Cont'd)

The Group 2018	Weighted Average Effective Interest Rate %	Carrying Amount RM	Contractual Undiscounted Cash Flows RM	Within 1 year RM	1 – 5 years RM	Over 5 years RM
<u>Non-derivative financial liabilities</u>						
Hire purchase payables	2.80 - 4.54	2,203,530	2,356,236	958,129	1,398,107	-
Term loans	1.40 - 3.40	11,447,968	11,760,403	4,082,473	7,677,930	-
Trade payables	-	18,117,811	18,117,811	18,117,811	-	-
Other payables and accrued expenses	-	61,816,049	61,816,049	61,816,049	-	-
		<b>93,585,358</b>	<b>94,050,499</b>	<b>84,974,462</b>	<b>9,076,037</b>	<b>-</b>

The Company 2019	Carrying Amount RM	Contractual Undiscounted Cash Flows RM	Within 1 year RM
<u>Non-derivative financial liabilities</u>			
Lease liabilities	97,272	102,120	102,120
Other payables and accrued expenses	3,888,523	3,888,523	3,888,523
Amount owing to subsidiaries - interest-free	3,431,325	3,431,325	3,431,325
Financial guarantee contracts in relation to corporate guarantee given to subsidiaries	-	2,103,903	2,103,903
	<b>7,417,120</b>	<b>9,525,871</b>	<b>9,525,871</b>

## Notes To The Financial Statements (cont'd)

### 30. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(v) Liquidity risk (Cont'd)

Maturity analysis (Cont'd)

The following table sets out the maturity profile of the financial liabilities at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period):- (Cont'd)

The Company 2018	Carrying Amount RM	Contractual Undiscounted Cash Flows RM	Within 1 year RM
<u>Non-derivative financial liabilities</u>			
Other payables and accrued expenses	3,385,377	3,385,377	3,385,377
Amount owing to subsidiaries - interest-free	8,321,259	8,321,259	8,321,259
Financial guarantee contracts in relation to corporate guarantee given to subsidiaries	-	4,775,458	4,775,458
	11,706,636	16,482,094	16,482,094

(b) Capital Risk Management

The Group manages its capital to ensure that entities within the Group will be able to maintain an optimal capital structure so as to support its businesses and maximise shareholders value. To achieve this objective, the Group may make adjustments to the capital structure in view of changes in economic conditions, such as adjusting the amount of dividend payment, returning of capital to shareholders or issuing new shares.

The Group manages its capital based on debt-to-equity ratio. The Group's strategies were unchanged from the previous financial year. The debt-to-equity ratio is calculated as net debt divided by total equity. Net debt is calculated as external borrowings less cash and bank balances and fixed deposits with licensed banks.

There was no change in the Group's approach to capital management during the financial year.

The debt-to-equity ratio of the Company is not disclosed in the financial statements as the cash and bank balances and fixed deposits with licensed banks are in surplus position after net off with external borrowings.

The Group is also required to comply with certain loan covenants, failing which, the banks may call an event of default. The Group has complied with requirement.

## Notes To The Financial Statements (cont'd)

### 30. FINANCIAL INSTRUMENTS (CONT'D)

#### (c) Classification of Financial Instruments

	The Group 2019 RM	The Company 2019 RM
<b>Financial Assets</b>		
<u>Mandatorily at Fair Value through Profit or Loss</u>		
Short-term investments	10,684,259	9,219,642
<u>Amortised Cost</u>		
Trade receivables	86,299,711	-
Other receivables	4,428,742	53,694
Amount owing by subsidiaries	-	162,000
Fixed deposits with licensed banks	17,575,702	-
Cash and bank balances	197,161,206	2,302,262
	305,465,361	2,517,956
<b>Financial Liability</b>		
<u>Amortised Cost</u>		
Trade payables	16,889,347	-
Other payables and accrued expenses	65,050,050	3,888,523
Amount owing to subsidiaries	-	3,431,325
Term loans	843,865	-
	82,783,262	7,319,848
<b>Financial Assets</b>		
<u>Mandatorily at Fair Value through Profit or Loss</u>		
Short-term investments	13,288,430	11,858,212
<u>Amortised Cost</u>		
Trade receivables	106,845,857	-
Other receivables	3,739,427	46,439
Amount owing by subsidiaries	-	172,800
Fixed deposits with licensed banks	4,803,537	-
Cash and bank balances	132,991,602	2,251,996
	248,380,423	2,471,235
<b>Financial Liability</b>		
<u>Amortised Cost</u>		
Trade payables	18,117,811	-
Other payables and accrued expenses	61,816,049	3,385,377
Amount owing to subsidiaries	-	8,321,259
Term loans	11,447,968	-
Hire purchase payables	2,203,530	-
	93,585,358	11,706,636

