

Pentamaster International Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1665

Annual Report 2017



VISION & MISSION

Our Mission

“We are dedicated in delivering high quality and cost-effective products with value-added services. In our effort to achieve our mission, we strive to provide benefits and satisfaction to our customers, vendors, employees and the community as a whole.”

Our Vision

“To provide world class automation solutions to the semiconductor and manufacturing industries in the global market.”

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Chuah Choon Bin (*Chairman*)
Gan Pei Joo

Non-executive Director

Leng Kean Yong

Independent non-executive Directors

Chuah Jin Chong
Chan May May
Sim Seng Loong @ Tai Seng

AUDIT COMMITTEE

Sim Seng Loong @ Tai Seng (*Chairman*)
Chan May May
Leng Kean Yong

REMUNERATION COMMITTEE

Sim Seng Loong @ Tai Seng (*Chairman*)
Chuah Jin Chong
Leng Kean Yong

NOMINATION COMMITTEE

Chuah Jin Chong (*Chairman*)
Sim Seng Loong @ Tai Seng
Chan May May

AUDITOR

Grant Thornton Hong Kong Limited
Certified Public Accountants
12th Floor
28 Hennessy Road
Wanchai
Hong Kong

COMPANY SECRETARY

Tsui Sum Yi

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPLIANCE ADVISER

Altus Capital Limited
21 Wing Wo Street
Central, Hong Kong

REGISTERED OFFICE

PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN MALAYSIA

Plot 18 & 19, Technoplex
Medan Bayan Lepas
Taman Perindustrian Bayan Lepas
Phase IV, 11900 Penang
Malaysia

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1901, 19/F, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Malayan Banking Berhad
United Overseas Bank (Malaysia) Berhad
HSBC Bank Malaysia Berhad
AmBank (M) Berhad
Public Bank Berhad

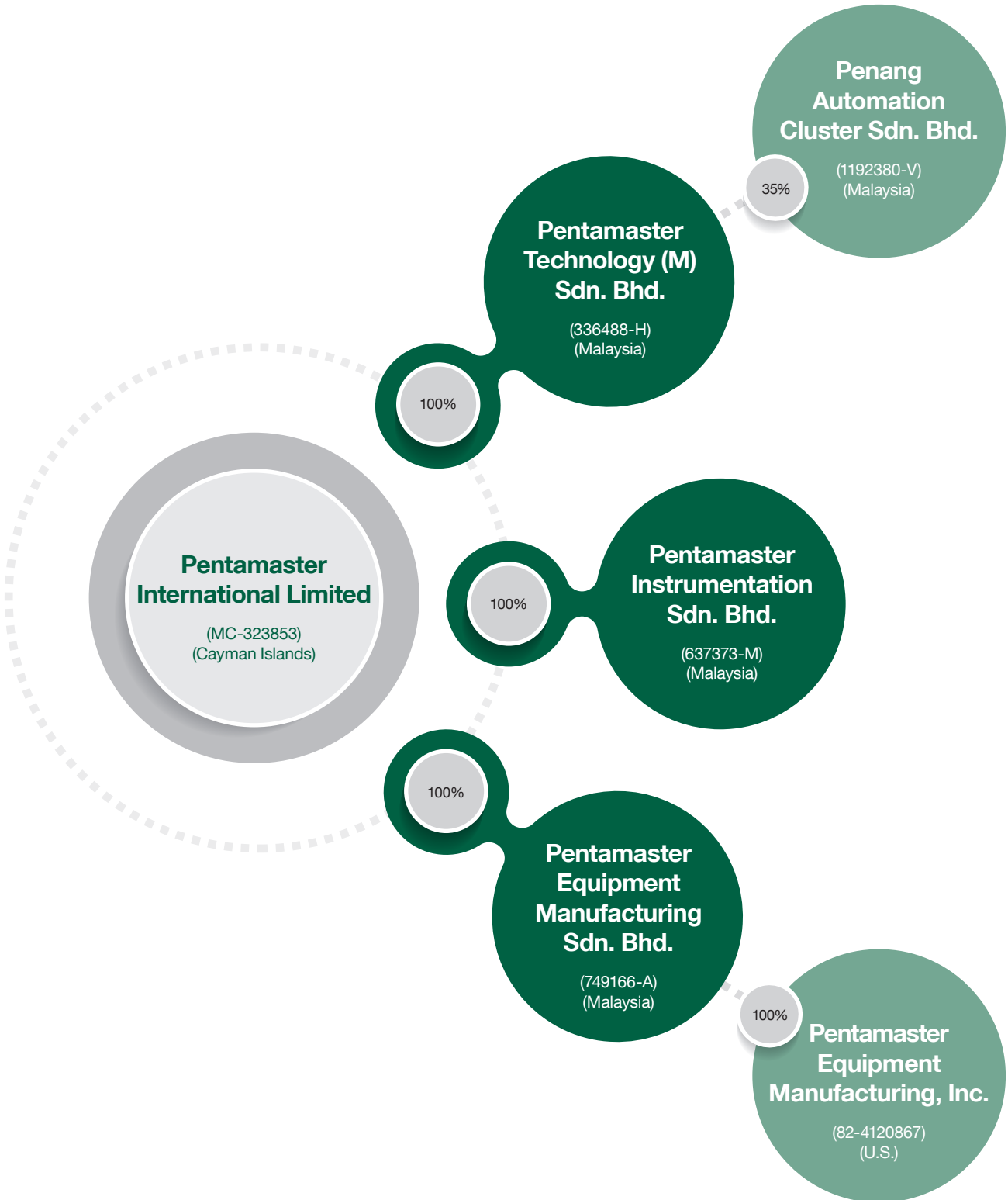
COMPANY WEBSITE

www.pentamaster-international-ltd.com

STOCK CODE

1665

CORPORATE STRUCTURE





CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of Pentamaster International Limited (the "Company" or "PIL"), I am pleased to present my first statement for the Company and its subsidiaries (collectively, the "Group", "we" or "our") following the successful listing of PIL on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19 January 2018 (stock code: 1665) (the "PIL Listing"). The PIL Listing which constituted a spin-off of our automation solution business from our parent company, Pentamaster Corporation Berhad, marked a significant milestone in the history of our Group. We are thankful to the Stock Exchange, our shareholders and all professional parties in supporting us to mark this milestone.

OUR FUTURE PROSPECTS AND GROWTH

We intend to further expand our business by utilising part of the proceeds from the PIL Listing to increase our presence in other regions, particularly (i) the Greater China region, covering the largest semiconductor market, as well as key semiconductor markets such as Taiwan; and (ii) California, the U.S., being the global technology hub. The listing of PIL on the Stock Exchange in one of the world's most renowned international financial markets has allowed access to a more diverse and global investor base, which is expected to improve liquidity and raise our Group's profile globally. More importantly, it has also enabled the Company to unlock the value of its automation solution business. We assure you, our stakeholders, that we will continue to work hard for the advancement and progression of our Group, with the aim of ultimately giving back to our valuable investors, customers, employees and the society at large.

The Group achieved another year of improved operating performance and strategic progress, strongly driven by our excellence in engineering design, new product development and operational practices. The rapid development of technology, particularly in the telecommunication industry, has resulted in higher demand for more complex components testing, which contributed significant growth in revenue to our Group. The strategic progress undertaken by the Group has enabled the Group to evolve, and focus on and invest in high-growth and high-demand businesses that include smart integrated circuit ("Smart IC") devices testing, automotive sector's components testing platform as well as a more technologically-inclined automated manufacturing solution that enhances production efficiency. We are heartened that our strategic initiatives have enabled our Group to capture more key premium customers in these business sectors and achieve commendable financial results.

Since 2013, the Group has developed a variety of test equipment solutions for different types of smart sensors which have paved the way for the Group to be recognised as one of the prominent players in the smart sensor testing equipment for the mobile device sector. The Group's flagship test solutions in ambient and proximity sensors have enabled us to accomplish commendable achievements and gain customers' recognition of our technology solutions. Going forward, by leveraging on our extensive experience and outstanding strengths in vision imaging technology coupled with our knowledge of light sensing testing technology, we are ready to penetrate into the three dimensional (3-D) sensor test solutions market based on Time of Flight (ToF) and Structured Light (SL) sensors platform. We foresee a growth in demand for our smart sensor testing equipment given the higher turnover rate and shorter time-to-market for new generation smartphones. We expect revenue contribution from our smart sensor testing equipment to remain robust in 2018.

CHAIRMAN'S STATEMENT *(continued)*

As for the automotive sector, the emergence of smart electronic devices coupled with the growth in the number of electric vehicles ("EV"), presented a significant business opportunity to our Group. Riding on the growth wave in the market size of this sector, the Group took important steps to diversify and capitalise on the demand for highly customised testing equipment for automotive sector. I am proud to say that the Group's exposure to the automotive segment has realised commendable growth in 2017.

We see vast potential and opportunities in the factory automation segment with our proprietary in-house intelligent automated robotic manufacturing system ("i-ARMS") that has the capabilities of addressing the specific needs of our customers by automating their manufacturing process. During the year, revenue from this segment accounted for 14.4% of total revenue of our Group. Our management intends to increase contribution from this segment by leveraging on our deep industrial knowledge and experience coupled with the prevalence of Industry 4.0, rise in labour costs, shortage of skilled talents and the adoption of automation technology in manufacturing sector.

Overall the Group will continue with its strategic transformation and innovation to focus on and invest in high-growth and high-demand business segments as we evolve towards a smarter future.

OUTLOOK

Looking ahead to the Group's business development in 2018, we will continue to expand our partnership with our customers to develop customised solutions for their business needs, reinforce the building of the core engineering team and provide better service support. We believe that successful implementation of these initiatives will provide the Group with an excellent platform to help secure more market share particularly in the smart mobile device, automotive and manufacturing sectors with our Smart IC devices testing and i-ARMS. In view of these positive initiatives, the Board is confident that the Group has laid a strong foundation for business growth in the coming years.

DIVIDEND

The Board does not recommend any dividend payment for the financial year ended 31 December 2017. Post PIL Listing, the Group aims to utilise its cash reserves and listing proceeds for business expansion activities which include, amongst others, construction of the new production plant as well as the expansion of the existing production plant, establishment of a subsidiary in the United States of America ("U.S.") and business expansion into the Greater China region.



CHAIRMAN'S STATEMENT *(continued)*

APPRECIATION

Throughout my tenure of more than two decades with our Group, I am proud and blessed to have a team of strong, committed and talented employees supporting me. It is these talented personnel that have firmly stuck by and supported me through thick and thin in building our Group to where it is today. Our Group employees carry with their pride and enthusiasm in giving their utmost best in delivering the Group's growth and achievements thus far. With the Group's unique working culture, we always strive to do the right thing and deliver our best for our customers. I am sure our customers will be reassured that this culture will continue in many more years to come.

On behalf of the Board, I would like to thank our management team and employees for their commitment and dedication. I always thank God for His gracious gifts and blessings He has given to our Group and myself. My appreciation also extends to all suppliers who share our steadfastness in propelling our Group to the next level. I would also personally like to thank our Board members and valued shareholders for all the support and trust given to me in allowing me to steer our Group to where it is today. I hope to have your continued support in bringing our Group to the next level.

CHUAH CHOON BIN

Chairman and Executive Director

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has delivered another year of good progress in 2017 setting records in revenue, profit for the year, cash position and size of secured orders received which is expected to be delivered in 2018. Strong execution in engineering design, new product development and operational excellence underpinned by rapid development of technology, particularly in the telecommunication industry has resulted in significant growth for the Group. The emergence of new technologies and businesses, which propelled higher demand for Smart IC embedded in devices such as proximity sensor, light sensor, humidity sensor, motion sensor etc., has gradually overtaken the traditional semiconductor IC sector in the test handler market. Against this backdrop, the Group has continued with its strategic transformation and innovation to focus on and invest in the area of high-growth and high-demand businesses such as Smart IC devices testing. We are heartened that such strategic initiatives have enabled the Group to achieve good performance in its operating results as well as penetrate more key premium customers in the area of Smart IC devices test solution.

Smart IC devices for the mobile telecommunication sector and the automotive sector are the two key growing segments for the Group. The growth in smart mobile devices and higher adoption rate of electronic devices in the automotive car control segment had undoubtedly opened up an avenue of demand and opportunities for the Group. Our test solution meets each of our customers' highly stringent test application and quality assurance requirements for their respective smart devices' unique testing technology platform.

In respect of the smart mobile devices sector, strong market demand for our smart device test solutions in the second half of 2016 prevailed through 2017 and is expected to continue in 2018. The growth in demand for our automated testing equipment is driven mainly by the smartphone makers upgrading the smart sensors and microelectromechanical systems ("MEMS") adopted in the smartphones with the aim in providing new generation smartphones to the market that come equipped with better features and capabilities. If such trend continues to persist, revenue contribution arising from the demand for our customised testing equipment in this sector is anticipated to remain robust.

The Group has also gradually diversified into the automotive segment which has been rapidly growing as a result of higher adoption rate of electronic devices in the automotive car control segment coupled with the growth of electric vehicles ("EVs") market. According to a report by Frost and Sullivan, revenue from semiconductor ICs in the automotive sector stood at US\$22.9 billion in 2016 with an expected compound annual growth rate ("CAGR") of 10.3% from 2015 to 2020. Furthermore, sales of EVs is estimated by BNEF (Bloomberg New Energy Finance) to accelerate to 54.0% of total car sales by 2040 due to the tumbling battery prices resulting in EVs having lower lifetime costs.

With the adoption of more electronic components in the automotive industry such as the accelerometers, power devices, AC (alternating current) drive unit module and particularly the MLCC (multilayer ceramic capacitors) where its usage expands into EV-related power electronic applications, the demand for our highly customised testing equipment on these components is expected to grow. Coupled with the fact that the components adopted by automotive industry generally demand high quality standards and stringent safety measures, our product quality in terms of its testing capability and precision is of paramount importance. Therefore, the Group's diversification of its presence into this industry is encouraging and timely due to the high entry barrier and customer stickiness brought about by the need for a thorough and longer qualification process.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Currently, the Group's increasing exposure to the automotive segment can be evidenced by the growth in revenue contribution from 1.6% in 2016 to 6.0% in 2017, representing approximately MYR2.3 million and MYR16.3 million respectively.

The following table sets out revenue breakdown by customers' segment:

| | 2017 | | 2016 | |
|----------------------|----------------|--------------|---------|-------|
| | MYR'000 | % | MYR'000 | % |
| Semiconductor | 62,216 | 22.9 | 89,959 | 63.4 |
| Telecommunication | 174,293 | 64.2 | 32,554 | 23.0 |
| Automotive | 16,292 | 6.0 | 2,303 | 1.6 |
| Consumer electronics | 17,820 | 6.6 | 15,572 | 11.0 |
| Medical devices | 61 | - | 131 | 0.1 |
| Others | 961 | 0.3 | 1,301 | 0.9 |
| | 271,643 | 100.0 | 141,820 | 100.0 |

We continue to see vast potential and opportunities in the factory automation segment with the prevalence of Industry 4.0, rise in labour costs, shortage of skilled talents and the adoption of automation technology in manufacturing, whereby all manufacturers are potential customers in this evolving modern manufacturing environment. The market size for factory automation is estimated by Frost and Sullivan to be US\$70-84 billion in 2016 with a CAGR of 1.0% to 5.0% in 2017 and beyond.

Our i-ARMS (intelligent automated robotic manufacturing system) has the capabilities of addressing the specific needs of our customers by automating their manufacturing process with the incorporation of intelligent conveyor system which include RFID (radio-frequency identification), MES solution, robotic system, high-speed sorters and vision system. MES or "Manufacturing Execution System" is real-time control and monitoring software platform used in the automated manufacturing solutions on a factory production floor. Our capabilities in offering customised products and solutions through in-house machine design, software programming, robotic automation and process integration provide the Group a foundation and competitive edge in capturing emerging trends in this manufacturing sector and gain further market traction.

During the year, revenue from this segment accounted for approximately 14.4% of total revenue of the Group. The management intends to gradually increase the sales contribution in this area by leveraging on its deep industrial knowledge and experience. Such aim will also be achieved through expanding our technical sales center in the U.S. and increasing our current production capacity as well as from the construction of our new production plant. Our new production plant with a gross floor area of approximately 97,033 sq.ft. is expected to commence operation by mid 2018.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCIAL REVIEW

Revenue

Revenue of the Group grew by approximately 91.5% from MYR141.8 million in 2016 to MYR271.6 million in 2017 which has been the best record since its inception 22 years ago. The growth in revenue was primarily contributed by both the automated equipment and automated manufacturing solution segment which constituted approximately 85.6% and 14.4% of the total revenue respectively.

Automated equipment segment

The increase in revenue by approximately 127.4% from this segment was mainly attributable to the stronger demand for our test equipment namely MEMS & smart sensor test handler solutions from the semiconductor and telecommunication markets, particularly the smart mobile device sector. The rise in such demand was underpinned by the increasing prevalence of smart sensors in mobile devices as well as the situation where smartphone makers and their related component suppliers were seen incorporating more “smart” components and sensors resulting in an increasing demand for new testing equipment for these components and sensors. The Group continued to experience strong sales orders throughout 2017 with four consecutive quarter-on-quarter growth. Apart from the increase in sales demand, the ability to command higher average selling price from these test equipment with more complex and high-end technology features embedded further contributed to the growth in the overall Group’s revenue.

Automated manufacturing solution segment

Revenue from the automated manufacturing solution segment had also increased by approximately 11.8% in 2017. The increase in revenue from this segment was mainly due to higher demand for the integrated manufacturing solution from customers in telecommunication and automotive segment as a result of the increase in demand for factory automation.

Gross margin

The gross profit margin of the Group historically stood between 28.1% and 31.8% for the last three years. Gross profit margin in 2017 declined by 3.4% to 28.4% compared to 31.8% a year ago. This was primarily due to the lower margin in respect of the secured sales relating to one major customer in the telecommunication sector, who contributed approximately 57.1% of the total revenue during the year. The lower margin was mainly the result of the requirement of the said customer to procure certain material from designated suppliers where room for mark-up was limited.

Other income

Other income increased slightly from MYR5.6 million in 2016 to MYR5.8 million in 2017. Included in other income mainly pertained to the gain from changes in fair value of foreign currency forward contracts of MYR4.0 million during the year. However, the increase in other income was marginal as compared to the net gain on foreign exchange of MYR3.3 million in 2016. The significant gain from changes in fair value of foreign currency forward contracts in 2017 was primarily due to the depreciation of U.S. dollar against MYR during the year. This corresponded to the net loss on foreign exchange of approximately MYR11.4 million recorded under administrative expenses during the year.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Administrative expenses

Administrative expenses increased from MYR14.9 million in 2016 to MYR32.4 million in 2017, mainly due to an increase in the loss on foreign exchange, listing expenses incurred by the Group and to a certain degree, an increase in staff costs.

The Group's sales and receivables were predominantly denominated in U.S. dollar. The loss on foreign exchange was mainly due to the short term appreciation of our functional currency, MYR against the U.S. dollar towards the end of 2017. Such loss was partially offset by the gain from changes in fair value of foreign currency forward contracts recorded under other income, giving rise to a net loss on foreign exchange of MYR7.5 million during the year. Our Group generally enters into foreign currency forward contracts as part of our treasury policy to manage our foreign currency exposure. However, the Group was subject to foreign currency exposure due to internal banking facilities reorganisation ("Reorganisation") prior to the Listing Date as part of its Listing exercise. Moving forward, such reorganisation is not expected to recur and the Group will closely monitor and manage its foreign exchange risk by entering into foreign currency forward contracts in mitigating its foreign currency exposure.