## Notes To The Financial Statements (cont'd)

### 30. FINANCIAL INSTRUMENTS (CONT'D)

(d) Gains or Losses Arising from Financial Instruments

	The Group 2019 RM	The Company 2019 RM
<b>Financial Assets</b>		
<u>Mandatorily at Fair Value through Profit or Loss</u>		
Net gains recognised in profit or loss	179,852	151,633
<hr/>		
<u>Amortised Cost</u>		
Net gains recognised in profit or loss	972,372	575,386
<hr/>		
<b>Financial Liability</b>		
<u>Amortised Cost</u>		
Net losses recognised in profit or loss	(89,799)	-
<hr/>		
	The Group 2018 RM	The Company 2018 RM
<b>Financial Assets</b>		
<u>Mandatorily at Fair Value through Profit or Loss</u>		
Net gains recognised in profit or loss	286,796	242,993
<hr/>		
<u>Amortised Cost</u>		
Net losses recognised in profit or loss	(292,414)	(936,005)
<hr/>		
<b>Financial Liability</b>		
<u>Amortised Cost</u>		
Net losses recognised in profit or loss	(568,006)	(56,109)
<hr/>		

## Notes To The Financial Statements (cont'd)

### 30. FINANCIAL INSTRUMENTS (CONT'D)

#### (e) Fair Value Information

The fair values of the financial assets and financial liabilities of the Group and of the Company which are maturing within the next 12 months approximated their carrying amounts due to the relatively short-term maturity of the financial instruments or repayable on demand terms.

The following table sets out the fair value profile of financial instruments that are carried at fair value and those not carried at fair value at the end of the reporting period:-

The Group 2019	Fair Value Of Financial Instruments Carried At Fair Value			Fair Value Of Financial Instruments Not Carried At Fair Value			Total Fair Value	Carrying Amount
	Level 1 RM	Level 2 RM	Level 3 RM	Level 1 RM	Level 2 RM	Level 3 RM		
<u>Financial Asset</u> Short-term investments	-	10,684,259	-	-	-	-	10,684,259	10,684,259
<u>Financial Liability</u> Term loans	-	-	-	-	843,865	-	843,865	843,865
<b>The Group 2018</b>								
The Group 2018	Fair Value Of Financial Instruments Carried At Fair Value			Fair Value Of Financial Instruments Not Carried At Fair Value			Total Fair Value	Carrying Amount
	Level 1 RM	Level 2 RM	Level 3 RM	Level 1 RM	Level 2 RM	Level 3 RM		
<u>Financial Asset</u> Short-term investments	-	13,288,430	-	-	-	-	13,288,430	13,288,430
<u>Financial Liabilities</u> Hire purchase payables Term loans	-	-	-	-	2,204,118	-	2,204,118	2,203,530
	-	-	-	-	11,447,968	-	11,447,968	11,447,968

## Notes To The Financial Statements (cont'd)

### 30. FINANCIAL INSTRUMENTS (CONT'D)

#### (e) Fair Value Information (Cont'd)

The following table sets out the fair value profile of financial instruments that are carried at fair value and those not carried at fair value at the end of the reporting period:- (Cont'd)