In addition to the above, the listing expenses and other non-recurring costs of MYR6.0 million also contributed to the higher administrative expenses registered in 2017. Meanwhile, staff costs increased from MYR4.2 million in 2016 to MYR8.4 million in 2017, mainly due to an increase in both staff remuneration and headcount.

Profit for the year

From the bottom line perspective, the Group closed its financial year with net profit of MYR40.7 million (2016: MYR33.8 million) after taking into account the listing expenses and other non-recurring expenses related to the PIL Listing. Should the effects of such expenses be excluded, the Group would have exhibited a net profit of MYR46.7 million which was an increase of 38.0% from MYR33.8 million in 2016. Such position was another record breaking net profit achieved by the Group in 2017. Accordingly, the adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) for 2017 stood at MYR54.4 million as compared to MYR36.7 million in 2016. Basic earnings per share rose from MYR2.22 sen in 2016 to MYR2.82 sen in 2017.

The following table demonstrates the impact on our profit after adjusting for the one-off and non-recurring costs:

| | 2017 | 2016 |
|--|----------------|---------|
| | MYR'000 | MYR'000 |
| One-off and non-recurring costs | | |
| Listing expenses | 5,449 | – |
| Stamp duty paid for transfer of shares resulted from the PIL Listing | 527 | – |
| Reported profit for the year | 40,696 | 33,831 |
| Adjusted profit for the year | 46,672 | 33,831 |

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Liquidity, financial resources and capital structure

On the balance sheet front, the financial position of the Group remains healthy. We continued to maintain a robust position with working capital of MYR80.0 million as at 31 December 2017 (2016: MYR42.8 million). The Group generated net cash from operations of MYR57.2 million in 2017 as compared to MYR21.5 million in the previous year. Cash and cash equivalents increased from MYR26.3 million as at 31 December 2016 to MYR81.6 million as at 31 December 2017. The overall significant improvement in the cash and cash equivalents held was mainly due to the stringent credit policy adopted as well as healthier EBITDA being generated from operations. The surplus funds generated from our operations were mainly utilised to improve our engineering and manufacturing capabilities through purchase of new equipment and design software system. As at 31 December 2017, the Group had available banking facilities of MYR20.5 million in the form of term loan and trade facilities, out of which a total of MYR4.0 million was drawdown to finance the purchase of leasehold land of the new production plant. As at 31 December 2017, the gearing ratio of the Group was 12.2% (2016: 12.3%). Gearing ratio is calculated based on the total debts (being amount due to ultimate holding company, amounts due to a fellow subsidiary, finance lease liabilities and bank borrowing) divided by total equity as at the end of each respective year and multiply by 100.0%.

Contingent liabilities

As at 31 December 2017, the Group had no material contingent liabilities.

Foreign exchange exposure

The Group is exposed to foreign currency risk as a result of its normal trading activities whereby sales and purchases are principally transacted in U.S. dollar. The Group also holds other financial assets and liabilities denominated in foreign currencies. These are not the functional currencies of the Group entities to which transactions relate.

The Group mitigates the exposure of this risk by maintaining U.S. dollar denominated bank accounts and enters into foreign currency forward contracts.

Pledge of asset

As at 31 December 2017, the Group's leasehold land of MYR5,015,000 (2016: nil) has been pledged to secure a bank loan.

Use of net proceeds from the Listing

The shares of the Company were successfully listed on the Main Board of the Stock Exchange on 19 January 2018 at the offer price of HK\$1.00 per share. The proceeds (net of listing expenses) from the PIL Listing were approximately HK\$171.3 million (equivalent to approximately MYR86.6 million). Due to the fact that the Company was listed on 19 January 2018, there were no proceeds raised as at 31 December 2017. After the Listing, such net proceeds will be applied in accordance with the proposed application as disclosed in the prospectus of the Company dated 29 December 2017 (the "Prospectus").

Employees and remuneration

The Company recognises the employees as one of the Group's most important assets. The Company strongly believes in hiring the right talent, nurturing and retaining them. Besides offering competitive remuneration packages, the Company through its parent company in Malaysia adopted the share award scheme with the objectives to recognise contributions made by the eligible employees and to retain the eligible employees for the continual operation, growth and future development of the Group. As at 31 December 2017, the total number of full time employees of the Group was 400 (2016: 246). Of the total workforce, we currently have over 270 in-house engineers where most of them were based in Malaysia whilst the rest were stationed in the PRC (People's Republic of China) for customer liaison support purpose.



MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

OPERATIONAL AND FINANCIAL RISKS

Operational risks

Dependence on key management and experienced personnel

Our success and growth is to a significant extent, attributable to the strategies and vision of our Chairman and the contributions of our executive Directors and senior management team, who play significant roles in our Group's day-to-day operations. Whilst we endeavour to provide a competitive remuneration package to our staff and ensure that they are appropriately rewarded, the competition for competent personnel in our industry is intense.

As part of the long term plan to nurture and retain its key management and employees, the Group has proposed and undertaken a share award scheme for the PIL Listing in recognising the contributions made by key management and employees as well as to incentivise and retain them for continual operation, growth and future development of the Group. Additionally, the Group continuously grooms younger members of the management staff and other employees to participate in the management of the Company. It is also the current practice of the Group to not depend on one person to perform an important job function to prevent dependency on any particular person. Emphasis is placed on team work and all important projects will have backup personnel.

Risk relating to technological obsolescence

Technology obsolescence is one of our business' inherent risks. The rapid development of technology prompts swift changes in customers' demand and requirements. Our technological products and solutions, may potentially be rendered obsolete due to the rapid evolution and emergence of new and/or substitute technology.

The Group seeks to minimise these risks by actively and continuously pursuing technology innovation and advancement, industry best practices and strategic business alliances to address the increasing sophisticated needs of its customers. The Group also provides continuous staff development to align their skills and knowledge with the requirements of the latest technology in the automation and semiconductor industries.

Continuous efforts are constantly made to increase the efficiencies of the research and development ("R&D") function for the development of new products and to strategically develop a continuing effective and dynamic management team to ensure the continued improvement of the Group's performance. Also, the Group's regular participation in overseas exhibition provides opportunities for us to understand the latest market requirement and keep abreast of current technological changes.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Competition risk

We face keen competition from many international and local competitors of various business scales. Technology, product quality, pricing, proximity to customers, services and breadth of products and/or solutions offered are the key areas of competition for our business. Many of our customers are multinational companies in Malaysia and overseas where the selection of equipment for their manufacturing processes are based on stringent criteria such as high quality automation equipment, good after sales service support, competitive pricing and also dependability of the products.

The Group's R&D effort and value innovation to venture into high-end technology for smart devices and i-ARMS had enabled the Group to achieve its product differentiation in this marketplace. Having our own software development team is also one of the competitive edges against our competitors. Emphasis is also placed on continuous quality checking to ensure the products meet customers' requirement and are of high quality.

Excellent after sales service to our customers has always been the priority of the Company. As the Group's products are customised automation solutions made according to specification required by customers, after sales service is crucial to ensure smooth running of customers' operations.

Intellectual property

The rights to use the technology behind the various design and manufacturing processes in our business and industry as well as the protection of proprietary knowledge, technology and processes developed by our Group are crucial to our continuous success and development. If our technology is infringed by way of unauthorised copying, use or imitation, our competitive advantage, sales and reputation may be affected.

To mitigate the risk, the Group has submitted applications to register several of its trademarks and affirmed the relevant statutory declarations in respect of the copyrights of certain software products. All the employees are also required to sign a non-disclosure agreement (NDA) to protect the Company's interest.

Financial risks

The Group's financial risks are set out in Note 39 under the notes to the consolidated financial statements.

PROSPECTS

The Group expects 2018 to be another good year with the continued strong demand from our customers as evidenced by the size of outstanding secured orders of approximately MYR249.2 million received up to 31 December 2017 with expected delivery in 2018. It is worthy to note this amount of secured orders surpassed our revenue in 2016 and made up 91.7% of total revenue in 2017. With such volume of secured orders, the Group intends to further strengthen its market position and expand its business by keeping abreast of the latest technological trends and requirements relevant to the industry and increasing its presence in key geographical markets such as the Greater China region and the U.S. as well as diversifying into other high growth potential industries such as automotive, healthcare equipment and medical devices to broaden its customer base and revenue.

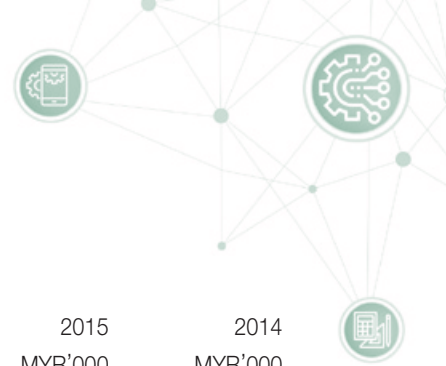
MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Currently, revenue breakdown based on shipment destination is as follows:

| | 2017 | 2016 |
|---------------|----------------|---------|
| | MYR'000 | MYR'000 |
| Singapore | 170,787 | 38,721 |
| Malaysia | 35,381 | 35,481 |
| PRC | 34,648 | 36,070 |
| Taiwan | 8,835 | 19,003 |
| Phillippines | 8,389 | 3,006 |
| Japan | 4,030 | 1,418 |
| Hungary | 2,417 | 687 |
| United States | 2,185 | 2,995 |
| Thailand | 2,109 | 1,738 |
| Korea | 1,179 | 143 |
| Others | 1,683 | 2,558 |
| | 271,643 | 141,820 |

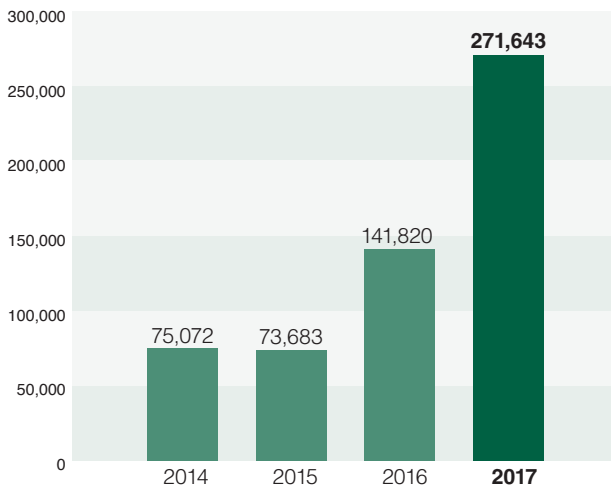
The Company had on 8 February 2018 through voluntary basis announced the incorporation of Pentamaster Equipment Manufacturing, Inc. in the state of California, the U.S. for the purpose of providing closer sales and support services to existing and potential customers based in the U.S. which is in line with the future plans set out in the Prospectus.

FINANCIAL SUMMARY

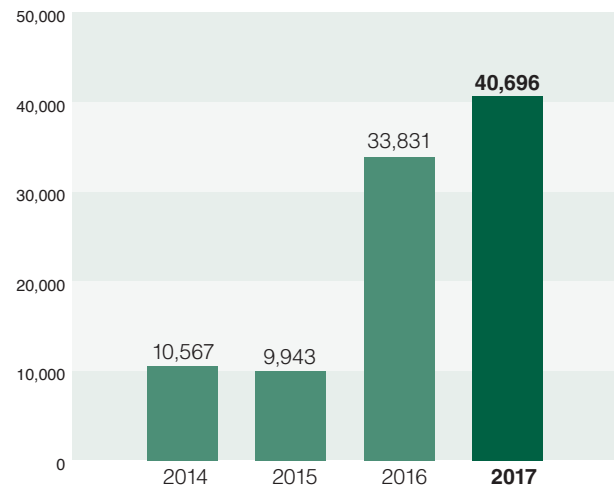


| | 2017 | 2016 | 2015 | 2014 |
|-------------------------------|---------|---------|---------|---------|
| | MYR'000 | MYR'000 | MYR'000 | MYR'000 |
| RESULTS (Audited) | | | | |
| Revenue | 271,643 | 141,820 | 73,683 | 75,072 |
| Profit before taxation | 45,179 | 32,788 | 11,815 | 12,531 |
| Profit after taxation | 40,696 | 33,831 | 9,943 | 10,567 |
| Profit attributable to: | | | | |
| Owners of the Company | 39,646 | 31,275 | 9,606 | 9,056 |
| Non-controlling interests | 1,050 | 2,556 | 337 | 1,511 |
| ASSETS AND LIABILITIES | | | | |
| Total assets | 292,009 | 126,478 | 76,620 | 79,507 |
| Total liabilities | 164,628 | 39,794 | 22,767 | 35,597 |
| Net assets | 127,381 | 86,684 | 53,853 | 43,910 |

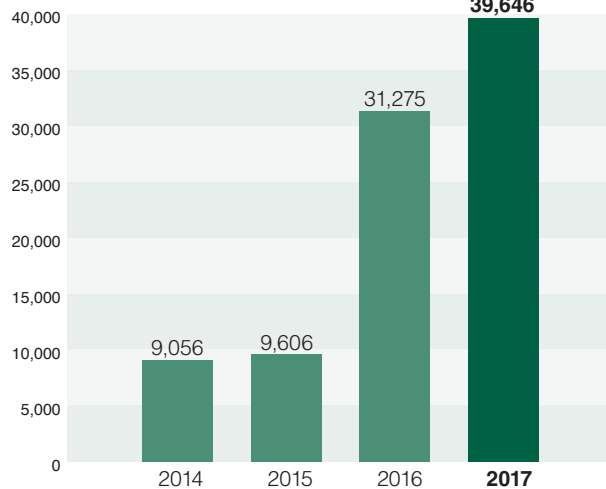
Revenue
(MYR '000)



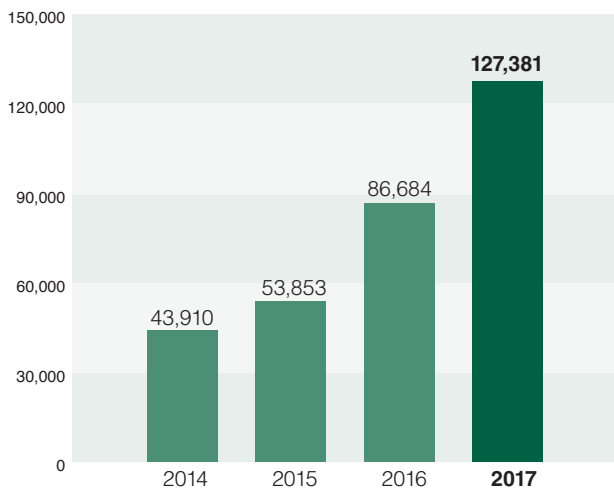
Profit after taxation
(MYR '000)



Profit attributable to owners of the Company
(MYR '000)



Net assets
(MYR '000)





DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chuah Choon Bin (“Mr. Chuah”), aged 57, was appointed as our Director on 12 June 2017 and was re-designated as our Executive Director on 5 September 2017. Mr. Chuah was subsequently re-designated as the Chairman on 19 December 2017. He currently sits on the board of Pentamaster Corporation Berhad (“PCB”) as the non-executive chairman and non-executive director. PCB is currently listed on the Main Market of Bursa Malaysia and is the Controlling Shareholder of the Company. He also holds directorship in all the subsidiaries of the Group.

Prior to setting up the Group, he served as an automation engineer for National Semiconductor and Intel Technology Malaysia. With his vast experience in the design and manufacturing of automation equipment and vision inspection system, he has developed the Group to its present level of success, from a simple automation house to a high technology group specialising in providing factory automation equipment and systems and information communication technology solutions to industrial and commercial customers.

Under his leadership, the Company was ranked in the top 200 in the Forbes “2017 Best Under a Billion” list of companies that are publicly listed in the Asia Pacific region, winner for the Enterprise 50 Award 2002 organised by Accenture and SMIDEC, and Quality Management Excellence Award 2003 for the category of local company with annual sales turnover exceeding RM25 million to RM200 million at the Industry Excellence Award 2003 organised by Ministry of International Trade and Industry. For his personal recognition, he won the Ernst & Young Emerging Entrepreneur of the Year Award Malaysia 2002.

Currently, he is the chairman for Community Care Focus, board chairman of SJK Kwang Hwa Penang School Board and sits on the board of Penang Charis Hospice Home. He is also appointed to the school board as director for Chung Ling High School and Phor Tay High School.

Mr. Chuah is a co-founder of PCB and its subsidiaries including our Group (the “Pentamaster Group”). He graduated with a bachelor’s degree in engineering with honours in May 1985 and a master’s degree in engineering majoring in electrical and electronics in May 1989, both from the University of Auckland, New Zealand.

Mr. Chuah is the brother-in-law of Ms. Gan Pei Joo, the Executive Director and the chief financial officer of the Company.

Ms. Gan Pei Joo (“Ms. Gan”), aged 42, was appointed as our Director on 12 June 2017 and was re-designated as our Executive Director on 5 September 2017. She is also the chief financial officer and holds directorship in all the subsidiaries of the Group.

She commenced her career at PricewaterhouseCoopers in 2000 and was last served as a senior associate in 2003 after having acquired extensive auditing and consulting exposure to companies in various industries. She joined Pentamaster Group as the group accountant in 2003 and held various positions prior to her promotion as the group financial controller in 2009. From March 2014 to 19 December 2017, she was an executive director of PCB. Ms Gan is primarily responsible for the overall management, corporate affairs, finance, treasury, control functions and budgeting of the Group.

DIRECTORS AND SENIOR MANAGEMENT *(continued)*

She graduated with a bachelor's degree of commerce majoring in accounting from Curtin University of Technology, Perth, Australia in February 1999. She was admitted as a member of the Certified Practising Accountants, Australia and a Chartered Accountant from the Malaysian Institute of Accountants in July and November 2002, respectively.

Ms. Gan is the sister in-law of Mr. Chuah Choon Bin, the Executive Director and the Chairman of the Group.

NON-EXECUTIVE DIRECTOR

Mr. Leng Kean Yong (“Mr. Leng”), aged 43, was appointed as our Director on 7 August 2017 and was re-designated as our non-executive Director on 5 September 2017. He is a member of the audit committee and the remuneration committee of the Company. He currently sits on the board of PCB as a non-executive independent director.

Mr. Leng has been in the finance and marketing field for over 21 years. He is highly experienced in the areas of business strategy, ranging from financial matters to business planning and marketing. He has successfully executed projects for small-medium sized industries to listed companies on Bursa Malaysia Securities Berhad, the Australian Securities Exchange and The Stock Exchange of Hong Kong Limited as well as projects for multinational corporations. Such projects encompass IPO exercise, industry research report, the development of a 5-year business plan, marketing strategy blue print, customer relationship management implementation, market entry and feasibility studies, and mergers and acquisitions evaluations.

He started his career with BBMB Securities Sdn. Bhd., where he last served as senior manager of institutional sales. He was a director at L3 Consulting Sdn. Bhd. and Project Director for Synovate Sdn. Bhd. and prior to that, as senior manager for ACNielsen Malaysia Sdn. Bhd. (“ACNielsen”). During his tenure at ACNielsen, he was awarded with three ACNielsen awards for his contribution in successfully implementing and executing key strategies for the firm's local operations. From December 2016 to April 2017, he was also an independent non-executive director of Jack-In Group Limited, a company listed on the Australian Securities Exchange (ASX:JIP).