The Company 2019	Fair Value Of Financial Instruments Carried At Fair Value			Fair Value Of Financial Instruments Not Carried At Fair Value			Total Fair Value	Carrying Amount
	Level 1 RM	Level 2 RM	Level 3 RM	Level 1 RM	Level 2 RM	Level 3 RM		
Financial Asset								
Short-term investments	-	9,219,642	-	-	-	-	9,219,642	9,219,642
<b>The Company 2018</b>								
Financial Asset								
Short-term investments	-	11,858,212	-	-	-	-	11,858,212	11,858,212

## Notes To The Financial Statements (cont'd)

### 30. FINANCIAL INSTRUMENTS (CONT'D)

#### (e) Fair Value Information (Cont'd)

##### (i) Fair Value of Financial Instruments Carried at Fair Value

- The fair value of short-term investments is determined by reference to statements provided by the respective financial institutions, with which the investments were entered into.
- There were no transfers between level 1 and level 2 during the financial year.

##### (ii) Fair Value of Financial Instruments Not Carried at Fair Value

The fair values, which are for disclosure purpose, have been determined using the following basis:-

The fair value of hire purchase payables and term loans determined by discounting the relevant future contractual cash flows using current market interest rates for similar instruments at the end of the reporting period. The interest rates used to discount the estimated cash flows are as follows:-

	<b>The Group</b>	
	<b>2019</b>	<b>2018</b>
	%	%
Hire purchase payables	-	2.80 - 4.54
Term loans	3.40 - 3.76	1.40 - 3.40

### 31. COMMITMENTS

#### (i) Operating lease commitments

The Group has applied MFRS 16 using the modified retrospective approach. As a result, the following information is disclosures required by MFRS 117 'Leases':-

##### Leases as lessee

	<b>The Group</b>
	<b>2018</b>
	<b>RM</b>
- Not later than one year	2,031,100
- Between one year and five years	4,116,424
- Later than five years	9,439,879
	15,587,403

The Group leases a number of type of right-of-use assets per Note 12 under non-cancellable operating leases.

## Notes To The Financial Statements (cont'd)

### 31. COMMITMENTS (CONT'D)

(i) Operating lease commitments (Cont'd)

Leases as lessor

	<b>The Group 2018 RM</b>
- Not later than one year	378,724
- Between one year and two years	223,465
	602,189

(ii) Capital commitments

As of 31 December 2019, the Group has the following capital commitments:-

	<b>2019 RM</b>	<b>The Group 2018 RM</b>
Purchase of property, plant and equipment	2,210,529	740,275

### 32. CASH FLOW INFORMATION

(a) The reconciliations of liabilities arising from financing activities are as follows:-

	<b>Bank Borrowings RM</b>	<b>Lease Liabilities RM</b>	<b>Total RM</b>
<b>The Group</b>			
<b>2019</b>			
At 1 January, as previously reported	11,447,968	-	11,447,968
Effect on adoption of MFRS 16	-	14,141,859	14,141,859
<u>Changes in Financing Cash Flows</u>			
Acquisition of new lease	-	3,146,663	3,146,663
Repayment of borrowing principal	(10,677,444)	(2,366,158)	(13,043,602)
Repayment of borrowing interests	(89,799)	(665,726)	(755,525)
Non-cash changes	163,140	707,316	870,456
At 31 December	843,865	14,963,954	15,807,819

## Notes To The Financial Statements (cont'd)

### 32. CASH FLOW INFORMATION (CONT'D)

(a) The reconciliations of liabilities arising from financing activities are as follows:- (Cont'd)

The Group	Bank Borrowings RM	Hire Purchase Payables RM	Total RM
<b>2018</b>			
At 1 January	28,297,207	348,211	28,645,418
<u>Changes in Financing Cash Flows</u>			
Proceeds from drawdown	-	2,400,000	2,400,000
Repayment of borrowing principal	(16,712,117)	(544,511)	(17,256,628)
Repayment of borrowing interests	(437,162)	(76,454)	(513,616)
Non-cash changes	300,040	76,284	376,324
At 31 December	11,447,968	2,203,530	13,651,498