He graduated from the Western Michigan University (cum laude), the United States, with a bachelor in business administration degree in April 1996. He also holds various other certifications through training and updates in the fields of marketing obtained throughout his career with the various global marketing research consultancy firms.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sim Seng Loong @ Tai Seng (“Mr. Sim”), aged 51, was appointed as our independent non-executive Director on 19 December 2017. He is also the chairman of the audit committee and the remuneration committee and a member of the nomination committee of the Company. He is primarily responsible for supervising and provide judgment to our Board.

He started his career with Ernst & Young for 15 years before joining R.K. & Associates as a lead partner in 2004. He subsequently joined Eaton Industries Pty Ltd (Australia) as accounting manager before being transferred to Shanghai Eaton Engine Components Ltd (China) as financial controller. Thereafter in 2012, he was appointed as chief operating officer and chief financial officer for The BIG Group Sdn Bhd. From August 2014 to 19 December 2017, he was a non-executive independent director of PCB. He is now the chief financial officer for Petrol One Resources Berhad, a company listed on the Main Market of the Bursa Malaysia (stock code: 7027). He also sits on the board of Jack-in Group Limited, a company listed on the Australian Securities Exchange (ASX: JIP) as an independent director and is also the chairman of the audit committee as well as the remuneration committee of this company.



DIRECTORS AND SENIOR MANAGEMENT *(continued)*

He is a Chartered Accountant under Malaysian Institute of Accountants, a Certified Public Accountant under Malaysia Institute of Certified Public Accountants and a member of the Certified Practising Accountants of Australia. He also holds various other certifications through training and updates in the fields of accountancy and taxation obtained throughout his career.

Dr. Chuah Jin Chong (蔡仁鐘) (“Dr. Chuah”), aged 55, was appointed as our independent non-executive Director on 19 December 2017. He is also the chairman of the nomination committee and a member of the remuneration committee. He is primarily responsible for supervising and providing independent judgment to our Board.

Dr. Chuah has over 28 years of professional experience in the medical industry since he was registered as a medical practitioner in Queensland, Australia and New Zealand in 1989. From December 1991 to July 2003, he was employed by the Hospital Authority in Hong Kong and retired as an associate consultant in the department of anaesthesia in the Queen Elizabeth Hospital, Hospital Authority. He is currently a registered medical practitioner in Hong Kong.

Dr. Chuah graduated from the University of Queensland, Australia, with the degree of bachelor of medicine and bachelor of surgery in December 1987. He was admitted as a fellow of the Hong Kong Academy of Medicine in the specialty of Anaesthesiology and a fellow of the Australian and New Zealand College of Anaesthetists in May 2001 and June 2001, respectively.

Ms. Chan May May, (“Ms. Chan”), aged 52, was appointed as our independent non-executive Director on 19 December 2017. She is also a member of the audit committee and the nomination committee. She is primarily responsible for supervising and providing independent judgment to our Board.

She has over 20 years of experience in the legal field. She is currently the chief executive officer of ZICO Insource Inc. since July 2015, which is engaged in the provision of insourcing and consultancy services relating to legal, human resource and communications. Ms. Chan was the head of group corporate communication in Dialog Group Berhad from December 2012 to January 2015. Prior to that, she worked at Media Chinese International Ltd., a company listed on both the Stock Exchange (stock code: 685) and Bursa Malaysia Securities Berhad (stock code: 5090). Currently, Ms Chan is also sitting on the board of BGMC International Limited, a construction services company listed on the Main Board of the Stock Exchange (stock code: 1693), as an independent non-executive Director.

Ms. Chan graduated from the University of Malaya in Malaysia with a degree of bachelor of laws with honours in August 1990. She has been admitted to the Malaysian Bar since March 1991.

DIRECTORS AND SENIOR MANAGEMENT *(continued)*

SENIOR MANAGEMENT

Hon Tuck Weng Operation Director

Mr. Hon Tuck Weng (“Mr. Hon”), aged 47, has been the operation director since May 2007 and is primarily responsible for overseeing the daily operation of our management information system, quality assurance and control, facilities and internal control functions. He started his career as the software programmer of Pentamaster Technology (M) Sdn. Bhd., a direct wholly-owned subsidiary of the Company in March 1995. Mr. Hon has more than 24 years of experience in automation solutions industry.

Mr. Hon graduated with a higher diploma in computer studies, moderated and assessed by the University of Humberside in United Kingdom, in September 1993. He later obtained a postgraduate certificate in engineering business management from the University of Warwick, United Kingdom, in June 2011 through a distance learning course.

Teoh Siow Khiang Senior General Manager

Mr. Teoh Siow Khiang (“Mr. Teoh”), aged 61, has been the senior general manager of Pentamaster Instrumentation Sdn. Bhd., a direct wholly-owned subsidiary of the Company (“Pentamaster Instrumentation”) since January 2017. He is primarily responsible for overseeing the daily operations of Pentamaster Instrumentation. He joined as a general manager of Pentamaster Instrumentation in January 2006.

He started his career with Hitachi Semiconductor Sdn. Bhd. as a TTL & CMOS IC test Engineer in 1983. He later joined Hewlett Packard as a LED test specialist engineer and expanded the role to be R&D Engineer in LED development. In 1999, he joined the Agilent Technology, a spin-off of Hewlett Packard Company, as an Instrument NPI engineering manager. He was in the pioneer team in setting up the electronics measurement instrument manufacturing operation in Penang. He was subsequently promoted to senior manager.

Mr. Teoh obtained an honours class bachelor’s degree of engineering majoring in electrical and a master’s degree of engineering from University of Malaya in June 1982 and July 1991, respectively.

Teh Eng Chuan Chief Operating Officer – automated equipment division

Mr. Teh Eng Chuan (“Mr. Teh”), aged 44, has been the chief operating officer of Pentamaster Technology (M) Sdn. Bhd. (“Pentamaster Technology”) since January 2015. Mr. Teh is primarily responsible for overseeing the daily operations of Pentamaster Technology. He joined as a vision software engineer of Pentamaster Technology in January 1996 and has over 20 years of experience in the machine vision, design and control. Mr. Teh completed a course of higher diploma in computer science in Kolej Damansara Utama (currently known as KDU Penang University College), Malaysia, in April 1995.



DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Ng Chin Keng

Chief Operating Officer – automated manufacturing solution division

Mr. Ng Chin Keng (“Mr. Ng”), aged 38, has been the chief operating officer of Pentamaster Equipment Manufacturing Sdn. Bhd., a direct wholly-owned subsidiary of the Company (“Pentamaster Equipment”) since January 2015. Mr. Ng is primarily responsible for overseeing the daily operations of Pentamaster Equipment. He joined as an automation software programmer in January 2000. Mr. Ng obtained a bachelor’s degree of science in computing and information systems with honours from University of Lincolnshire & Humberside, United Kingdom, in July 2001.

Ng Yen Mei

Corporate Procurement Logistic Manager

Ms. Ng Yen Mei (“Ms. Ng”), aged 40, is our corporate procurement logistic manager and is primarily responsible for overseeing the procurement and logistic functions covering purchasing, sourcing, warehouse and logistic operations of the Group. Ms. Ng joined our Group in June 2004 and has approximately 20 years of experience in procurement and accounting. Prior to joining the Group, she served as materials specialist in Dell Asia Pacific Sdn, where she provided support for business operations procurement. Ms. Ng obtained a master’s degree of business administration from Paramount University of Technology, the United States in April 2007 through a distance learning course.

You Chin Teik

Vice President of New Business Development

Mr. You Chin Teik (“Mr. You”), aged 40, is the vice president of new business development and is primarily responsible for overseeing the research and development activities of our Group. He joined our Group as a vision engineer in January 1998. Mr. You obtained a higher diploma in computer studies from Kolej Damansara Utama (currently known as KDU Penang University College), Malaysia, in February 1998. He later obtained a degree of master of business administration from University of South Australia, Australia, in March 2009 through a distance learning course.

CORPORATE GOVERNANCE REPORT

The Board recognises the importance of good corporate governance and the need to ensure that it is observed and practised throughout the Group. The Group strives to attain and maintain good corporate governance practices and is committed to achieving high standard of corporate governance and business ethics to safeguard the interests of shareholders of the Company (the “Shareholders”) and to enhance corporate value and accountability.

CORPORATE GOVERNANCE PRACTICES

The shares of the Company have been listed on the Main Board of the Stock Exchange on 19 January 2018 (the “Listing Date”). The Company has adopted the Corporate Governance Code and Corporate Governance Report (the “CG Code”) contained in Appendix 14 of the Rules governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) since the Listing Date. During the period from the Listing Date to the date of this annual report, the Company has complied with all the applicable provisions of the CG Code. The CG Code is not applicable to the Company before the Listing Date.

The Company reviews its corporate governance practices regularly to ensure compliance with the CG Code.

BOARD OF DIRECTORS

Board composition

The Board is structured with a view to ensuring it is of a high calibre and has a balance of key skills and knowledge so that it works effectively as a team and individuals or groups do not dominate decision-making.

As at the date of this annual report, the Board comprises two executive Directors, one non-executive Director and three independent non-executive Directors. Details of their composition by category are as follows:

Executive Directors:

Mr. Chuah Choon Bin (*Chairman*) (appointed as Director on 12 June 2017 and re-designated as executive Director on 5 September 2017)

Ms. Gan Pei Joo (appointed as Director on 12 June 2017 and re-designated as executive Director on 5 September 2017)

Non-executive Director

Mr. Leng Kean Yong (appointed as Director on 7 August 2017 and re-designated as non-executive Director on 5 September 2017)



CORPORATE GOVERNANCE REPORT *(continued)*

Independent non-executive Directors

Dr. Chuah Jin Chong (appointed on 19 December 2017)

Ms. Chan May May (appointed on 19 December 2017)

Mr. Sim Seng Loong @ Tai Seng (appointed on 19 December 2017)

Biographical details of the Directors are set out in the section headed “Directors and Senior Management” of this annual report. None of the members of Board is related to one another, save and except that Ms. Gan Pei Joo, the executive Director, is the sister-in-law of Mr. Chuah Choon Bin, the chairman and executive Director.

Roles and responsibilities of the Board

The Board is responsible for guiding and monitoring the Company and oversees the Group’s businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board delegates the day-to-day management of the business to the executive Directors and the management team. However, certain functions are specifically reserved for the Board which include the following:

- in conjunction with management, establishing a vision and strategies for the Group;
- approving the Group’s annual business plan and budget;
- approving specific items of material capital expenditure, major acquisitions, investments and disinvestments;
- appointing Directors to the Board;
- approving any significant changes to accounting policies;
- approving public announcements, including financial statements;
- approving any interim dividends and recommending any final dividends to Shareholders;
- approving all circulars, statements and corresponding documents sent to Shareholders;
- approving the terms of reference and membership of Board Committees;
- approving Company policies which may be developed from time to time;

CORPORATE GOVERNANCE REPORT *(continued)*



- providing leadership and strategic directions for the Group;
- overseeing the proper conduct of the business;
- ensuring prudent and effective controls and risk management system; and
- Overseeing the development and implementation of shareholder communication policy.

Chairman and Chief Executive

The CG Code provision A.2.1 requires that the roles of chairman and chief executive be separate and not performed by the same individual to ensure there is a clear division of responsibilities between the running of the Board and the executives who manage the business.

Mr. Chuah Choon Bin who is the chairman of the Board of the Company, provides leadership and is responsible for ensuring that the Board is functioning properly with good corporate governance practices and procedures. The Chairman also ensures that Board discussions are conducted in a manner that all views are taken into account before a decision is made.

The Company currently has not appointed any chief executive. The day-to-day management of business has been properly delegated to different individuals by the Board.

Ms. Gan Pei Joo, being the executive Director, is responsible for the overall management, corporate affairs, finance and control functions and budgeting of the Company. With the support of the senior management, the executive Directors have the general responsibility for day-to-day management of the Group's business, implementation of the policies of the Board and making operational decisions. The Board is regularly provided with adequate, complete and reliable information of the Company in a timely manner, which includes but not limited to, the recent development and prospects of the Group. Therefore, the Board considers that there is sufficient balance of power and authority between the Board and the management of the Company, and that power is not concentrated in the hands of any one individual.

Non-executive Directors and Independent non-executive Directors

The role of the non-executive Directors is to bring independent and objective judgment to the Board which mitigates risks arising from conflict of interest or undue influence from interested parties and protects the interest of minority shareholders. The Board recognises that it is important to periodically assess whether a Director who is designated as independent continue to satisfy such designation. Towards this end, an assessment of independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules is carried out on each of the independent non-executive Directors annually by every other member of the Board.



CORPORATE GOVERNANCE REPORT *(continued)*

After the assessment, all independent non-executive Directors fulfil the independence requirements set out in Rule 3.13 of the Listing Rules. The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent. In compliance with Rule 3.13 of the Listing Rules, the Company has appointed three independent non-executive Directors, representing more than one-third of the Board.

Each of the non-executive Director and independent non-executive Directors has signed a letter of appointment with the Company for a term of three years with effect from the Listing Date. The term of appointment of each Director is subject to retirement by rotation and re-election at annual general meeting in accordance with the Articles of Association of the Company and the Listing Rules.

Board diversity policy

The Board has adopted a board diversity policy at a board meeting held on 19 December 2017. The Company recognises and embraces the importance and benefit to achieve diversity on the Company's Board to corporate governance and the Board's effectiveness. It endeavours to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. Board nomination and appointments will continue to be made on merit basis based on its business needs from time to time while taking into account diversity. Selection of Board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

The Board will review the board diversity policy on a regular basis to ensure its continued effectiveness.

Board committee

The Board has established three committees, namely the audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee") on 19 December 2017, to oversee particular aspects of the Group's affairs. Each of the three committees has sufficient resources and its specific terms of reference that are approved by the Board, relating to its responsibilities, duties, powers and functions, which are posted to the Stock Exchange's website and the Company's website.

The board committees will regularly report to the Board on decisions or recommendations made.

CORPORATE GOVERNANCE REPORT *(continued)*



Audit committee

The Company has established the Audit Committee pursuant to a resolution of the Board passed on 19 December 2017 with written terms of reference in compliance with the CG Code and Rules 3.21 of the Listing Rules. The Audit Committee is primarily responsible for (i) reviewing and monitoring the financial reporting, risk management and internal control systems of the Company, (ii) making recommendations to the Board on the appointment and removal of external auditors; (iii) performing the Company's corporate governance functions; and (iv) to monitor continuing connected transactions (if any).

The Audit Committee currently consists of the non-executive Director, namely Mr. Leng Kean Yong and two independent non-executive Directors, namely Mr. Sim Seng Loong @ Tai Seng and Ms. Chan May May. Mr Sim Seng Loong @ Tai Seng who is the chairman of the Audit Committee holds the appropriate professional qualifications as required under Rules 3.10(2) of the Listing Rules.

Pursuant to the terms of reference of the Audit Committee, Audit Committee meeting shall be held at least twice every year or more frequently if circumstances require. However, due to the fact that the Company was listed on 19 January 2018, no Audit Committee meeting has been held during the year ended 31 December 2017.

Subsequent to 31 December 2017 and up to the date of this annual report, the Audit Committee met once on 26 February 2018 and carried out the following activities to meet their responsibilities as set out in the terms of reference of the Audit Committee:-

- (a) reviewed the financial results of the Company for the year ended 31 December 2017 as well as its results announcement and subsequently presented the reports to the Board for approval before its subsequent release to Stock Exchange's website and the Company's website;
- (b) monitored the Group's financial controls, internal control and risk management systems;
- (c) reviewed the external auditors' management letter and any material queries or issues raised by the auditor; and
- (d) reviewed the remuneration, qualifications and independence of the external auditor.

Remuneration committee

The Company has established the Remuneration Committee pursuant to a resolution of the Board passed on 19 December 2017 with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee are (i) to review and make recommendations to the Board on the Company's policy and structure for all directors' and senior management's remuneration; (ii) to review the Group's policy on expense reimbursements for the Directors and senior management; (iii) to make recommendations to the Board on the remuneration of non-executive Directors; and (iv) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group.



CORPORATE GOVERNANCE REPORT *(continued)*

The Remuneration Committee currently consists of one non-executive Director, Mr. Leng Kean Yong, and two independent non-executive Directors, namely Mr. Sim Seng Loong @ Tai Seng (Chairman) and Dr. Chuah Jin Chong.

Pursuant to the terms of reference of the Remuneration Committee, Remuneration Committee meeting shall be held at least once every year. However, due to the fact that the Company was listed on 19 January 2018, no Remuneration Committee meeting has been held during the year ended 31 December 2017.

Subsequent to 31 December 2017 and up to the date of this annual report, one Remuneration Committee meeting was held on 26 February 2018 to review and make recommendation to the Board regarding the remuneration packages of Directors and senior management for the directors and senior management.

Details of the Directors' remuneration for the year are set out in Note 11 to the consolidated financial statements. The remuneration of the senior management of the Group by band for the year ended 31 December 2017 is set out below:

| Remuneration bands | Number of senior management |
|---------------------------|------------------------------------|
| HK\$1 to HK\$1,000,000 | 6 |

Nomination committee

The Company has established the Nomination Committee pursuant to a resolution of the Board passed on 19 December 2017 with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are (i) to review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually; (ii) to identify individuals suitably qualified to become Board members; (iii) to assess the independence of independent non-executive Directors; (iv) to make recommendations to the Board on the appointment or re-appointment of Directors; and (v) to review the policy on Board diversity.

The Nomination Committee currently consists of all three independent non-executive Directors, namely Dr. Chuah Jin Chong (Chairman), Mr. Sim Seng Loong @ Tai Seng and Ms. Chan May May.

Pursuant to the terms of reference of the Nomination Committee, Nomination Committee meeting shall be held at least once every year. However, due to the fact that the Company was listed on 19 January 2018, no Nomination Committee meeting has been held during the year ended 31 December 2017.

Subsequent to 31 December 2017 and up to the date of this annual report, one Nomination Committee meeting was held on 26 February 2018 to discuss and consider, among other things:

- (a) the retirement and re-nomination of directors for re-election at the forthcoming annual general meeting of the Company;
- (b) the independence of the independent non-executive directors;

CORPORATE GOVERNANCE REPORT *(continued)*

- (c) the Board structure, size, composition and board diversity (including skills, knowledge and experience etc.); and
- (d) the effectiveness of the related Board Diversity Policy.

Attendance Records of Meetings

The attendance of each Director at Board meetings, Audit Committee meeting, Remuneration Committee meeting, Nomination Committee meeting and general meeting during the year is set out in the following table:

| | Board Meeting | Audit Committee meeting | Remuneration Committee meeting | Nomination Committee meeting | General meeting |
|--|--|--------------------------------|---------------------------------------|-------------------------------------|------------------------|
| Number of meetings held during the year | 1 | Nil | Nil | Nil | Nil |
| Name of Directors | Number of meetings attended/Number of meetings entitled to attend | | | | |
| Executive Directors | | | | | |
| Mr. Chuah Choon Bin (<i>Chairman</i>) | 1/1 | – | – | – | – |
| Ms. Gan Pei Joo | 1/1 | – | – | – | – |
| Non-executive Director | | | | | |
| Mr. Leng Kean Yong | 1/1 | – | – | – | – |
| Independent non-executive Directors | | | | | |
| Dr. Chuah Jin Chong | 1/1 | – | – | – | – |
| Ms. Chan May May | 1/1 | – | – | – | – |
| Mr. Sim Seng Loong @ Tai Seng | 1/1 | – | – | – | – |



CORPORATE GOVERNANCE REPORT *(continued)*

Corporate Governance Functions

The Audit Committee is responsible for performing the corporate governance functions in compliance with the code provision D.3.1 of the CG Code, and discussed (a) to develop and review an Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development ("CPD") of the Directors and senior management; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and the Directors; and (e) to review the Company's compliance with the code and disclosure in this Corporate Governance Report.

Appointment and re-election of Directors

Each of the executive Directors has entered into a service contract with the Company and is appointed for a specific term of three years unless terminated by not less than three months' notice in writing served by either the executive Director or the Company. The non-executive Director and each of the independent non-executive has entered into a letter of appointment with the Company and is appointed for a specific term of three years.

The Company uses a formal and transparent procedure for the appointment, election and removal of Directors, which is set out in the Company's Articles of Association and is led by the Nomination Committee, which will make recommendations on appointment of new Directors to the Board for approval.

Potential new Board members are identified on the basis of skills and experience which, in the opinion of the Directors, will enable them to make a positive contribution to the performance of the Board.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

All Directors are subject to retirement and re-election in accordance with the Articles of Association. Pursuant to the Articles of Association of the Company, one-third of all Directors (whether executive or non-executive) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation and re-election at each annual general meeting at least once every three years.

The Articles of Association of the Company provides that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office only until the first general meeting of the Company or as an addition to the existing Board, shall hold office only until the next following annual general meeting of the Company after his/her appointment and shall then be eligible for re-election.

Full details of changes in the Board during the year and up to the date of this annual report are provided in the section of this annual report headed "Directors' Report".

CORPORATE GOVERNANCE REPORT *(continued)*



Continuous professional development

According to code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. For the year ended 31 December 2017 and prior to the Listing, all Directors participated in training courses on directors' responsibilities and obligations under the Listing Rules conducted by the Company's legal adviser, which covered among other topics, the CG Code as well as the company's and directors' continuing obligations. Each of the Directors has received the training materials on the first occasion of his or her appointment to ensure that he or she is fully aware of the director's responsibilities under the Listing Rules and all application laws in Hong Kong. In addition, each of the Directors has from time to time reviewed updates on laws, rules and regulations which might be relevant to their roles, duties and functions as a director of a listed company. All Directors have provided the Company with their respective training records for the year ended 31 December 2017.

Directors' and Officers' insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and Officers.

Model Code for Securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions (the "Securities Dealing Code"). Specific enquiry has been made with all the Directors and all of them confirmed that they have complied with the Model Code and the Securities Dealing Code since the Listing Date and up to the date of this annual report, except that Dr. Chuah Jin Chong ("Dr. Chuah"), an independent non-executive Director, acquired 112,000 shares of the Company on 22 January 2018. The Company, upon being notified by Dr. Chuah, informed the Stock Exchange immediately on such share transaction. The Company views such non-compliance very seriously and has taken immediate measures including arranging for the re-circulation of training materials to all Directors covering amongst others, the contents of the Model Code. The Directors have also been reminded in particular that written confirmation must be submitted and approval by the Chairman of the Board must be obtained before any dealings in the Company's securities are made. The Company will from time to time reiterate and provide reminders to the Directors regarding the procedures, rules and requirements to be complied with by them in relation to Directors' dealings in securities.



CORPORATE GOVERNANCE REPORT *(continued)*

AUDITOR'S REMUNERATION

The amount of fees charged by the Company's external auditor, Grant Thornton Hong Kong Limited ("GTHK") generally depends on the scope and volume of the external auditors' work performed.

For the year ended 31 December 2017, the remuneration paid or payable to GTHK in respect of the statutory audit services and non-audit services for our Group are as follows:

| Services rendered | HK\$ |
|---|------------------|
| Audit service | 598,000 |
| Non-audit services (mainly as the reporting accountant of the Company in relation to the Listing) | 1,842,000 |
| Total | 2,440,000 |

COMPANY SECRETARY

Ms. Tsui Sum Yi, an assistant manager, Corporate Services of Vistra (Hong Kong) Limited, an external service provider, has been engaged by the Company as its company secretary to support the Chairman, the Board and the Board Committees by ensuring good information flow and that the Board policy and procedures are followed. The primary contact person of the Company is Ms. Gan Pei Joo, the executive Director of the Company.

Ms Tsui undertook at least 15 hours of relevant professional training annually to update her skills and knowledge.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

It is the responsibility of the Directors to prepare the financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of the results and cash flows of the Group and of the Company for the financial year then ended.

The Directors consider that, in preparing the financial statements, the Group has adopted appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. The Directors also consider that all applicable approved accounting standards have been complied with and confirm that the financial statements have been prepared on a going concern basis.

The Directors were not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern. The responsibility of the external auditors is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders. The independent auditor's report by external auditor, GTHK, about their reporting responsibility on the consolidated financial statements of our Group is set out in the independent auditor's report of this annual report.

CORPORATE GOVERNANCE REPORT *(continued)*

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledged they are responsible for the adequacy and effectiveness of the Group's risk management and internal control system through the Audit Committee. The Board recognises the importance of good corporate governance and is committed to maintaining a sound system of internal control and risk management. This includes the establishment of an appropriate control environment and risk management framework, processes and structures and continually reviewing the adequacy and integrity of the said systems to safeguard shareholders' investment and the Group's assets.

The system of risk management and internal control covers finance, operations, management information systems and compliance with relevant laws, regulations, policies and procedures. There is an ongoing process to identify, evaluate and manage significant risk faced or potentially to be encountered by the Group. The process is regularly reviewed by the Board.

Due to the limitations that are inherent in any system of internal controls, these systems are designed to manage, rather than eliminate the risk of failure to achieve business objectives and it can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit Committee reviews and monitors the scope, issues, results and action plans in relation to or arising from the internal and external audits. The Audit Committee also assists the Board in fulfilling its oversight and corporate governance roles in the Group's risk management and internal controls as well as effectiveness of the internal audit functions.

Both the Audit Committee and the Board review the effectiveness of the risk management function and deliberate on the risk management and internal control frameworks, functions, processes and reports on a regular basis. The framework is continually monitored to ensure it is responsive to the changes in the business environment and clearly communicated to all levels.

The key features of the risk management and internal control systems of the Group are described under the following headings:

Risk management and internal control structure

The Board has established a risk management committee (the "RMC") which comprises the Chairman, chief financial officer and senior management to assist in monitoring the risk management process within the Group and is responsible for the establishment and the maintenance of a framework of risk management for the Group.

The Group has an established internal control structure and is committed to evaluating, enhancing and maintaining the structure to ensure effective control over the Group's business operations and to safeguard the value and security of the Group's assets. There is a clearly defined operating structure with lines of responsibilities and delegated authority in place to assist the Board to maintain a proper control environment. The control structure and environment are supported by the following activities:-

- (a) an organisation structure with clearly defined lines of responsibility, authority and accountability;
- (b) documented internal policies, guidelines, procedures and manuals, which are updated from time to time;



CORPORATE GOVERNANCE REPORT *(continued)*

- (c) regular Board, RMC and management meetings where information is provided to the Board and management covering financial performance and operation;
- (d) quarterly review of financial results by the Board and Audit Committee;
- (e) regular training and development programmes attended by employees with the objective of enhancing their knowledge and competency; and
- (f) ongoing review on the system of internal controls by an independent internal audit function. Results of such review are reported to the Audit Committee, which in turn reports to the Board.

Risk management process

The Group has an ongoing risk management process that involve, amongst others, (i) an annual risk identification and analysis exercise which involve assessment of the consequence and likelihood of risks and the development of risk management plans for mitigating such risks; and (ii) an annual review of the implementation of the risk management plans. This process is reviewed and monitored by RMC.

For the year under review, the RMC is assisted by the senior management team from various divisions to effectively embed risk management and control into the corporate culture, processes and structures within the Group. The RMC has identified and reviewed the major business risk factors affecting the Group and derive risk management strategies to manage and mitigate the risks identified. The review covered all material controls, including financial, operational and compliance controls. The following factors were considered in the risk assessment:

- (a) the nature and extent of risks facing the Group;
- (b) the extent and categories of risk which it regards as acceptable for the Group to bear;
- (c) the likelihood of the risks concerned materializing; and
- (d) the Group's ability to reduce the incidence of risks that may materialise and their impact on the business.

Moreover, the internal audit function of the Company assists Audit Committee and RMC to monitor the internal governance of the Company and provides independent assurance as to the adequacy and effectiveness of the Company's risk management and internal control systems.

CORPORATE GOVERNANCE REPORT *(continued)*

For the year ended 31 December 2017, the Board conducted a review of the effectiveness of the risk management and internal control system, which covered the areas of financial, operational, compliance and risk management. The Board considered the system of the Group to be adequate and effective during the year ended 31 December 2017. As at the date of this annual report, the Group has engaged an independent internal control consultant to review the adequacy and effectiveness of the Group's internal control system. The results and findings of such review from internal control consultant were directly reported to the Audit Committee. Going forward, the Directors will continue to regularly assess and review the effectiveness of the Group's risk management and internal control system.

DISCLOSURE OF INSIDE INFORMATION

The Group acknowledges its obligation under the Securities and Futures Ordinance and the Listing Rules, and the overriding principle that inside information should be announced immediately when it is the subject of a decision.

The Company makes reference to the "Guideline on Disclosure of Inside Information" issued by the Securities and Futures Commission of Hong Kong in 2012 in handling and dissemination of inside information. The Company has also established and implemented procedures for responding to external enquiries about the Group's affairs. Executive Directors or other senior management staff nominated by the Board as well as the Company Secretary of the Company are authorised to communicate with parties outside the Group.

SHAREHOLDERS' RIGHTS

An annual general meeting of the Company shall be held each year and at the place as may be determined by the Board. Each general meeting other than an annual general meeting, shall be called an extraordinary general meeting ("EGM").

Procedures for shareholders to convene an EGM

Pursuant to the Articles of Association of the Company (the "Articles of Association"), EGM may be convened on the written request of any two or more Shareholders deposited at the principal place of business of the Company in Hong Kong or, in the event the Company ceases to have such a principal place of business, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the request not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

EGM may also be convened on the written requisition of any one member which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.



CORPORATE GOVERNANCE REPORT *(continued)*

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Procedures for putting forward proposals at shareholders' meetings

There are no provisions in the Articles of Association allowing Shareholders to put forward new resolutions at general meetings. Shareholders who wish to make proposals or move a resolution may, however, convene an EGM in accordance with the "Procedures for shareholders to convene an EGM" set out above.

Procedures for putting enquiries to the Board

Shareholders may at any time send their enquiries and concerns in writing to the Board, which contact details are as follows:

Pentamaster International Limited
Plot 18 & 19, Technoplex
Medan Bayan Lepas
Taman Perindustrian Bayan Lepas
Phase IV, 11900 Penang
Malaysia

Telephone: (+604) 646 9212

Fax: (+604) 646 7212

Email: penta-online@pentamaster.com.my

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Board adopted a shareholders' communication policy at a board meeting held on 19 December 2017. The Board and senior management recognise their responsibilities to represent the interests of all shareholders and to maximise shareholder value. Communication with shareholders and accountability to shareholders is a high priority of the Company. The Company has established various and a wide range of communication channels with the shareholders with the objective of ensuring that the shareholders have equal and timely access to information about the Company in order to enable the shareholders to exercise their rights in an informed manner and allow them to engage actively with the Company. The channels include general meetings, annual reports, interim reports and quarterly reports, notices and circulars, announcements, and all the published disclosures submitted to the Stock Exchange. In addition, the Company updates its website from time to time to provide the shareholders with information of the Company's recent development.

CORPORATE GOVERNANCE REPORT *(continued)*

The annual general meeting of the Company will provide a forum for the Board and the shareholders to communicate. The Board will answer questions raised by shareholders at the annual general meeting. At the meeting, separate resolution will be proposed by the Chairman for each issue and voting on each resolution will be conducted by poll. The results of the poll will be posted on the respective websites of the Stock Exchange and the Company on the same day of the meeting.

The Company has been striving to maintain high transparency and communicate with the shareholders and the investors of the Company through diversified communication channels. The Company holds press conferences and analyst briefing sessions from time to time to provide the latest business information of the Company to the investors.

CONSTITUTIONAL DOCUMENTS

The Company adopted the amended and restated Memorandum and Articles of Association of the Company by resolutions in writing of the Shareholders passed on 19 December 2017, which has been effective since the Listing Date, to comply with the Listing Rules in Hong Kong. A copy of the amended and restated Memorandum and Articles of Association of the Company is posted on the Stock Exchange's website and the Company's website.

During the year, there has been no change in the Memorandum and Articles of Association of the Company.



DIRECTORS' REPORT

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

GROUP REORGANISATION AND LISTING

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 June 2017. The Company completed the corporate reorganisation (the "Reorganisation") on 17 July 2017 in preparation for the Listing, pursuant to which the Company became the holding company of the companies now comprising our Group.

Details of the Reorganisation are set out in paragraph headed "Reorganisation" in the section headed "History, Reorganisation and corporate structure" in the Prospectus.

The Company's shares were listed on the Main Board of the Stock Exchange on 19 January 2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and has not carried out any business since its incorporation.

Details of the principal activities of its subsidiaries are set out in note 17 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2017.

BUSINESS REVIEW

A review of the business of the Group during the year, an analysis of the Group's financial performance during the year using key performance indicators, a discussion on the Group's future business development and a description of the risks and uncertainties that the Group may be facing are set out in the section headed "Chairman's statement" and "Management Discussion and Analysis" on pages 4 to 6 and pages 7 to 14 of the annual report respectively. The financial risk management objectives and policies of the Group are set out in Note 39 to the consolidated financial statements. In addition, discussions on the Group's environmental policies, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are illustrated in pages 38 to 39 of the annual report. These discussions form part of this directors' report.

The analysis of the principal activities and geographical locations of the operations of the Group are set out in note 5 to the consolidated financial statements.

DIRECTORS' REPORT *(continued)*



RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 and the financial position of the Group at that date are set out in the consolidated financial statements on pages 55 to 60.

The Board does not recommend the payment of any dividend in respect of the year ended 31 December 2017.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2017, calculated under Companies Law, Cap. 22 (Laws 3 of 1961 as consolidated and revised) of the Cayman Islands, amounted to approximately MYR80,258,000.

DONATIONS

During the year under review, the Group made charitable donations amounting to MYR71,000 (2016: MYR36,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year ended 31 December 2017 are set out in note 14 to the consolidated financial statements of this annual report.

The Group's leasehold land and buildings were valued as at 30 November 2017 by Cushman & Wakefield Limited, an independent Property Valuer, and relevant property valuation report is set out in Appendix III in the Prospectus. The fair value of leasehold land and buildings amounted to MYR42,830,000.

The net valuation surplus over their carrying value amounted to MYR1,136,000. Had the leasehold land and buildings been stated at fair value, an additional amortisation and depreciation of MYR23,000 per annum in respect of valuation surplus, before taxation, would be charged against the combined statements of profit or loss and other comprehensive income.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

There are no material events affecting the Group after the end of the year under review.

FOUR YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last four financial years, as extracted from the audited consolidated financial statements and the Prospectus of the Company, is set out on page 15 of this annual report. This summary does not form part of the audited consolidated financial statements of the Group.



DIRECTORS' REPORT *(continued)*

ENVIRONMENTAL POLICIES AND PERFORMANCE

The industry that we operate in is subject to domestic and foreign health, safety and environmental laws and regulations. In order to ensure compliance with the applicable laws and regulations, our Group has established an internal policy to monitor and control health and work safety issues. Our Group's internal health and safety officer and committee are responsible for the development and implementation of health and safety rules as well as a safe system of work. Their responsibilities include carrying out studies on the trend of accident and its prevention, reviewing the effectiveness of our current health and safety system and making recommendations to our management for any improvement on relevant policies. Health and safety inspection will also be carried out by our management once every quarter. In addition, information, instruction and supervision relating to health and safety issues are provided to all of our employees and any jobs with potential safety issue. Training sessions including emergency first-aid are provided to emergency response team and employee safety and health committee and fire drill is carried out at least once a year within the Group.

In respect of environmental matters, it is our Group's policy to ensure appropriate response to any situations involving leakage of chemicals or hazardous gas emission as well as prevention or mitigation of the environmental impacts associated with the above situations. Further, we also dispose of our scrap materials and electrical wastes through companies approved by the government to handle such items. Below are some initiatives undertaken by the Group during the year:

3R Concepts (Reduce, Reuse and Recycle)

The Group remains committed in ensuring that it plays its role in sustaining a greener environment. During the year under review, the Group continued with the recycling and waste management initiative whereby recycle bins are provided to spur waste segregation for proper recycling and disposal purposes. Our employees are educated on the concept of "Reduce, Reuse and Recycle" which is an excellent way of saving energy and conserving the environment.

"Cost With No Waste" initiative

The Group is committed to make efficient use of its resources by not producing unnecessary wastage. The Group has implemented "Cost With No Waste" initiative since 2016 in ensuring no unnecessary wastage and impact in the ecosystem where it operates in.

During the year, the Group did not record any material violation of any health, work safety and environmental laws and regulations applicable to our operations that resulted in claim or penalty imposed on our Group. Our Group has complied with the relevant environmental laws and regulations in all material respects.

As required by the Listing Rules, the Company is required to report on environmental, social and governance ("ESG") information of the Group on an annual basis and regarding the same period covered in this annual report. The Company will publish the ESG report on the websites of the Company and the Stock Exchange in due course.

DIRECTORS' REPORT *(continued)*



STAKEHOLDERS' ENGAGEMENT

Stakeholders are defined as parties that have interest in the Group and can either affect or be affected by the Group's business activities. We conduct periodic engagement with our various stakeholders because we recognise that their perspectives are important in helping the Group to prioritise the actions for continuous sustainability improvement of the Group.

The following table summarises the Group's key stakeholders and how the Group engages them:

| Stakeholders | Method of Engagement |
|---------------------|---|
| Shareholders | <ul style="list-style-type: none">• Annual General Meetings• Corporate communication |
| Employees | <ul style="list-style-type: none">• Employees briefings• Open communication via internal channels such as in-house emails and open door policy |
| Customers | <ul style="list-style-type: none">• Customers' surveys and feedbacks• Face to face meetings |
| Suppliers | <ul style="list-style-type: none">• Suppliers' audit• Suppliers' feedbacks• Suppliers' meetings |
| Government | <ul style="list-style-type: none">• Compliance with government legislative framework |
| Communities | <ul style="list-style-type: none">• Meeting with local communities |

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, our Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of our Group during the reporting period and up to the date of this annual report.



DIRECTORS' REPORT *(continued)*

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors

Chuah Choon Bin (*Chairman*) (appointed as Director on 12 June 2017 and re-designated as executive Director on 5 September 2017)

Gan Pei Joo (appointed as Director on 12 June 2017 and re-designated as executive Director on 5 September 2017)

Non-executive Director

Leng Kean Yong (appointed as Director on 7 August 2017 and re-designated as non-executive Director on 5 September 2017)

Independent non-executive Directors

Chuah Jin Chong (appointed on 19 December 2017)

Chan May May (appointed on 19 December 2017)

Sim Seng Loong @ Tai Seng (appointed on 19 December 2017)

Pursuant to the Articles of Association, one-third of the Directors for the time being (or, if the number of Directors is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

Any Director appointed to fill a casual vacancy shall, hold office only until the next following general meeting of the Company and such Director shall then be eligible for re-election at the relevant general meeting by the shareholders. In the upcoming annual general meeting, all the Directors will retire and be subject to re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Directors and Senior Management" of this annual report.