The Company	Amount Owing to Subsidiaries RM	Lease Liabilities RM	Total RM
<b>2019</b>			
At 1 January, as previously reported	8,321,259	-	8,321,259
Effect on adoption of MFRS 16	-	189,912	189,912
<u>Changes in Financing Cash Flows</u>			
Repayment to subsidiaries	(4,851,365)	-	(4,851,365)
Repayment of borrowing principal	-	(92,640)	(92,640)
Repayment of borrowing interest	-	(9,480)	(9,480)
Non-cash changes	(38,569)	9,480	(29,089)
At 31 December	3,431,325	97,272	3,528,597

## Notes To The Financial Statements (cont'd)

### 32. CASH FLOW INFORMATION (CONT'D)

(a) The reconciliations of liabilities arising from financing activities are as follows:- (Cont'd)

The Company	Amount Owing to Subsidiaries RM	Term Loans RM	Total RM
<b>2018</b>			
At 1 January	7,531,022	2,037,933	9,568,955
<u>Changes in Financing Cash Flows</u>			
Advances	700,000	-	700,000
Repayment to subsidiaries	(108,255)	-	(108,255)
Repayment of borrowing principal	-	(2,037,933)	(2,037,933)
Repayment of borrowing interest	-	(56,109)	(56,109)
Non-cash changes	198,492	56,109	254,601
At 31 December	8,321,259	-	8,321,259

(b) The cash and cash equivalents comprise the following:-

	The Group		The Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Cash and bank balances	197,161,206	132,991,602	2,302,262	2,251,996
Fixed deposits with licensed banks	17,575,702	4,803,537	-	-
Short-term investments - unit trust	10,684,259	13,288,430	9,219,642	11,858,212
	225,421,167	151,083,569	11,521,904	14,110,208
Less: Fixed deposits pledged with licensed banks	(2,068,434)	(1,961,948)	-	-
Less: Fixed deposits with maturity period more than 3 months	(3,683,988)	(181,554)	-	-
Cash and cash equivalents	219,668,745	148,940,067	11,521,904	14,110,208

## Notes To The Financial Statements (cont'd)

### 32. CASH FLOW INFORMATION (CONT'D)

(c) The total cash outflows for leases as a lessee are as follows:-

	<b>The Group 2019 RM</b>	<b>The Company 2019 RM</b>
Payment of short-term leases	1,449,156	-
Payment of low value assets	29,410	-
Interest paid on lease liabilities	665,726	9,480
Payment of lease liabilities	2,366,158	92,640
	4,510,450	102,120

### 33. SIGNIFICANT EVENT OCCURRING AFTER THE REPORTING PERIOD

The outbreak of Coronavirus Disease 2019 (COVID-19) in early 2020 has affected the business and economic environments of the Group and hence, may impact its performance and financial position in the future. However, given the unpredictability associated with the COVID-19 outbreak and any further contingency measures that may be put in place by the governments and various private corporations, the potential financial impact of the COVID-19 outbreak on the Group's 2020 financial statements, if any, could not be reasonably quantified at this juncture.

### 34. INITIAL APPLICATION OF MFRS 16

The Group has adopted MFRS 16 using the modified retrospective approach under which the cumulative effect of initial application is recognised as an adjustment to the retained profits as at 1 January 2019 (date of initial application) without restating any comparative information.

The Group has applied MFRS 16 only to contracts that were previously identified as leases under MFRS 117 'Leases' and IC Interpretation 4 'Determining Whether an Arrangement Contains a Lease'. Therefore, MFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

#### (a) Lessee Accounting

At 1 January 2019, for leases that were classified as operating leases under MFRS 117, the Group measured the lease liabilities at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at that date of 4.9%. The right-of-use assets were measured at their carrying amount as if MFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at 1 January 2019.

The Group has used the following practical expedients in applying MFRS 16 for the first time:-

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied for the exemption not to recognise operating leases with a remaining lease term of less than 12 months as at 1 January 2019;
- Excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the lease contract contains options to extend or terminate the lease.