DIRECTORS' REPORT *(continued)*



DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company on 19 December 2017 for an initial term of three years commencing from the Listing Date. Either party may terminate the service agreement by giving to the other not less than three months' prior notice in writing at any time during the initial term. None of the Directors who are proposed for re-election at the annual general meeting has an unexpired service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 38 to the consolidated financial statements, there was no transaction, arrangement or contract of significance to which any of the Company's holding company, subsidiaries or fellow subsidiaries was a party and in which a director of the Company or a connected entity of the director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

The Company did not enter into any contract, other than the contracts of service with the directors or any person engaged in the full-time employment of the Company, by which a person undertakes the management and administration of the whole, or any substantial part of any business of the Company during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors or their respective close associates (as defined under the Listing Rules) had any interests (other than their interest in the Company or (prior to completion of the Reorganisation) its subsidiaries) in any business which competed or may compete, either directly or indirectly, with the business of the Group or any other conflicts of interests with the Group.

CONTROLLING SHAREHOLDERS' INTEREST

Apart from the contracts relating to the Reorganisation of our Group in relation to the Listing and save as disclosed in this report, no contracts of significance were entered into between the Company or any of its subsidiaries and any Controlling Shareholders or any of its subsidiaries or any contracts of significance for the provision of services to the Company or any of its subsidiaries by any Controlling Shareholders or any of its subsidiaries.

DIRECTORS' REPORT *(continued)*

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' remuneration and the five highest paid individuals in the Group during the year are set out in Note 11 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OR DEBENTURES OF THE COMPANY, ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at the date of this annual report, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of the SFO, as recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

(i) Interest in the Company

| Name of Director | Capacity | Number of Shares <i>(Note 1)</i> | Approximate percentage of shareholding |
|---------------------|------------------|-------------------------------------|--|
| Mr. Chuah Choon Bin | Beneficial owner | 17,740,800(L) | 1.11% |
| Ms. Gan Pei Joo | Beneficial owner | 5,085,696(L) | 0.32% |
| Dr. Chuah Jin Chong | Beneficial owner | 112,000(L) | 0.01% |

(ii) Interest in an associated corporation of the Company

| Name of Director | Name of associated corporation | Capacity | Number of Shares <i>(Note 1)</i> | Approximate percentage of shareholding |
|---------------------|--------------------------------|------------------------------------|-------------------------------------|--|
| Mr. Chuah Choon Bin | PCB | Beneficial owner | 62,186,720(L) | 19.64% |
| | | Interest in spouse <i>(Note 2)</i> | 61,560(L) | 0.02% |
| Ms. Gan Pei Joo | PCB | Beneficial owner | 216(L) | 0.000068% |

Notes:

- The letter "L" denotes the person's long position in the Shares.
- Mr. Chuah Choon Bin is deemed under the SFO to be interested in the 61,560 shares in PCB held by his spouse.

DIRECTORS' REPORT *(continued)*

Save as disclosed above, as at the date of this annual report, none of the Directors or chief executive or any of their spouses or children under 18 years of age, has any interest or short position in the shares, underlying shares or debentures of the Company or any of its specified undertakings or other associated corporations which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he will be taken or deemed to have under the SFO), or was required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which was required, pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

So far as the Directors are aware, as at the date of this annual report the interests and short positions of the persons, other than the Directors or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

| Name of Shareholder | Capacity | Number of Shares <i>(Note)</i> | Approximate percentage of shareholding |
|--|------------------|-----------------------------------|--|
| PCB | Beneficial owner | 1,009,536,000(L) | 63.10% |
| GEMS Opportunities Limited Partnership | Beneficial owner | 104,192,000(L) | 6.51% |

Save as disclosed above, as at the date of this annual report, the Directors are not aware of any person who had an interest or short position in the shares and the underlying shares of the Company which would require to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Note: The letter "L" denotes the person's long position in the Shares.

EQUITY-LINKED AGREEMENTS

The Company has not entered into any equity-linked agreement (as defined in section 6 of the Companies (Director's Report) Regulation (Chapter 622D of the laws of Hong Kong)).

DEED OF NON-COMPETITION

A deed of non-competition dated 20 December 2017 has been entered into by PCB (the "Controlling Shareholder") in favour of the Company (the "Deed of Non-Competition"). Pursuant to the Deed of Non-Competition, the Controlling Shareholder has undertaken to the Company that it shall not, and will procure its close associates not to, among other matters, directly or indirectly engage, participate, or hold any right or interest in any companies or be involved in any business which is or may be in competition with the business of the Group from time to time. Details of the Deed of Non-Competition are set out in the sub-section headed "Non-Competition Undertakings" in the section headed "Relationship with our Controlling Shareholder" of the Prospectus.



DIRECTORS' REPORT *(continued)*

The Company has received an annual declaration in writing from the Controlling Shareholder confirming that it had complied with the non-competition undertakings provided to the Company under the Deed of Non-Competition. The independent non-executive Directors have reviewed the status of compliance and enforcement of the Deed of Non-Competition and confirmed that all the undertakings thereunder have been complied with for the year ended 31 December 2017.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the independent non-executive Directors to be independent.

EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence. The emoluments of the directors of the Company are determined by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

RETIREMENT SCHEMES

The Group operates a defined contribution Employees Provident Fund Scheme for employees in Malaysia. Particulars of these schemes are set out in note 2.16 to the consolidated financial statements.

As prescribed by the Employees Provident Fund ("EPF"), the Group's employees employed in Malaysia who are Malaysian are required to join the EPF scheme. For each of the years ended 31 December 2017 and 2016, the Group contributes up to 13.0% of the eligible employees' salaries to the EPF scheme.

The total costs charged to profit or loss amounting to MYR2,611,000 (2016: MYR1,982,000) represent contributions paid to the retirement benefits scheme by the Group.

PURCHASE, SALES OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the year under review.

PERMITTED INDEMNITY PROVISION

Subject to the applicable laws, every director of the Group's companies shall be entitled to be indemnified by the relevant company against all costs, charges, losses, expenses and liabilities incurred by him or her in the execution and discharge of his or her duties or in relation thereto pursuant to their respective Articles of Associations.

Such provisions were in force during the course of the financial year ended 31 December 2017 and remained in force as of the date of this report. The Company has maintained liability insurance to provide appropriate cover for the directors of the Company and its subsidiaries.

DIRECTORS' REPORT *(continued)*

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the year ended 31 December 2017 are disclosed in note 38 to the consolidated financial statements. Save as mentioned in the section "Continuing Connected Transactions" below, other related party transactions did not constitute connected transactions and continuing connected transaction as defined in chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had entered into the following continuing connected transactions with its connected persons.

Trademark Licence Agreement

On 19 December 2017, Pentamaster Technology (M) Sdn. Bhd., a direct wholly-owned subsidiary of the Company ("PT"), entered into a trademark licence agreement (the "Trademark Licence Agreement") with PCB, pursuant to which PT granted to PCB an irrevocable right to use the trademarks (the "Trademarks"), for use in PCB Group's day-to-day business on a non-transferable, non-exclusive and royalty-free basis, for an indefinite term until PCB ceases to be a Controlling Shareholder.

As the Trademarks have been widely adopted in all the businesses and activities managed and operated by the Pentamaster Group and are generally known and recognised by the public, the Trademarks have become an important means of promoting the Pentamaster Group's brand and image and a key icon in all of the Pentamaster Group's external promotion and marketing activities. The continual use of the Trademarks will ensure the continuity of the brand and image of the Pentamaster Group, thereby ensuring the long-term development and continuity of the Pentamaster Group's business. Having considered the foregoing, our Directors consider that it is reasonable to license the Trademarks to PCB to enable it to sustain the PCB Group's business operations and an indefinite duration of the agreement (until PCB ceases to be a Controlling Shareholder) is justifiable. Our Directors are of the view that the Trademark Licence Agreement has been entered into on normal commercial terms which are fair and reasonable and in the interests of the Pentamaster Group and our Shareholders as a whole.

As the applicable percentage ratios for the Trademark Licence Agreement is expected to be less than 0.1% on an annual basis, such transaction is fully exempt from the reporting, annual review, announcement, circular, independent financial advice and the independent shareholders' approval requirement under Rule 14A.76(1) of the Listing Rules.

Lease agreements in respect of office premises

On 19 December 2017, PT as landlord entered into two lease agreements, one with each of PCB and Pentamaster Smart Solution Sdn. Bhd. ("PSS"), a subsidiary of PCB respectively, as tenant (together the "Lease Agreements"), pursuant to which PT agreed to lease the premises situated at Plot 18 & 19, Technoplex, Medan Bayan Lepas, Taman Perindustrian Bayan Lepas, Phase IV, 11900 Penang, Malaysia with a gross floor area of 7,368 sq.ft and 3,000 sq.ft respectively (the "Office Premises") to each of PCB and PSS for office use.



DIRECTORS' REPORT *(continued)*

The Lease Agreements have a term of three years commencing from the Listing Date at an annual rental (including government and local council taxes) of MYR265,248 and MYR108,000, respectively. The rental to be paid to PT under each of the Lease Agreements was negotiated on an arm's length basis and on normal commercial terms determined based on the historical rental for the Office Premises and the prevailing market rent of similar premises.

Since the transactions contemplated under the Lease Agreements are similar in nature, such transactions should be aggregated pursuant to Rule 14A.81 of the Listing Rules. As the highest applicable percentage ratio for the Lease Agreements in aggregate calculated for the purpose of Chapter 14A of the Listing Rules is less than 5.0% and the annual consideration is less than HK\$3.0 million, such continuing connected transactions are within the de minimis threshold stipulated in the Rule 14A.76(1) of the Listing Rules and fully exempt from the reporting, annual review, announcement, circular, independent financial advice and the independent shareholders' approval requirement under Rule 14A.76(1) of the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales

- the largest customer: 57.1%
- five largest customers in aggregate: 80.0%

Purchases

- the largest supplier: 14.9%
- five largest suppliers in aggregate: 45.7%

At no time during the year, the Directors, their associates or any Shareholders (which to the knowledge of the Directors own more than 5.0% of the Company's share capital) has any interest in these major customers or suppliers.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the section headed "Corporate Governance Report" in this annual report.

DIRECTORS' REPORT *(continued)*

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands, which shall oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total number of issued share was held by the public as at the date of this report.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company ("AGM") will be held on Tuesday, 5 June 2018. The register of members of the Company will be closed from Thursday, 31 May 2018 to Tuesday, 5 June 2018 (the "Closure Period"), both days inclusive, for the purposes of determining the entitlements of the Shareholders to attend and vote at the forthcoming AGM. During this Closure Period, no transfer of the Company's shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers, accompanied by the relevant share certificates and properly transfer forms must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 30 May 2018.

AUDITORS

The consolidated financial statements for the year ended 31 December 2017 have been audited by GTHK, who will retire at the forthcoming annual general meeting and being eligible, offers themselves for reappointment. A resolution for the re-appointment of GTHK as auditors of the Company will be proposed at the forthcoming annual general meeting.



INDEPENDENT AUDITOR'S REPORT



Grant Thornton
致同

**TO THE MEMBERS OF
PENTAMASTER INTERNATIONAL LIMITED**

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Pentamaster International Limited (the “Company”) and its subsidiaries (collectively, the “Group”) set out on pages 55 to 126, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (“ISAs”) issued by the International Auditing and Assurance Standards Board (“IAASB”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (the “IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT *(continued)*

KEY AUDIT MATTERS

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

Revenue recognition

Refer to note 5 to the consolidated financial statements

The Key Audit Matter

The timing of revenue recognition depends on the nature of the contractual agreement with the customer which could impact the point at which the risks and rewards of ownership is passed on to the customer. As different nature of the contractual agreement yields different point of recognition, there is a risk that revenue may be misstated. Also, the Group focuses on revenue as a key performance driver.

How the matter was addressed in our audit

Our audit procedures in relation to revenue recognition included:

- Obtaining an understanding of the Group's revenue recognition processes and their application and thereafter testing controls on the occurrence of revenue.
- Performed analytical procedures to on the trend of revenue recognised to identify for any abnormalities.
- On a sampling basis, we have performed substantive testing to verify that revenue recognition criteria are being properly applied.
- Assessing the correct period for the revenue recognised by testing cut-off through assessing sales transactions taking place at either side of the end of reporting period as well as reviewing credit notes and sales returns issued after the reporting period.



INDEPENDENT AUDITOR'S REPORT *(continued)*

KEY AUDIT MATTERS *(continued)*

Valuation of inventories

Refer to notes 20 to the consolidated financial statements

The Key Audit Matter

The Group has significant inventories as at 31 December 2017. The balance is mainly comprised of work-in-progress. Inventories are valued at the lower of cost and net realisable value.

Significant judgment and estimation by management are involved in identifying inventories with net realisable values that are lower than their costs, and obsolescence, with reference to the condition of the inventories, historical and current sales information, as well as the aging of inventories to identify slow-moving items to ascertain the amount of allowance for inventories.

How the matter was addressed in our audit

Our audit procedures in relation to the valuation of inventories included:

- Obtaining an understanding of:
 - (i) how the Group accounts for the inventory costs, including material prices, cost elements related to production overheads absorption such as labour and other production costs;
 - (ii) how the Group identifies and assess inventory write downs; and
 - (iii) how the Group makes the accounting estimates for inventory write downs.
- Reviewing the consistency of the application of group policy for calculating the provision from year to year.
- Evaluating of the appropriateness of the methodologies applied in determining product cost and critically assessing the calculation.
- Testing, on a sample basis, accuracy of cost absorption against the underlying supporting documents.
- Attending inventory counts and reconciling the count results to the inventory listings to test the completeness.
- Considering the ageing of the inventories.
- On a sampling basis, we have independently reviewed the net realisable value of inventories.
- Reviewing the adequacy of the provision estimated and provided in the financial statements.

INDEPENDENT AUDITOR'S REPORT *(continued)*



KEY AUDIT MATTERS *(continued)*

Impairment of trade receivables

Refer to note 21 to the consolidated financial statements

The Key Audit Matter

The Group has significant trade receivables as at 31 December 2017 and it is subject to credit risk exposure. The calculation of the financial year end impairment provisions requires management to estimate the collectability of the debt considering the ageing of receivable and historical loss experience for receivables with similar characteristics.

How the matter was addressed in our audit

Our audit procedures in relation to impairment of trade receivables included:

- Obtaining an understanding of:
 - (i) the Group's control over the trade receivables' collection process;
 - (ii) how the Group identifies and assess the impairment of trade receivables; and
 - (iii) how the Group makes the accounting estimates for impairment.
- Reviewing the consistency of the application of group policy for calculating the impairment from year to year.
- Considering the ageing of the trade receivables.
- Reviewing collections received after the financial year end.
- Reviewing the adequacy of the impairment estimated and provided in the financial statements.



INDEPENDENT AUDITOR'S REPORT *(continued)*

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the 2017 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements 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 DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group'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 to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

INDEPENDENT AUDITOR'S REPORT *(continued)*

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements 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 consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



INDEPENDENT AUDITOR'S REPORT *(continued)*

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

We communicate with the Audit Committee 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 Audit Committee 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 Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

26 February 2018

Chiu Wing Ning

Practising Certificate No.: P04920

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

| | Notes | 2017 MYR'000 | 2016 MYR'000 |
|--|-------|------------------|-----------------|
| Revenue | 5 | 271,643 | 141,820 |
| Cost of goods sold | | (194,434) | (96,682) |
| Gross profit | | 77,209 | 45,138 |
| Other income | 6 | 5,752 | 5,586 |
| Distribution costs | | (5,257) | (2,939) |
| Administrative expenses | | (32,390) | (14,935) |
| Other operating expenses | | (85) | (47) |
| Operating profit | | 45,229 | 32,803 |
| Finance costs | 8 | (12) | (15) |
| Share of results of an associate | 18 | (38) | – |
| Profit before taxation | 9 | 45,179 | 32,788 |
| Taxation | 10 | (4,483) | 1,043 |
| Profit and total comprehensive income for the year | | 40,696 | 33,831 |
| Profit and total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | 39,646 | 31,275 |
| Non-controlling interests | | 1,050 | 2,556 |
| | | 40,696 | 33,831 |
| Earnings per share attributable to owners of the Company (sen) | | | |
| Basic and diluted | 12 | 2.82 sen | 2.22 sen |

The notes on pages 61 to 126 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

| | <i>Notes</i> | 2017 MYR'000 | 2016 MYR'000 |
|---|--------------|-------------------------|-----------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 14 | 38,209 | 38,039 |
| Leasehold land | 15 | 7,704 | 2,750 |
| Intangible assets | 16 | 932 | 1,197 |
| Interest in an associate | 18 | 1,012 | – |
| Deposits paid for acquisition of land | 19 | – | 2,508 |
| | | 47,857 | 44,494 |
| Current assets | | | |
| Inventories | 20 | 121,541 | 17,554 |
| Trade receivables | 21 | 32,648 | 32,010 |
| Other receivables, deposits and prepayments | 22 | 7,855 | 3,294 |
| Derivative financial assets | 23 | 461 | – |
| Tax recoverable | | 4 | 265 |
| Investment securities | 24 | – | 2,563 |
| Cash and cash equivalents | 25 | 81,643 | 26,298 |
| | | 244,152 | 81,984 |
| Total assets | | 292,009 | 126,478 |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Share capital | 26 | 1 | – |
| Reserves | 27 | 127,380 | 82,707 |
| Equity attributable to owners of the Company | | 127,381 | 82,707 |
| Non-controlling interests | 29 | – | 3,977 |
| Total equity | | 127,381 | 86,684 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 31 December 2017

| | <i>Notes</i> | 2017 MYR'000 | 2016 MYR'000 |
|--|--------------|-------------------------|-----------------|
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade payables | <i>30</i> | 24,551 | 10,241 |
| Other payables, accruals and provision | <i>31</i> | 123,605 | 14,898 |
| Amount due to ultimate holding company | <i>38(d)</i> | 10,799 | 10,346 |
| Amount due to a fellow subsidiary | <i>38(d)</i> | 555 | – |
| Derivative financial liabilities | <i>23</i> | – | 3,527 |
| Finance lease liabilities | <i>32</i> | 138 | 132 |
| Bank borrowing | <i>33</i> | 4,000 | – |
| Provision for taxation | | 525 | 25 |
| | | 164,173 | 39,169 |
| Non-current liabilities | | | |
| Finance lease liabilities | <i>32</i> | 36 | 174 |
| Deferred income | <i>34</i> | 419 | 451 |
| | | 455 | 625 |
| Total liabilities | | 164,628 | 39,794 |
| Total equity and liabilities | | 292,009 | 126,478 |

Gan Pei Joo
Director

Chuah Choon Bin
Director

The notes on pages 61 to 126 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

Equity attributable to owners of the Company

| | Share capital | Capital reserve | Retained profits | Sub-total | Non- controlling interests | Total equity |
|--|-----------------------------|-----------------------------|-----------------------------|----------------|----------------------------------|-----------------|
| | MYR'000 <i>(note 26)</i> | MYR'000 <i>(note 27)</i> | MYR'000 <i>(note 27)</i> | MYR'000 | MYR'000 <i>(note 29)</i> | MYR'000 |
| As at 1 January 2016 | – | 39,450 | 12,582 | 52,032 | 1,821 | 53,853 |
| Profit and total comprehensive income for the year | – | – | 31,275 | 31,275 | 2,556 | 33,831 |
| Dividends paid to ultimate holding company and non-controlling interests <i>(note 13)</i> | – | – | (600) | (600) | (400) | (1,000) |
| As at 31 December 2016 and 1 January 2017 | – | 39,450 | 43,257 | 82,707 | 3,977 | 86,684 |
| Profit and total comprehensive income for the year | – | – | 39,646 | 39,646 | 1,050 | 40,696 |
| Transactions with owners: | | | | | | |
| Issuance of share capital upon incorporation <i>(note 26)</i> | –* | – | – | –* | – | –* |
| Issuance of share capital <i>(note 26)</i> | 1 | – | – | 1 | – | 1 |
| Acquire additional interest in a subsidiary <i>(note 29)</i> | – | 5,027 | – | 5,027 | (5,027) | – |
| Total transactions with owners | 1 | 5,027 | – | 5,028 | (5,027) | 1 |
| As at 31 December 2017 | 1 | 44,477 | 82,903 | 127,381 | – | 127,381 |

* Representing one share of HK\$0.01.

The notes on pages 61 to 126 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| | 2017 MYR'000 | 2016 MYR'000 |
|---|-----------------|-----------------|
| Cash flows from operating activities | | |
| Profit before taxation | 45,179 | 32,788 |
| Adjustments for: | | |
| Amortisation of intangible assets | 721 | 1,117 |
| Amortisation of leasehold land | 61 | 61 |
| Deferred income released | (292) | (1,048) |
| Fair value gain on investment securities | – | (529) |
| Depreciation | 2,412 | 2,715 |
| Gain on disposal of property, plant and equipment | (7) | (11) |
| (Gain)/loss from changes in fair value of foreign currency forward contracts | (3,988) | 3,334 |
| Gain on disposal of investment securities | (73) | – |
| Intangible assets written off | – | 508 |
| Interest expense | 12 | 15 |
| Bank interest income | (653) | (280) |
| Inventory written downs – addition | 7 | 34 |
| Inventory written downs – reversal | (8) | (8) |
| Impairment loss on trade receivables | 106 | 469 |
| Property, plant and equipment written off | 12 | – |
| Provision for warranty – current year | 444 | 165 |
| Provision for warranty – reversal | (195) | (7) |
| Share of results of an associate | 38 | – |
| Unrealised loss/(gain) on foreign exchange | 7,230 | (1,076) |
| Operating profit before working capital changes | 51,006 | 38,247 |
| Increase in inventories | (103,986) | (11,037) |
| Increase in receivables | (9,825) | (19,634) |
| Increase in payables | 122,889 | 15,641 |
| Net change in a fellow subsidiary's balance | 555 | – |
| Cash generated from operations | 60,639 | 23,217 |
| Government grants received | 260 | 368 |
| Interest paid | (12) | (15) |
| Tax paid | (3,759) | (2,118) |
| Tax refunded | 37 | – |
| <i>Net cash from operating activities</i> | 57,165 | 21,452 |

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

For the year ended 31 December 2017

| | <i>Notes</i> | 2017 MYR'000 | 2016 MYR'000 |
|---|--------------|-------------------------------|-----------------|
| Cash flows from investing activities | | | |
| Bank interest received | | 653 | 280 |
| Proceeds from disposal of property, plant and equipment | | 7 | 11 |
| Purchase of computer software | | (456) | (472) |
| Purchase of property, plant and equipment (<i>note</i>) | | (2,594) | (2,297) |
| Deposits paid for acquisition of land | | – | (1,505) |
| Purchase of leasehold land | | (2,507) | – |
| Purchase of investment securities | | – | (2,034) |
| Proceeds from disposal of investment securities | | 2,636 | – |
| Investment in an associate | | (1,050) | – |
| <i>Net cash used in investing activities</i> | | (3,311) | (6,017) |
| Cash flows from financing activities | | | |
| Proceed from issuance of share capital | | 1 | – |
| Advances from ultimate holding company | | 453 | 1,224 |
| Proceeds from term loan | | 4,000 | – |
| Dividend paid to ultimate holding company and non-controlling interests | | – | (1,000) |
| Repayment of finance lease liabilities | | (132) | (151) |
| <i>Net cash from financing activities</i> | | 4,322 | 73 |
| Net increase in cash and cash equivalents | | 58,176 | 15,508 |
| Cash and cash equivalents at the beginning of the year | | 26,298 | 11,495 |
| Effect of foreign exchange rate changes | | (2,831) | (705) |
| Cash and cash equivalents at the end of the year | <i>25</i> | 81,643 | 26,298 |

Note:

| | 2017 MYR'000 | 2016 MYR'000 |
|--|-------------------------------|-----------------|
| Purchase of property, plant and equipment | | |
| Total acquisition cost | 2,594 | 2,697 |
| Less: Acquired under finance lease liabilities | – | (400) |
| Total cash acquisition | 2,594 | 2,297 |

The notes on pages 61 to 126 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

1.1 General information

Pentamaster International Limited (the “Company”) was incorporated in the Cayman Islands on 12 June 2017 as an exempted company with limited liability under the Companies Law. The address of its registered office is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands. The address of its principal place of business is Plot 18 & 19, Technoplex, Medan Bayan Lepas, Taman Perindustrian Bayan Lepas, Phase IV, 11900 Penang, Malaysia.

The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 19 January 2018.

The Company is an investment holding company and has not carried out any business since its incorporation save for the group reorganisation below. The Company and its subsidiaries (collectively, the “Group”) are principally engaged in (i) designing, development and manufacturing of standard and non-standard automated equipment and (ii) designing, development and installation of integrated automated manufacturing solutions (the “Listing Businesses”).

The Company’s immediate holding company is Pentamaster Corporation Berhad (“PCB”), a company incorporated in Malaysia with its shares listed on the Main Market of Bursa Malaysia Securities Berhad. As at 31 December 2017, the directors regard PCB as the ultimate holding company.

These consolidated financial statements for the year ended 31 December 2017 were approved for issue by the board of directors on 26 February 2018.

1.2 Basis of presentation

Prior to the group reorganisation (the “Reorganisation”) as detailed in the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and corporate structure” of the Company’s Prospectus dated 29 December 2017, PCB directly owned the companies operating the Listing Businesses. Pursuant to the Reorganisation, the companies engaged in the Listing Businesses were transferred to the Company and the Company became the holding company of the companies now comprising the Group on 17 July 2017.

Immediately prior to and after the Reorganisation, the Listing Businesses are controlled by PCB. Accordingly, there was a continuation of risks and benefits to PCB and the Reorganisation is considered to be a restructuring of entities under common control.

The consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group have been prepared using the merger basis of accounting as if the current group structure had been in existence throughout the years ended 31 December 2017 and 2016, or since their respective dates of incorporation, where it is a shorter period. The consolidated statement of financial position at the end of the reporting period have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates and using the book values from PCB’s perspective.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These annual consolidated financial statements on pages 55 to 126 have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (the “IASB”).

The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”).

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended IFRSs and the impacts on the Group’s financial statements, if any, are disclosed in note 3.

These consolidated financial statements have been prepared on the historical cost basis except for:

- financial instruments classified as at fair value through profit or loss, and
- derivative financial instruments (other than linked to and must be settled by delivery of unquoted equity instruments whose fair value cannot be reliably measured)

which are stated at fair values. The measurement bases are fully described in the accounting policies below.

The consolidated financial statements are presented in Ringgit Malaysia (“MYR”), which is the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousands (“MYR’000”), except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in the preparation of the consolidated financial statements. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

Subsidiaries are entities, including structured entities, controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group controls an entity when it is exposed, or has rights, to variable returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group 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.

Investment in subsidiaries is measured in the Company's statement of financial position at cost less any impairment loss, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the owners of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and the owners of the Company.

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against the Group's reserve.

When the Group loses control of a subsidiary, the profit or loss on disposal 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 and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Associates

An associate is an entity over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

In the consolidated financial statements, an investment in an associate is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal Group that is classified as held for sale). The profit or loss for the year includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on the investment in associate recognised for the year. The Group's other comprehensive income for the year includes its share of the associate's other comprehensive income for the year.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associates. Where unrealised losses on assets sales between the Group and its associate are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Associates *(continued)*

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each reporting date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs of disposal) of the associate and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

2.4 Property, plant and equipment

Property, plant and equipment are initially stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Buildings erected on leasehold land are depreciated on a straight line basis over the lease period of the land of 60 years. Depreciation on other property, plant and equipment is calculated on the straight line method to write off the cost of each asset to its residual value over its estimated useful life at the following annual rates:

| | |
|--|--------------|
| Machineries and equipment | 10% – 33.33% |
| Furniture, fittings and office equipment | 10% – 18% |
| Computers | 20% – 33.33% |
| Electrical installation | 10% |
| Motor vehicles | 20% |

Construction in progress represents assets under construction, and which are not ready for commercial use at the end of the reporting period. Construction in progress is stated at cost, and is transferred to the relevant category of assets and depreciated accordingly when the assets are completed and ready for commercial use. Construction in progress is not depreciated until the assets are ready for their intended use.

The residual value, useful life and depreciation method are reviewed at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Property, plant and equipment *(continued)*

Fully depreciated items of property, plant and equipment are retained in the accounts until the items are no longer in use.

Upon the disposal of an item of property, plant and equipment, the difference between the net disposal proceed and its carrying amount is recognised in profit or loss.

2.5 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset, even if that right is not explicitly specific in an arrangement.

Finance lease

A finance lease which includes hire purchase arrangement, is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Title may or may not eventually be transferred.

Minimum lease payments made under finance leases are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the profit or loss. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

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

Operating lease

Leases where the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised in the statement of financial position.

Assets leased out under operating leases are measured and presented according to the nature of the assets. Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the time pattern of benefits to be derived from the use of the leased asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Leases *(continued)*

Operating lease *(continued)*

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

Leasehold land which in substance is an operating lease is classified as leasehold land and is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight line basis over the term of the lease/right of use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

2.6 Intangible assets

Research and development costs

Research expenditure on internal projects is recognised as an expense when it is incurred.

Expenditure incurred on projects to develop new products is capitalised as development costs when the Group can demonstrate the technical feasibility of completing the asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Development costs which do not meet these criteria are recognised in profit or loss as incurred.

Capitalised development costs comprise direct attributable costs incurred for development. Capitalised development costs, considered to have finite useful lives, are stated at cost less accumulated amortisation and any accumulated impairment losses. Development costs are amortised using the straight-line basis over the commercial lives of the underlying products from the commencement of the commercialisation of the products.

The amortisation period and method are reviewed at the end of each reporting period to ensure that the expected useful lives of the assets are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of intangible assets.

Computer software

The cost of computer software licences are capitalised as an intangible asset. Costs include their purchase prices and any directly attributable costs of preparing the assets for their intended use. These costs are amortised on a straight line basis over the period the asset is expected to generate economic benefits.

Cost associated with developing computer software programs that will generate probable future economic benefits from the use thereof are recognised as intangible assets. Costs comprised all directly attributable development costs including an appropriate portion of relevant overheads. Computer software development cost is amortised when the asset is available for use over the period the asset is expected to generate economic benefits.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is an indication that an asset may be impaired. For the purpose of impairment testing, recoverable amount (i.e. the higher of the fair value less cost to sell and value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating units ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in the profit or loss except for assets that were previously revalued where the revaluation surplus was taken to other comprehensive income. In this case the impairment loss is also recognised in other comprehensive income up to the amount of any previous revaluation surplus.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

2.8 Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost of all inventories are determined on the first-in, first-out basis.

The cost of inventories includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work-in-progress, cost includes direct labour and attributable production overheads.

Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Financial instruments

Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

Financial instrument categories and subsequent measurement

The Group categorises financial instruments as follows:

Financial assets

(i) Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the end of the reporting period which are classified as non-current.

(ii) Fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Financial instruments *(continued)*

Financial instrument categories and subsequent measurement *(continued)*

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than financial liabilities categorised as fair value through profit or loss.

Financial liabilities are classified as current liabilities, except for those having maturity dates later than 12 months after the end of the reporting period which are classified as non-current.

Derivative financial instruments

The Group enters into derivative financial instruments such as foreign currency forward contracts to manage its exposure to foreign currency risks.

Derivatives are initially recognised at fair value at the date the derivative contract is entered and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

The Group has not designated any derivatives as hedging instruments.

Financial guarantee contracts

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

Financial guarantee contracts are recognised initially as a liability 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. If the debtor fails to make payment relating to 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 best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Financial instruments *(continued)*

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 the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

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 expired. 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.

Offsetting of financial instruments

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

2.10 Impairment of financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss) are assessed at the end of each reporting period whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

An impairment loss in respect of loans and receivables and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

2.11 Cash and cash equivalents

Cash comprises cash in hand, cash at bank and demand deposits. Cash equivalents are short term and highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value, against which bank overdraft balances, if any, are deducted.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.12 Government grants

Government grants, including non-monetary grants, shall not be recognised until there is reasonable assurance attaching to the grants will be complied with and the grants will be received.

Grants related to assets are set up as deferred income and recognised as income on a systematic basis over the estimated useful lives of the assets. Grants related to expenses are recognised as income in the period the grants become receivable. Grants related to future costs are deferred and recognised in the profit or loss in the same period as the related costs.

2.13 Provision for liabilities and warranty costs

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and 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 amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provision for warranty costs is made in respect of goods sold and still under warranty at the end of the reporting period based on the terms of warranty and historical claim experience.

2.14 Income recognition

Income is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. Income is measured at the fair value of consideration received or receivable.

Sale of goods

Revenue from sales of goods is recognised upon transfer of risks and rewards of ownership to the buyer of the goods, based on invoiced value, net of discounts and returns.

Revenue from rendering of services

Revenue from rendering of services is recognised when the service are rendered.

Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term.

Interest income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurred in connection with the borrowing of funds.

2.16 Employee benefits

Short term benefits

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

Defined contribution plans

As required by law, companies in Malaysia make contributions to the national pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense as incurred.

2.17 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases.

Deferred tax is not recognised for temporary differences arising from the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Income tax *(continued)*

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unutilised reinvestment allowance and investment tax allowance, being tax incentives that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available to set-off against the unutilised tax incentive.

2.18 Goods and services tax

Goods and services tax ("GST") is a consumption tax based on the value-added concept. GST is imposed on goods and services at every production and distribution stage in the supply chain including importation of goods and services, at the applicable tax rate of 6% in Malaysia. Input tax that a company pays on business purchases is offset against output tax.

Revenue, expenses and assets are recognised net of GST except:

- where the GST incurred in a purchase of asset or service is not recoverable from the authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with GST inclusive.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Group at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities measured at historical cost in a foreign currency at the end of the reporting period are translated to the functional currency at the exchange rate at the date of the transaction except for those measured at fair value shall be translated at the exchange rate at the date when the fair value was determined.

Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are recognised in profit or loss.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains or losses are recognised directly in other comprehensive income.

2.20 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, against the share capital account.

2.21 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue 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, who in this case are the executive directors of the Group, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

2.22 Related parties

A related party is a person or entity that is related to the Group. A related party transaction is a transfer of resources, services or obligations between the Group and its related party, regardless of whether a price is charged.

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the ultimate holding company of the Group, or the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Related parties *(continued)*

- (b) A entity is related to the Group if any of the following conditions applies:
- (i) the entity and the Group are members of the same group.
 - (ii) one entity is an associate or joint venture of the other entity.
 - (iii) both entities are joint ventures of the same third party.
 - (iv) the entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) the entity is controlled or jointly-controlled by a person identified in (a) above.
 - (vii) a person identified in (a)(i) has significant influence over the Group or is a member of the key management personnel of the Group.
 - (viii) the entity, or any member of a group when it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. ADOPTION OF NEW AND AMENDED IFRSS

New and amended IFRSs that are effective for annual periods beginning or after 1 January 2017

In the current year, the Group has applied for the first time the following amended IFRSs issued by the IASB, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2017:

| | |
|-----------------------|---|
| Amendments to IFRS 12 | As part of the Annual Improvements to IFRSs 2014-2016 Cycle |
| Amendments to IAS 7 | Disclosure Initiative |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |

Other than as noted below, the adoption of the new and amended IFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

3. ADOPTION OF NEW AND AMENDED IFRSS *(continued)*

New and amended IFRSSs that are effective for annual periods beginning or after 1 January 2017 *(continued)*

Amendments to IAS 7 “Disclosure Initiative”

The amendments require an entity to provide disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. A reconciliation between the opening and closing balances of liabilities arising from financing activities is set out in note 35. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 35, the application of these amendments has had no impact on the Group’s consolidated financial statements.

Issued but not yet effective IFRSSs

At the date of authorisation of these consolidated financial statements, the following new and amended IFRSSs have been published but are not yet effective, and have not been adopted early by the Group.

| | |
|----------------------------------|---|
| IFRS 9 | Financial Instruments ¹ |
| IFRS 15 | Revenue from Contracts with Customers ¹ |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration ¹ |
| Amendments to IFRS 2 | Classification and Measurement of Share-Based Payment Transactions ¹ |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts ¹ |
| Amendments to IAS 40 | Transfers of Investment Property ¹ |
| Amendments to IFRS 1 and IAS 28 | As part of the Annual Improvements to IFRSs 2014-2016 Cycle ¹ |
| IFRS 16 | Leases ² |
| IFRIC 23 | Uncertainty over Income Tax Treatment ² |
| IFRS 9 | Prepayment Features with Negative Compensation ² |
| IAS 28 | Long-term Interests in Associates and Joint Ventures ² |
| IFRS 17 | Insurance Contracts ³ |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴ |

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Effective for annual periods beginning on or after a date to be determined

The Group is in the process of making an assessment of the impact of these new and revised IFRSSs upon initial application. So far the Group has identified some aspects of the new and amended IFRSSs that are expected to have an impact on the Group’s accounting policies and are discussed below. Other new and amended IFRSSs are not expected to have a material impact on the Group’s financial performance and financial position.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

3. ADOPTION OF NEW AND AMENDED IFRSS *(continued)*

Issued but not yet effective IFRSs *(continued)*

IFRS 9 Financial instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, general hedge accounting and impairment requirements for financial assets. The Group expects to adopt IFRS 9 from 1 January 2018 and it is anticipated that the adoption of IFRS 9 will not have significant impact to the Group's results of operations and financial position.

Key requirements of IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The Group has assessed that its financial assets currently measured at amortised cost and fair value through profit or loss will continue with their respective classification and measurements upon the adoption of IFRS 9.