## Notes To The Financial Statements (cont'd)

### 34. INITIAL APPLICATION OF MFRS 16 (CONT'D)

#### (a) Lessee Accounting (Cont'd)

For leases that were classified as finance leases, the Group has recognised the carrying amount of the leased asset and lease liability immediately before 1 January 2019 as the carrying amount of the right-of-use asset and the lease liability as at the date of initial application.

The following table explains the difference between the operating lease commitments disclosed in the last financial year (determined under MFRS 117) and the lease liabilities recognised at 1 January 2019:-

	The Group RM	The Company RM
Operating lease commitment as at 31 December 2018 as disclosed in last financial year	15,587,403	-
Less: Exemption for short-term leases	(1,445,544)	-
	<hr/> 14,141,859	<hr/> -
Discounted using the incremental borrowing rate as at 1 January 2019	10,362,387	-
Add: Finance lease liabilities recognised as at 31 December 2018	2,203,530	-
Existing contracts assessed to be contained a lease under MFRS 16	1,575,942	189,912
	<hr/> 14,141,859	<hr/> 189,912
Lease liabilities recognised as at 1 January 2019	<hr/> 14,141,859	<hr/> 189,912

### 35. COMPARATIVE FIGURES

The following figures have been reclassified to conform with the presentation of the current financial year:-

	As Previously Reported RM	As Restated RM
<b>The Group</b>		
Consolidated Statements of Comprehensive Income and Other Comprehensive Income (Extract):-		
Administrative expenses	(45,053,083)	(44,130,245)
Net impairment losses on financial assets	-	(922,838)
	<hr/>	<hr/>
Statements of Financial Position (Extract):-		
Reserves	206,115,178	206,778,415
Treasury shares	-	(663,237)
	<hr/>	<hr/>

## Notes To The Financial Statements (cont'd)

### 35. COMPARATIVE FIGURES (CONT'D)

The following figures have been reclassified to conform with the presentation of the current financial year:- (Cont'd)

	<b>As Previously Reported RM</b>	<b>As Restated RM</b>
<b>The Company</b>		
Consolidated Statements of Comprehensive Income and Other Comprehensive Income (Extract):-		
Administrative expenses	(6,398,815)	(5,155,816)
Net impairment losses on financial assets	-	(1,242,999)
<hr/>		
Statements of Financial Position (Extract):-		
Reserves	24,666,198	25,329,435
Treasury shares	-	(663,237)
<hr/>		

### 36. FOREIGN EXCHANGE RATES

The principal closing foreign exchange rates used (expressed on the basis of one unit of foreign currency to Ringgit Malaysia equivalent) for the translation of foreign currency balances at the end of the reporting period are as follows:-

	<b>The Group/The Company</b>	
	<b>2019 RM</b>	<b>2018 RM</b>
Singapore Dollar	3.04	3.03
United States Dollar	4.09	4.14
Philippine Peso	0.08	0.08
New Taiwan Dollar	0.14	0.14
Euro	4.59	4.73
Chinese Renminbi	0.59	0.60
Indonesian Rupiah	0.00030	0.00030
<hr/>		

## Statement By Directors Pursuant To Section 251(2) Of The Companies Act 2016

We, **NG WAI PIN** and **DATO' HAJI JOHAR BIN MURAT @ MURAD**, being two of the directors of **FRONTKEN CORPORATION BERHAD**, state that, in the opinion of the directors, the financial statements set out on pages 50 to 137 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2019 and of their financial performance and cash flows for the financial year ended on that date.

Signed on behalf of the Board in accordance  
with a resolution of the directors,

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**NG WAI PIN**

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**DATO' HAJI JOHAR BIN MURAT @ MURAD**

12 May 2020

## Declaration By The Officer Primarily Responsible For The Financial Management Of The Company Pursuant To Section 251(1)(b) Of The Companies Act 2016

I, **HEE KOK HIONG**, MIA Membership Number:15526, being the officer primarily responsible for the financial management of **FRONTKEN CORPORATION BERHAD**, do solemnly and sincerely declare that the financial statements of the Group and of the Company set out on pages 50 to 137 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act 1960.