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39 "Financial instruments: recognition and measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In the opinion of the directors of the Company, based on the historical experience and existing business model of the Group, the default rate of the outstanding balances with customers is low. Hence, the directors of the Company anticipate that the application of IFRS 9 would not have material impact on the Group's future consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

3. ADOPTION OF NEW AND AMENDED IFRSS *(continued)*

Issued but not yet effective IFRSs *(continued)*

IFRS 15 Revenue from contracts with customers

IFRS 15 and the related clarification to IFRS 15 (hereinafter referred to as “IFRS 15”) presents new requirements for the recognition of revenue, replacing IAS 18 “Revenue”, IAS 11 “Construction Contracts”, and several revenue-related Interpretations. IFRS 15 establishes a single comprehensive model that applies to contracts with customers and two approaches to recognising revenue; at a point in time or overtime. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) *Timing of revenue recognition*

The Group’s revenue recognition policies are disclosed in note 2.14. Currently, revenue arising from sale of goods is generally recognised when the risks and rewards of ownership have passed to the buyers.

Under IFRS 15, revenue is recognised when customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

- (i) When the customer simultaneously receives and consumes the benefits provided by the entity’s performance, as the entity performs;
- (ii) When the entity’s performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- (iii) When the entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity’s activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when transfer of control occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

3. ADOPTION OF NEW AND AMENDED IFRSS *(continued)*

Issued but not yet effective IFRSs *(continued)*

IFRS 15 Revenue from contracts with customers *(continued)*

(b) Contracts with multiple performance obligations

Many of the Group's contracts comprise a variety of performance obligations including, but not limited to, foundation, procurement, construction of the structure, pipping and wiring, installation of equipment, finishing and after-sales services. Under IFRS 15, the Group must evaluate the separability of the promised goods or services based on whether they are "distinct". A promised good or service is "distinct" if both:

- the customer benefits from the items either on its own or together with other readily available resources; and
- it is "separately identifiable" (i.e. the Group does not provide a significant service integrating, modifying or customising it).

While this represents significant new guidance, the implementation of this new guidance will not have a significant impact on the timing or amount of revenue recognised by the Group in any year.

The Group plans to elect to use the cumulative effect transition method for the adoption of IFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by IFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. Since the number of "open" contracts for sales of goods at 31 December 2017 is limited, the Group expects that the transition adjustment to be made upon the initial adoption of IFRS 15 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial results from 2018 onwards.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 "Leases" and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Under IFRS 16, lease payments in relation to lease liability will be allocated into a principal and interest portion which will be presented as financing and operating cash flows respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

3. ADOPTION OF NEW AND AMENDED IFRSS *(continued)*

Issued but not yet effective IFRSs *(continued)*

IFRS 16 Leases *(continued)*

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement. The application of IFRS may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Further, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group did not have significant non-cancellable operating lease commitment. The directors of the Company do not anticipate that the application of IFRS 16 will have a material impact in the amounts reported and disclosures made in the financial statements.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

4.1 Judgements made in applying accounting policies

There are no significant areas of critical judgement in applying accounting policies that have any significant effect on the amount recognised in the consolidated financial statements.

4.2 Key sources of estimation uncertainty

The key assumptions 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 are discussed below:

Useful lives of depreciable assets

Machineries and equipment are depreciated on a straight line basis over their estimated useful lives. Management estimates that the useful life of the machineries and equipment to be between 3 to 10 years. Changes in the expected level of usage and technological developments could impact the economic useful lives and residual values of machineries and equipment. However, if there were such changes, the impact to the profit or loss would be negligible in view of the low carrying amount of the machineries and equipment as at the end of the reporting period.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.2 Key sources of estimation uncertainty *(continued)*

Impairment of property, plant, and equipment, leasehold land and intangible assets

The Group performs an impairment review as and when there are impairment indicators to ensure that the carrying amount of property, plant and equipment, leasehold land and intangible assets do not exceed their recoverable amount. The recoverable amount represents the present value of the estimated future cash flows expected to arise from the cash generating units to which the assets belongs. Therefore, in arriving at the recoverable amount, management exercises judgement in estimating the future cash flows, growth rate, product life cycle and discount rate. The carrying amounts of property, plant and equipment, leasehold land and intangible assets as at 31 December 2017 and 2016 are disclosed in notes 14, 15 and 16, respectively. No impairment loss are provided for property, plant and equipment, leasehold land and intangible assets during the years ended 31 December 2017 and 2016.

Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience of assets with similar credit risk characteristics. The carrying amount of trade receivables as at 31 December 2017 and 2016 and details of movement in impairment of trade receivables during the current and prior years are disclosed in note 21.

Inventories

Inventories are measured at the lower of cost and net realisable value. In estimating net realisable values, management takes into account the most reliable evidence available at the time the estimate is made. Possible changes in these estimates could result in revisions to the valuations of inventories. The carrying amount of inventories as at 31 December 2017 and 2016 are disclosed in note 20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

5. REVENUE AND SEGMENT REPORTING

5.1 Revenue

The Group's principal activities are disclosed in note 1 to these consolidated financial statements. The Group's revenue from external customers recognised during the year is as follows:

| | 2017 | 2016 |
|---|----------------|---------|
| | MYR'000 | MYR'000 |
| Invoiced value of goods sold less returns and discounts | 259,335 | 135,526 |
| Service rendered | 12,308 | 6,294 |
| | 271,643 | 141,820 |

5.2 Segment information

Business segments

The Group has two reportable segments which comprised its major business segments. These business segments are involved in different activities and are managed by segment managers who report directly to the Group's executive directors. The reportable segments are as follows:

- (i) Automated equipment: Designing, development and manufacturing of standard and non-standard automated equipment.
- (ii) Automated manufacturing solution: Designing, development and installation of integrated automated manufacturing solutions.

Inter-segment transactions have been accounted for on a basis that is consistent with the Group's accounting policies.

No other operating segments have been aggregated to form the above reportable segments. Investment holding activities are not considered as reporting segment and the related financial information has been included under "Adjustment".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

5. REVENUE AND SEGMENT REPORTING *(continued)*

5.2 Segment information *(continued)*

The Group's executive directors monitor the performance of the business segments through regular discussions held with the segment managers and review of internal management reports. The performance of each business segment is evaluated based on the segment's profit or loss which is measured on a basis not significantly different from the profit or loss included in the consolidated financial statements.

| | Automated equipment MYR'000 | Automated manufacturing solution MYR'000 | Adjustment MYR'000 | Note | Total MYR'000 |
|------------------------------------|-----------------------------------|---|-----------------------|------|------------------|
| Year ended 31 December 2017 | | | | | |
| Revenue | | | | | |
| External customers | 232,564 | 39,079 | | | 271,643 |
| Inter-segment revenue | 3,540 | 10,136 | (13,676) | (i) | - |
| Total revenue | 236,104 | 49,215 | | | 271,643 |
| Results | | | | | |
| Segment results | 48,684 | 3,457 | (7,565) | | 44,576 |
| Interest income | 614 | 39 | | | 653 |
| Interest expense | (12) | - | | | (12) |
| Share of results of an associate | - | - | (38) | | (38) |
| Profit before taxation | 49,286 | 3,496 | | | 45,179 |
| Taxation | (4,479) | (4) | | | (4,483) |
| Profit for the year | 44,807 | 3,492 | | | 40,696 |
| Assets | | | | | |
| Segment assets | 191,078 | 18,402 | (126) | | 209,354 |
| Interest in an associate | - | - | 1,012 | | 1,012 |
| Cash and cash equivalents | 75,452 | 6,190 | 1 | | 81,643 |
| Total assets | 266,530 | 24,592 | | | 292,009 |
| Liabilities | | | | | |
| Segment liabilities | 142,295 | 10,104 | 7,530 | | 159,929 |
| Finance lease liabilities | 174 | - | | | 174 |
| Bank borrowing | 4,000 | - | | | 4,000 |
| Provision for taxation | 525 | - | | | 525 |
| Total liabilities | 146,994 | 10,104 | | | 164,628 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

5. REVENUE AND SEGMENT REPORTING *(continued)*

5.2 Segment information *(continued)*

| | Automated equipment | Automated manufacturing solution | Adjustment | Total |
|--|--------------------------------|---|-------------------|----------------|
| | MYR'000 | MYR'000 | MYR'000 | MYR'000 |
| Year ended 31 December 2017 | | | | |
| Other information | | | | |
| Additions to non-current assets | 5,407 | 150 | 1,050 | 6,607 |
| Depreciation and amortisation | 2,631 | 563 | | 3,194 |
| Deferred income released | (384) | – | 92 | (292) |
| Gain on disposal of investment securities | (73) | – | | (73) |
| Gain on disposal of property, plant and equipment | (7) | – | | (7) |
| Impairment loss on trade receivables | – | 106 | | 106 |
| Inventory written downs to net realisable value | | | | |
| – addition | 6 | 1 | | 7 |
| – reversal | (7) | (1) | | (8) |
| Gain from changes in fair value of foreign currency forward contracts | (3,217) | (771) | | (3,988) |
| Unrealised loss on foreign exchange | 5,993 | 1,242 | (5) | 7,230 |
| Provision for warranty | | | | |
| – current year | 405 | 39 | | 444 |
| – reversal | (118) | (77) | | (195) |
| Property, plant and equipment written off | 7 | 5 | | 12 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

5. REVENUE AND SEGMENT REPORTING *(continued)*

5.2 Segment information *(continued)*

| | Automated equipment MYR'000 | Automated manufacturing solution MYR'000 | Adjustment MYR'000 | Note | Total MYR'000 |
|-------------------------------|-----------------------------------|---|-----------------------|------|------------------|
| Year ended 31 December 2016 | | | | | |
| Revenue | | | | | |
| External customers | 101,695 | 40,125 | | | 141,820 |
| Inter-segment revenue | 2,127 | 3,904 | (6,031) | (i) | – |
| Total revenue | 103,822 | 44,029 | | | 141,820 |
| Results | | | | | |
| Segment results | 26,940 | 4,892 | 691 | | 32,523 |
| Interest income | 240 | 40 | | | 280 |
| Interest expense | (15) | – | | | (15) |
| Profit before taxation | 27,165 | 4,932 | | | 32,788 |
| Taxation | 1,045 | (2) | | | 1,043 |
| Profit for the year | 28,210 | 4,930 | | | 33,831 |
| Assets | | | | | |
| Segment assets | 88,742 | 11,530 | (357) | | 99,915 |
| Tax recoverable | 265 | – | | | 265 |
| Cash and cash equivalents | 22,104 | 4,194 | | | 26,298 |
| Total assets | 111,111 | 15,724 | | | 126,478 |
| Liabilities | | | | | |
| Segment liabilities | 34,998 | 4,730 | (265) | | 39,463 |
| Finance lease liabilities | 306 | – | | | 306 |
| Provision for taxation | 25 | – | | | 25 |
| Total liabilities | 35,329 | 4,730 | | | 39,794 |

Note to segment information:

(i) Inter-segment revenues are eliminated on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

5. REVENUE AND SEGMENT REPORTING *(continued)*

5.2 Segment information *(continued)*

| | Automated equipment MYR'000 | Automated manufacturing solution MYR'000 | Adjustment MYR'000 | Total MYR'000 |
|--|-----------------------------------|---|-----------------------|------------------|
| Year ended 31 December 2016 | | | | |
| Other information | | | | |
| Additions to non-current assets | 4,244 | 430 | | 4,674 |
| Depreciation and amortisation | 3,104 | 789 | | 3,893 |
| Deferred income released | (357) | – | (691) | (1,048) |
| Fair value gain on investment securities | (529) | – | | (529) |
| Gain on disposal of property, plant and equipment | (11) | – | | (11) |
| Impairment loss on trade receivables | – | 469 | | 469 |
| Intangible assets written off | 508 | – | | 508 |
| Inventory written downs to net realisable value | | | | |
| – addition | 28 | 6 | | 34 |
| – reversal | (8) | – | | (8) |
| Loss from changes in fair value of foreign currency forward contracts | 2,762 | 572 | | 3,334 |
| Unrealised gain on foreign exchange | (1,001) | (75) | | (1,076) |
| Provision for warranty | | | | |
| – current year | 88 | 77 | | 165 |
| – reversal | (4) | (3) | | (7) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

5. REVENUE AND SEGMENT REPORTING *(continued)*

5.2 Segment information *(continued)*

Geographical Information

Revenue information based on the geographical location of customers are as follows:

| | 2017 MYR'000 | 2016 MYR'000 |
|---------------------|-----------------|-----------------|
| Singapore | 156,389 | 21,598 |
| Malaysia | 50,061 | 82,906 |
| PRC | 15,570 | 14,491 |
| Republic of Ireland | 10,696 | 5,552 |
| USA | 9,351 | 8,006 |
| Taiwan | 8,844 | 2,748 |
| Philippines | 8,139 | 1,030 |
| Others | 12,593 | 5,489 |
| | 271,643 | 141,820 |

All non-current assets (other than financial instruments and deferred tax assets) of the Group are located in Malaysia.

Information about major customers

Revenue from each of the major customers, which amounted to 10% or more of the total revenue, is set out as below:

| | 2017 MYR'000 | 2016 MYR'000 |
|-------------------------|-----------------|-----------------|
| Customer A ¹ | N/A | 57,376 |
| Customer B ¹ | 155,036 | 20,888 |

¹ Revenue from the Group's automated manufacturing solutions segment and automated equipment segment

N/A: Revenue from this customer during the respective year did not exceed 10% of the Group's revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

6. OTHER INCOME

| | 2017 | 2016 |
|---|----------------|---------|
| | MYR'000 | MYR'000 |
| Bank interest income | 653 | 280 |
| Deferred income released | 292 | 1,048 |
| Fair value gain on investment securities | – | 529 |
| Net gain on foreign exchange | – | 3,332 |
| Gain on disposal of property, plant and equipment | 7 | 11 |
| Gain from changes in fair value of foreign currency forward contracts | 3,988 | – |
| Gain on disposal of investment securities | 73 | – |
| Rental income | 373 | 373 |
| Others | 366 | 13 |
| | 5,752 | 5,586 |

7. EMPLOYEE BENEFITS EXPENSES (including directors' emoluments)

| | 2017 | 2016 |
|--|----------------|---------|
| | MYR'000 | MYR'000 |
| Salaries, allowances, commission and bonuses | 24,925 | 18,286 |
| Contribution to EPF | 2,611 | 1,982 |
| Social Security Organisation contribution | 388 | 260 |
| | 27,924 | 20,528 |

8. FINANCE COSTS

| | 2017 | 2016 |
|--|----------------|---------|
| | MYR'000 | MYR'000 |
| Interest on bank overdrafts | – | 1 |
| Finance charges on finance lease liabilities | 12 | 14 |
| | 12 | 15 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

9. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

| | 2017 | 2016 |
|---|----------------|---------|
| | MYR'000 | MYR'000 |
| Amortisation of intangible assets | 721 | 1,117 |
| Amortisation of leasehold land | 61 | 61 |
| Auditor's remuneration | 397 | 56 |
| Deferred income released | (292) | (1,048) |
| Depreciation | 2,412 | 2,715 |
| Fair value gain on investment securities | - | (529) |
| (Gain)/loss from changes in fair value of foreign currency forward contracts | (3,988) | 3,334 |
| Gain on disposal of property, plant and equipment | (7) | (11) |
| Gain on disposal of investment securities | (73) | - |
| Impairment loss on trade receivables | 106 | 469 |
| Intangible assets written off | - | 508 |
| Inventory written downs to net realisable value | (1) | 26 |
| Net loss/(gain) on foreign exchange | 11,440 | (3,332) |
| Operating lease charges: | | |
| - hostel | 613 | 169 |
| - office | 8 | 7 |
| Property, plant and equipment written off | 12 | - |
| Provision for warranty | | |
| - current year | 444 | 165 |
| - reversal | (195) | (7) |
| Listing expenses | 5,449 | - |

10. TAXATION

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

Malaysian Income Tax has been provided at the statutory tax rate of 24% for the year ended 31 December 2017 (2016: 24%) on the estimated chargeable income arising in Malaysia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

10. TAXATION *(continued)*

Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

| | 2017 | 2016 |
|--------------------------------|----------------|---------|
| | MYR'000 | MYR'000 |
| Malaysian income tax | | |
| Current tax | (4,137) | (1,357) |
| Under provision in prior years | (346) | (105) |
| | (4,483) | (1,462) |
| Deferred tax | | |
| Current year | - | 2,505 |
| | (4,483) | 1,043 |

The reconciliation of tax expense of the Group is as follows:

| | 2017 | 2016 |
|---|-----------------|---------|
| | MYR'000 | MYR'000 |
| Profit before taxation | 45,179 | 32,788 |
| Income tax at Malaysian statutory tax rate | (10,843) | (7,869) |
| Share of results of an associate | (9) | - |
| Income not subject to tax | 324 | 348 |
| Exempt pioneer income <i>(note (i))</i> | 8,089 | 6,116 |
| Expenses not deductible for tax purposes | (1,972) | (265) |
| Deferred tax movement not recognised | (272) | (380) |
| Reversal of deferred tax <i>(note (ii))</i> | - | 1,896 |
| Utilisation of unabsorbed tax losses and capital allowances | 546 | 1,302 |
| Under provision in prior years | (346) | (105) |
| | (4,483) | 1,043 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

10. TAXATION *(continued)*

Notes:

- (i) Certain subsidiaries of the Group have been granted pioneer status under the Promotion of Investments Act, 1986 by the Malaysian Industrial Development Authority which exempts 100% of statutory income in relation to production of certain products.
- (ii) The deferred tax liability is reversed during the year ended 31 December 2016 as it is anticipated that the temporary differences will be reversed within the pioneer status period.
- (iii) The deferred tax (assets)/liabilities not recognised as at the end of the reporting period prior to set-off are as follows:

| | 2017 | 2016 |
|-------------------------------|----------------|---------|
| | MYR'000 | MYR'000 |
| Property, plant and equipment | (10) | 131 |
| Unabsorbed tax losses | (3,250) | (3,796) |
| Others | (261) | (128) |
| | (3,521) | (3,793) |

- (iv) The unabsorbed tax losses available to be carried forward for set-off against future assessable income of a nature and amount for the tax credits to be utilised are as follows:

| | 2017 | 2016 |
|-----------------------|-----------------|----------|
| | MYR'000 | MYR'000 |
| Unabsorbed tax losses | (13,540) | (15,817) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

11. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

11.1 Directors' emoluments

Directors' and chief executive's emoluments, disclosed pursuant to the Listing Rules, section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | Year ended 31 December 2017 | | | | Total MYR'000 |
|---|-----------------------------|---|--------------------|-----------------------------------|------------------|
| | Fees MYR'000 | Salaries, allowances and benefits in kind MYR'000 | Bonuses MYR'000 | Contribution to EPF MYR'000 | |
| Executive directors: | | | | | |
| Chuah Choon Bin | - | 727 | 100 | 98 | 925 |
| Gan Pei Joo | - | 137 | 28 | 20 | 185 |
| Non-executive director: | | | | | |
| Leng Kean Yong | - | - | - | - | - |
| Independent non-executive directors: | | | | | |
| Sim Seng Loong @ Tai Seng | - | - | - | - | - |
| Chuah Jin Chong | - | - | - | - | - |
| Chan May May | - | - | - | - | - |
| | - | 864 | 128 | 118 | 1,110 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

11. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

11.1 Directors' emoluments *(continued)*

| | Year ended 31 December 2016 | | | | |
|---|-----------------------------|---|--------------------|-----------------------------------|------------------|
| | Fees MYR'000 | Salaries, allowances and benefits in kind MYR'000 | Bonuses MYR'000 | Contribution to EPF MYR'000 | Total MYR'000 |
| Executive directors: | | | | | |
| Chuah Choon Bin | – | 360 | 30 | 47 | 437 |
| Gan Pei Joo | – | – | – | – | – |
| Non-executive director: | | | | | |
| Leng Kean Yong | – | – | – | – | – |
| Independent non-executive directors: | | | | | |
| Sim Seng Loong @ Tai Seng | – | – | – | – | – |
| Chuah Jin Chong | – | – | – | – | – |
| Chan May May | – | – | – | – | – |
| | – | 360 | 30 | 47 | 437 |

Notes:

- (i) Chuah Choon Bin and Gan Pei Joo were appointed as directors of the Company on 12 June 2017 and were re-designated as executive directors of the Company on 5 September 2017.
- (ii) Leng Kean Yong was appointed as director of the Company on 7 August 2017 and was re-designated as a non-executive director of the Company on 5 September 2017.
- (iii) Sim Seng Loong @ Tai Seng, Chuah Jin Chong and Chan May May were appointed as independent non-executive directors on 19 December 2017.
- (iv) Chuah Choon Bin is also the Group's chairman.