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**HEE KOK HIONG**

Subscribed and solemnly declared by  
the abovementioned **HEE KOK HIONG** at  
**KUALA LUMPUR** this 12th day of May 2020.

Before me,  
Datin Hajah Raihela Wancik (No. W-275)  
COMMISSIONER FOR OATHS

## List Of Properties

Details of the landed properties owned and leased by the Company and its subsidiaries are set out below:

Address	Description/ Existing use	Land area/ Built-up area sq m	Approximate age of building	Tenure	Audited net book value as at 31.12.2019 RM'000	Date of acquisition
<b>Frontken (Singapore) Pte Ltd (FS)</b>						
Pte Lot A12843 (to be known as Pte Lot A21020)  Bearing postal address: 156A Gul Circle Singapore 629614	2 factory buildings with mezzanine office and a 4-storey factory to house production facilities	11,154/ 11,213	23 years, 33 years & 9 years	Leasehold expiring on 19.07.2039	15,066	01.08.2001
<b>FS</b>						
Pte Lot A22490 (to be known as Pte Lot A1355601)  Bearing postal address: 15 Gul Drive Singapore 629466	4-storey factory building to house production facilities and R&D activities	4,877/ 3,147	18 years	Leasehold expiring on 30.04.2026	1,841	18.03.2005
<b>Frontken Malaysia Sdn Bhd (FM)</b>						
177296 Lot 38206 Pekan Baru Hicom Daerah Petaling Selangor Darul Ehsan  Bearing postal address: Lot 2-46, Jalan Subang Utama 7 Taman Perindustrian Subang Utama Seksyen 22 40300 Shah Alam Selangor Darul Ehsan	1½-storey detached factory building to house production facilities	2,023/ 1,006	23 years	Freehold	1,867	17.03.2003
<b>FM</b>						
177293 Lot 38196 Pekan Baru Hicom Daerah Petaling Selangor Darul Ehsan  Bearing postal address: Lot 2-47, Jalan Subang Utama 8 Taman Perindustrian Subang Utama Seksyen 22 40300 Shah Alam Selangor Darul Ehsan	Vacant industrial land	2,177/ -	N/A	Freehold	1,500	04.07.2007

## List Of Properties (cont'd)

Address	Description/ Existing use	Land area/ Built-up area	Approximate age of building	Tenure	Audited net book value as at 31.12.2019	Date of acquisition
		sq m			RM'000	
<b>FM</b>						
GRN 150384 & 150398 Lots 12049 & 12063 Mukim 14, Daerah Seberang Perai Tengah Penang	1½-storey semi- detached factory to house production facilities and R&D activities	604/ 597	17 years	Freehold	455	07.07.2003
Bearing postal address: No. 18, Jalan Pala 12 Kawasan Industri Ringan Permatang Tinggi 14100 Bukit Mertajam Penang						
GRN 150385 & 150399 Lots 12050 & 12064 Mukim 14, Daerah Seberang Perai Tengah Penang	1½-storey semi- detached factory to house production facilities and R&D activities	604/ 541	17 years	Freehold		
Bearing postal address: No. 20, Jalan Pala 12 Kawasan Industri Ringan Permatang Tinggi 14100 Bukit Mertajam Penang						
<b>FM</b>						
GRN 210078 Lot 4494 Sekyen 39 Bandar Kulim Daerah Kulim Kedah Darul Aman	Single-storey detached factory building to house production facilities and R&D activities	12,141/ 3,299	14 years	Leasehold expiring on 08.05.2066	5,914	23.12.2005
Bearing postal address: PT1923, Jalan Hi Tech 2/3 Industrial Zone Phase 1 Kulim Hi-Tech Industrial Park 09090 Kulim Kedah Darul Aman						
<b>FM</b>						
GRN 210078 Lot 4494 Sekyen 39 Bandar Kulim Daerah Kulim Kedah Darul Aman	Vacant industrial land	15,419/ -	N/A	Leasehold expiring on 08.05.2066	1,659	09.11.2007
Bearing postal address: PT 1923, Jalan Hi Tech 2/3 Industrial Zone Phase 1 Kulim Hi-Tech Industrial Park 09090 Kulim Kedah Darul Aman						

## List Of Properties (cont'd)

Address	Description/ Existing use	Land area/ Built-up area sq m	Approximate age of building	Tenure	Audited net book value as at 31.12.2019 RM'000	Date of acquisition
<b>Ares Green Technology Corporation</b>						
0273-0000, 0276-0000 & 0277-0000	A single-storey factory building and a 2-storey factory building to house production facilities and R&D activities and a 2-storey office building	16,966/ 17,371	19 years	Freehold	53,987	14.06.2004
Bearing postal address: No. 17, Bade Road Xinying Dist. Tainan City, 73054 Taiwan, R.O.C.						
<b>PT Frontken Indonesia</b>						
NIB No. 28.04.02.19.00499 28.04.02.19.00497 28.04.02.19.00495 28.04.02.19.00493 28.04.02.19.00492 28.04.02.19.00490	A single-storey factory building to house production facilities and office	5,385/ 3,222	35 years	Leasehold expiring on 17.10.2039 & 19.05.2041	1,310	12.12.2011
Bearing postal address: Jl. Raya Serang KM.13 RT.003/RW.002 Kp. Cirewed, Sukadamai- Cikupa Tangerang Banten Indonesia 15710						
<b>TTES Frontken Integrated Services Sdn Bhd</b>						
Lot 3687 & 3688 Kawasan Perindustrian Telok Kalong, 24000 Terengganu	Vacant industrial land	4,133/ -	N/A	Leasehold expiring on 22.08.2057	234	08.12.2009
Bearing postal address: Lot 3687 & 3688 Kawasan Perindustrian Telok Kalong, 24000 Terengganu						

## Shareholding Statistics AS AT 29 APRIL 2020

Issued and Paid-up Share Capital	:	RM118,925,352 comprising 1,053,435,130 ordinary shares
Class of shares	:	Ordinary shares
Voting rights	:	One vote per share

### DISTRIBUTION OF SHAREHOLDINGS AS AT 29 APRIL 2020

Size of holdings	No. of shareholders	% of shareholders	*No. of shares	*% of issued capital
Less than 100	206	3.9	8,445	~
100 – 1,000	1,299	24.4	771,944	0.1
1,001 – 10,000	2,442	45.9	11,380,163	1.1
10,001 – 100,000	916	17.2	30,989,922	3.0
100,001 to less than 5% of issued shares	451	8.5	648,028,383	61.8
5% and above of issued shares	3	0.1	356,789,673	34.0
Total	5,317	100.0	1,047,968,530	100.0

**Notes:**

~ Negligible

\* Excluding 5,466,600 shares held as treasury shares as at 29 April 2020

Distribution of shareholdings based on Record of Depositors

### DIRECTORS' SHAREHOLDINGS AS AT 29 APRIL 2020

The shareholdings of the directors of the Company and the number of shares held by them as recorded in the Register of Director Shareholdings at the date of this statement are as follows:-

No.	Name	No. of shares	Direct		Indirect	
			%	No. of shares	%	No. of shares
1.	Ng Wai Pin	6,932,900	0.7	290,991,473	27.8	-
2.	Dr Tay Kiang Meng	9,404,808	0.9	-	-	-
3.	Dato' Haji Johar Bin Murat @ Murad	-	-	-	-	-
4.	Ng Chee Whye	20,000	~	125,720	~	-
5.	Gerald Chiu Yoong Chian	-	-	-	-	-

**Note:**

~ Negligible

\* Excluding 5,466,600 shares held as treasury shares as at 29 April 2020

### SUBSTANTIAL SHAREHOLDERS AS AT 29 APRIL 2020

No.	Name	No. of shares	Direct		Indirect	
			%	No. of shares	%	No. of shares
1.	Dazzle Clean Ltd	290,991,473	27.8	-	-	-
2.	Ooi Keng Thyne	158,682,900	15.1	-	-	-

**Note:**

\* Excluding 5,466,600 shares held as treasury shares as at 29 April 2020

Substantial shareholders based on Register of Substantial Shareholders

## Shareholding Statistics (Cont'd)

### Thirty Largest Shareholders

#### AS AT 29 APRIL 2020

No.	Shareholders	No. of shares	*% of issued capital
1	RHB Capital Nominees (Asing) Sdn Bhd Dazzle Clean Ltd	174,594,884	16.66
2	Dazzle Clean Ltd	116,396,589	11.11
3	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Ooi Keng Thye	65,798,200	6.28
4	Ooi Keng Thye	25,952,700	2.48
5	CIMB Group Nominees (Tempatan) Sdn Bhd CIMB Commerce Trustee Berhad - Kenanga Growth Fund	25,136,400	2.40
6	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Ooi Keng Thye (6000009)	22,162,500	2.11
7	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Cheng Chew Giap (6000179)	21,352,500	2.04
8	Citigroup Nominees (Tempatan) Sdn Bhd Exempt An For AIA Bhd.	20,527,000	1.96
9	Amanahraya Trustees Berhad Public Islamic Opportunities Fund	18,057,800	1.72
10	HSBC Nominees (Asing) Sdn Bhd Exempt An For Morgan Stanley & Co. LLC (Client)	15,766,800	1.50
11	DB (Malaysia) Nominee (Asing) Sdn Bhd The Bank Of New York Mellon For Acadian Emerging Markets Small Cap Equity Fund, LLC	15,401,400	1.47
12	HSBC Nominees (Asing) Sdn Bhd JPMCB NA For Vanguard Total International Stock Index Fund	15,304,300	1.46
13	Citigroup Nominees (Asing) Sdn Bhd UBS AG	13,663,600	1.30
14	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Ooi Keng Thye (E-PPG)	11,107,600	1.06
15	Amanahraya Trustees Berhad Public Islamic Select Treasures Fund	10,369,000	0.99
16	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (Kenanga)	10,208,500	0.97
17	HSBC Nominees (Asing) Sdn Bhd JPMCB NA For Vanguard Emerging Markets Stock Index Fund	10,112,100	0.96
18	AMSEC Nominees (Tempatan) Sdn Bhd Pledged Securities Account - Ambank (M) Berhad For Ooi Keng Thye (Smart)	9,982,000	0.95
19	Tay Kiang Meng	9,404,808	0.90
20	Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Ooi Keng Thye (023)	9,140,200	0.87
21	HSBC Nominees (Asing) Sdn Bhd TNTC For Barings Asean Frontiers Fund	8,908,100	0.85
22	Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Cheng Chew Giap (023)	8,230,600	0.79
23	Amanahraya Trustees Berhad PB Islamic Smallcap Fund	8,017,000	0.77
24	DB (Malaysia) Nominee (Asing) Sdn Bhd The Bank Of New York Mellon For Florida Retirement System	7,840,800	0.75
25	Tokio Marine Life Insurance Malaysia Bhd As Beneficial Owner (PF)	7,737,000	0.74
26	HSBC Nominees (Asing) Sdn Bhd JPMBL SA For Stichting Depository APG Emerging Markets Equity Pool	7,476,400	0.71
27	RHB Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Cheng Chew Giap	6,803,400	0.65
28	CIMB Islamic Nominees (Tempatan) Sdn Bhd CIMB Islamic Trustee Berhad - Kenanga Syariah Growth Fund	6,787,100	0.65
29	Ng Wai Pin	6,642,900	0.63
30	Maybank Nominees (Tempatan) Sdn Bhd National Trust Fund (IFM Kenanga)	5,592,400	0.53

**Note:-**

\* Excluding 5,466,600 shares held as treasury shares as at 29 April 2020

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