The emoluments shown above represents emoluments received and receivable from the Group by these directors in their capacity as employees/directors of the Company and subsidiaries during the years ended 31 December 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

11. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

11.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2017 included one (2016: nil) director whose emoluments are disclosed in note 11.1. The aggregate of the emoluments in respect of the remaining four (2016: five) individuals are as follows:

| | 2017 | 2016 |
|---|----------------|---------|
| | MYR'000 | MYR'000 |
| Salaries, allowances and benefits in kind | 1,268 | 1,213 |
| Bonuses | 81 | 1,181 |
| Contribution to EPF | 162 | 287 |
| | 1,511 | 2,681 |

The above individuals' emoluments are within the following bands:

| | Number of individuals | |
|---------------------|------------------------------|------|
| | 2017 | 2016 |
| Emolument bands: | | |
| Nil – HK\$1,000,000 | 4 | 5 |

No director or the five highest paid individuals received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2017 (2016: Nil). No director or the five highest paid individual has waived or agreed to waive any emolument during the year ended 31 December 2017 (2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

12. EARNINGS PER SHARE

The basic earnings per share is calculated based on the profit for the year attributable to owners of the Company and 1,408,000,000 ordinary shares for the years ended 31 December 2017 and 2016, which have been adjusted retrospectively on the assumption that the Reorganisation and the Capitalisation Issue as set out in notes 1.2, 26(i) and 26(iv) had been effective since 1 January 2016.

| | 2017 | 2016 |
|--|----------------|---------|
| | MYR'000 | MYR'000 |
| Profit for the year attributable to owners of the Company for the purposes of basic earnings per share | 39,646 | 31,275 |

There were no dilutive potential ordinary shares during both years and therefore, diluted earnings per share equals to basic earnings per share.

13. DIVIDENDS

The directors of the Company do not recommend the payment of any dividend for the year ended 31 December 2017.

For the year ended 31 December 2016, dividends were declared and paid by the subsidiary now comprising the Group, Pentamaster Instrumentation, to PCB and the non-controlling interests at MYR600,000 and MYR400,000, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

14. PROPERTY, PLANT AND EQUIPMENT

| | Buildings on leasehold land MYR'000 | Machineries and equipment MYR'000 | Furniture, fittings and office equipment MYR'000 | Computers MYR'000 | Electrical installation MYR'000 | Motor vehicles MYR'000 | Construction in progress MYR'000 | Total MYR'000 |
|---------------------------------|--|--|--|----------------------|---------------------------------------|------------------------------|--|------------------|
| Cost | | | | | | | | |
| As at 1 January 2016 | 43,590 | 10,594 | 1,712 | 808 | 2,324 | 286 | - | 59,314 |
| Additions | 183 | 1,174 | 29 | 596 | - | 715 | - | 2,697 |
| Disposals | - | - | - | - | - | (46) | - | (46) |
| As at 31 December 2016 | 43,773 | 11,768 | 1,741 | 1,404 | 2,324 | 955 | - | 61,965 |
| As at 1 January 2017 | 43,773 | 11,768 | 1,741 | 1,404 | 2,324 | 955 | - | 61,965 |
| Additions | 460 | 12 | 19 | 758 | - | - | 1,345 | 2,594 |
| Disposals | - | - | - | - | - | (32) | - | (32) |
| Written off | - | (578) | (1,024) | (146) | (12) | - | - | (1,760) |
| As at 31 December 2017 | 44,233 | 11,202 | 736 | 2,016 | 2,312 | 923 | 1,345 | 62,767 |
| Accumulated depreciation | | | | | | | | |
| As at 1 January 2016 | 8,680 | 8,324 | 1,587 | 448 | 2,102 | 116 | - | 21,257 |
| Current charge | 778 | 1,254 | 51 | 276 | 210 | 146 | - | 2,715 |
| Disposals | - | - | - | - | - | (46) | - | (46) |
| As at 31 December 2016 | 9,458 | 9,578 | 1,638 | 724 | 2,312 | 216 | - | 23,926 |
| As at 1 January 2017 | 9,458 | 9,578 | 1,638 | 724 | 2,312 | 216 | - | 23,926 |
| Current charge | 785 | 933 | 33 | 473 | 2 | 186 | - | 2,412 |
| Disposals | - | - | - | - | - | (32) | - | (32) |
| Written off | - | (572) | (1,018) | (146) | (12) | - | - | (1,748) |
| As at 31 December 2017 | 10,243 | 9,939 | 653 | 1,051 | 2,302 | 370 | - | 24,558 |
| Carrying amount | | | | | | | | |
| As at 31 December 2017 | 33,990 | 1,263 | 83 | 965 | 10 | 553 | 1,345 | 38,209 |
| As at 31 December 2016 | 34,315 | 2,190 | 103 | 680 | 12 | 739 | - | 38,039 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The carrying amount of property, plant and equipment held under finance lease is as follows:

| | 2017 MYR'000 | 2016 MYR'000 |
|----------------|-----------------|-----------------|
| Motor vehicles | 364 | 479 |

15. LEASEHOLD LAND

| | 2017 MYR'000 | 2016 MYR'000 |
|---|-----------------|-----------------|
| Cost | | |
| At the beginning of the year | 3,690 | 3,690 |
| Additions | 5,015 | – |
| At the end of the year | 8,705 | 3,690 |
| Accumulated amortisation | | |
| At the beginning of the year | 940 | 879 |
| Current charge | 61 | 61 |
| At the end of the year | 1,001 | 940 |
| Carrying amount at the end of the year | 7,704 | 2,750 |

As at 31 December 2017, the Group's leasehold land of MYR5,015,000 (2016: nil) has been pledged to secure a bank loan. Details of the secured bank borrowing is set out in note 33.

16. INTANGIBLE ASSETS

| | 2017 MYR'000 | 2016 MYR'000 |
|---|-----------------|-----------------|
| Development expenditure <i>(note (16.1))</i> | 350 | 699 |
| Computer software acquired <i>(note (16.2))</i> | 582 | 498 |
| Carrying amount at the end of the year | 932 | 1,197 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

16. INTANGIBLE ASSETS *(continued)*

16.1 Development expenditure

| | 2017 | 2016 |
|---|----------------|---------|
| | MYR'000 | MYR'000 |
| Cost | | |
| Balance at the beginning of the year | 19,850 | 20,697 |
| Written off <i>(note (ii))</i> | - | (847) |
| Balance at the end of the year | 19,850 | 19,850 |
| Accumulated amortisation | | |
| Balance at the beginning of the year | 15,561 | 15,380 |
| Current charge | 349 | 520 |
| Written off <i>(note (ii))</i> | - | (339) |
| Balance at the end of the year | 15,910 | 15,561 |
| Impairment loss | 3,590 | 3,590 |
| Carrying amount at the end of the year | 350 | 699 |

Notes:

- (i) Development expenditure relates to development of test and measurement instruments and test handler and solutions. Development expenditure is amortised over the estimated commercial life of 5 years. Amortisation commences upon commercialisation of the respective products developed.
- (ii) The development expenditure written off relates to two models which their demand fell short of management's initial expectation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

16. INTANGIBLE ASSETS *(continued)*

16.2 Computer software

| | 2017 | 2016 |
|---|----------------|---------|
| | MYR'000 | MYR'000 |
| Cost | | |
| Balance at the beginning of the year | 3,051 | 2,579 |
| Additions | 456 | 472 |
| Written off | (40) | – |
| Balance at the end of the year | 3,467 | 3,051 |
| Accumulated amortisation | | |
| Balance at the beginning of the year | 2,553 | 1,956 |
| Current charge | 372 | 597 |
| Written off | (40) | – |
| Balance at the end of the year | 2,885 | 2,553 |
| Carrying amount at the end of the year | 582 | 498 |

The cost of computer software comprised the cost of acquisition of software and all directly attributable costs of preparing the assets for their intended use and are amortised on a straight line basis over the estimated life of 2 to 5 years. The amount amortised is charged to profit or loss of the Group under administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

17. INTERESTS IN SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2017 and 2016 are as follows:

| Name of subsidiary | Place of incorporation/ operations | Issued and paid up capital | Percentage of ownership interests attributable to the Company | | Principal activities |
|---|---------------------------------------|---|---|------|---|
| | | | 2017 | 2016 | |
| Directly held | | | | | |
| Pentamaster Technology (M) Sdn. Bhd. ("Pentamaster Technology") | Malaysia | MYR4.3 million comprising 2,400,000 shares | 100% | 100% | Design, manufacturing and installation of computerised automation systems and equipment |
| Pentamaster Instrumentation Sdn. Bhd. ("Pentamaster Instrumentation") | Malaysia | MYR0.3 million comprising 300,000 shares | 100% | 60% | Design and manufacturing of automated testing equipment and test and measurement system |
| Pentamaster Equipment Manufacturing Sdn. Bhd. ("Pentamaster Equipment") | Malaysia | MYR13.16 million comprising 13,160,000 shares | 100% | 100% | Equipment design and manufacturing services and the manufacturing of high precision machine parts |

18. INTEREST IN AN ASSOCIATE

| | 2017 MYR'000 | 2016 MYR'000 |
|--|-----------------|-----------------|
| Cost of investment | 1,050 | — |
| Share of post-acquisition results and other comprehensive income | (38) | — |
| | 1,012 | — |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

18. INTEREST IN AN ASSOCIATE *(continued)*

Details of the Group's interest in an associate, which is unlisted corporate entity, are as follows:

| Name of associate | Place of incorporation/ operations | Issued and paid up capital | Attributable equity interest held by the Group | | Principal activities |
|---|---------------------------------------|--|--|------|--|
| | | | 2017 | 2016 | |
| Penang Automation Cluster Sdn. Bhd. ("PAC") | Malaysia | MYR3 million comprising 3,000,000 shares | 35% | – | Providing value added engineering development and technical training to the automation cluster companies specialised in the area of design, development and manufacture of high precision metal fabrication components, modules and systems for semiconductor, electronics, automotive, aerospace and other high growth industries in the region |

The Group directly invested in PAC together with two Independent Third Parties in early 2017. PAC is a strategic partner to build and manage the local supply chain ecosystem in the country that supports the Group's long-term strategy to grow its business in providing a wider range of high-end automated equipment supporting various industries globally. As at 31 December 2017, PAC is still in development stage and is expected to commence operations by year 2019. Having considered the net asset position and income generating potential of PAC, the directors are of the opinion that there is no indication of impairment.

Set out below are the summarised financial information of PAC which is accounted for using the equity method:

| | 2017 MYR'000 | 2016 MYR'000 |
|---|-----------------|-----------------|
| Current assets | 2,891 | – |
| Current liabilities | (9) | – |
| Net assets | 2,882 | – |
| Revenue | – | – |
| Loss for the year and total comprehensive loss for the year | (109) | – |
| Dividend received from the associate | – | – |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

18. INTEREST IN AN ASSOCIATE *(continued)*

A reconciliation of the above summarised financial information to the carrying amount of the Group's interest in PAC is set out below:

| | 2017 MYR'000 | 2016 MYR'000 |
|--|-------------------------------|-----------------|
| Net assets of PAC | 2,882 | – |
| Proportion of ownership interests held by the Group | 35% | – |
| Goodwill | 3 | – |
| Carrying amount of the Group's interest in an associate | 1,012 | – |

19. DEPOSITS PAID FOR ACQUISITION OF LAND

The amount represents partial payments for acquisition of a piece of leasehold land situated in Penang, Malaysia. The Group has fully settled the payment for the acquisition of the leasehold land on 12 May 2017 and reclassified the deposits paid for acquisition of the said land to leasehold land (note 15) during the year ended 31 December 2017.

20. INVENTORIES

| | 2017 MYR'000 | 2016 MYR'000 |
|------------------|-------------------------------|-----------------|
| Raw material | 3,239 | 998 |
| Work-in-progress | 117,992 | 16,156 |
| Finished goods | 310 | 400 |
| Total | 121,541 | 17,554 |

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

| | 2017 MYR'000 | 2016 MYR'000 |
|---|-------------------------------|-----------------|
| Cost of inventories recognised as cost of sales, including: | 194,435 | 96,656 |
| – write down to net realisable value | 7 | 34 |
| – reversal of write down to net realisable value | (8) | (8) |

The reversal of inventory written downs was made when the related inventories were sold above their carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

21. TRADE RECEIVABLES

| | 2017 | 2016 |
|-------------------------------------|----------------|---------|
| | MYR'000 | MYR'000 |
| Trade receivables | 32,754 | 32,715 |
| Less: allowance for impairment loss | (106) | (705) |
| | 32,648 | 32,010 |

The normal credit terms granted to trade receivables range from 0 to 90 days. Based on the invoice date, the ageing analysis of the trade receivables, net of provision for impairment, was as follows:

| | 2017 | 2016 |
|-----------------|----------------|---------|
| | MYR'000 | MYR'000 |
| 0-30 days | 8,355 | 7,248 |
| 31-60 days | 7,306 | 7,308 |
| 61-90 days | 4,021 | 2,172 |
| 91-180 days | 11,609 | 12,046 |
| 181 to 270 days | 1,347 | 2,308 |
| Over 270 days | 10 | 928 |
| | 32,648 | 32,010 |

The movement in the allowance for impairment loss of trade receivables is as follows:

| | 2017 | 2016 |
|--------------------------------------|----------------|---------|
| | MYR'000 | MYR'000 |
| Balance at the beginning of the year | 705 | 373 |
| Current year | 106 | 469 |
| Written off | (705) | (137) |
| Balance at the end of the year | 106 | 705 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

21. TRADE RECEIVABLES *(continued)*

At the end of the reporting date, the directors review receivables for evidence of impairment on both an individual and collective basis, taking into account the historical payment records, the length of the overdue period and the financial strength of the customers. As at 31 December 2017, the Group has determined trade receivables of MYR106,000 (2016: MYR705,000) as individually impaired. Based on this assessment, impairment loss of MYR106,000 (2016: MYR469,000) has been recognised during the year ended 31 December 2017. The impaired trade receivables are due from customer who have defaulted/delayed in payments.

The ageing analysis of the Group's trade receivables that were past due as at the reporting date but not impaired, based on due date is as follows:

| | 2017 | 2016 |
|-------------------------------|----------------|---------|
| | MYR'000 | MYR'000 |
| Neither past due nor impaired | 7,568 | 8,127 |
| 1-30 days past due | 9,722 | 6,298 |
| 31-60 days past due | 5,284 | 2,907 |
| 61-90 days past due | 4,421 | 9,545 |
| 91-180 days past due | 4,608 | 3,907 |
| 181 to 270 days past due | 1,045 | 817 |
| Over 270 days past due | - | 409 |
| | 32,648 | 32,010 |

Trade receivables that are neither past due nor impaired are creditworthy customers with good payment record with the Group.

Trade receivables that were past due but not impaired are due from diversified customers that have a good track record of credit with the Group. Based on past credit history, management believe that no impairment allowance is necessary as these customers have no recent history of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

22. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2017 MYR'000 | 2016 MYR'000 |
|---|-----------------|-----------------|
| Other receivables | 58 | 146 |
| Refundable deposits | 602 | 411 |
| Non-refundable deposits <i>(note (i))</i> | 1,053 | 1,541 |
| Prepayments | 1,207 | 162 |
| GST claimable | 3,011 | 1,034 |
| Receivables from PCB <i>(note (ii))</i> | 1,924 | – |
| | 7,855 | 3,294 |

Notes:

- (i) Non-refundable deposits are mainly for deposits paid to suppliers for purchase of raw materials/services.
- (ii) Receivables from PCB represented PCB's portion of the listing expenses incurred.

23. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

The Group enters into foreign currency forward contracts to manage its exposure to sales and purchases transactions that are denominated in foreign currencies. Foreign currency forward contracts are recognised as derivatives, categorised as fair value through profit or loss and are measured at their fair values with gains or losses recognised in the profit or loss. The foreign currency forward contracts are not designated as cash flow or fair value hedges and are entered into for periods consistent with currency transaction exposure. Such derivatives do not qualify for hedge accounting. The fair value of these contracts has been measured as described in note 39.6.

| | 2017 MYR'000 | 2016 MYR'000 |
|--|-----------------|-----------------|
| Derivatives at fair value through profit or loss | | |
| – Foreign currency forward contracts | | |
| Assets | 461 | – |
| Liabilities | – | (3,527) |
| Notional value of contracts | 94,181 | 53,585 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

24. INVESTMENT SECURITIES

| | 2017 MYR'000 | 2016 MYR'000 |
|---|-----------------|-----------------|
| Fair value through profit and loss: | | |
| – Listed equity securities outside Malaysia | – | 2,563 |

The listed equity securities were designated as financial assets at fair value through profit or loss on initial recognition and were held on behalf of the Group by a corporate consultancy firm. The fair value of these securities had been measured as described in note 39.6.

25. CASH AND CASH EQUIVALENTS

| | 2017 MYR'000 | 2016 MYR'000 |
|---|-----------------|-----------------|
| Cash and bank balances | 67,537 | 11,831 |
| Fixed deposits with a licensed bank <i>(note (i))</i> | 4,702 | 3,391 |
| Short-term investment <i>(note (ii))</i> | 9,404 | 11,076 |
| | 81,643 | 26,298 |

Notes:

- (i) The fixed deposits earn 3.00% (2016: 3.55%) interest per annum and have a maturity of 1 month.
- (ii) The effective interest rate for the short-term investment is 3.37% (2016: 3.57%) per annum and can be redeemed at any time upon notice being given to the financial institution. The short-term investment represents investment in unit trusts. The unit trusts invest in a mixture of money market instruments and fixed deposits with different maturity period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

26. SHARE CAPITAL

| | Number of shares | MYR'000 |
|---|----------------------|---------------|
| Authorised: | | |
| Ordinary shares of HK\$0.01 each upon incorporation <i>(note (i))</i> | 38,000,000 | 208 |
| Increase in authorised share capital <i>(note (ii))</i> | 4,962,000,000 | 25,844 |
| As at 31 December 2017 | 5,000,000,000 | 26,052 |
| Issued and fully paid: | | |
| Ordinary share of HK\$0.01 upon incorporation <i>(note (i))</i> | 1 | —* |
| Issuance of share capital <i>(note (ii))</i> | 238,095 | 1 |
| As at 31 December 2017 | 238,096 | 1 |

* Representing HK\$0.01.

Notes:

- (i) The Company was incorporated in the Cayman Islands on 12 June 2017 with an authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each. Upon incorporation, one share of HK\$0.01 was allotted and issued at par and such share was transferred to PCB on the same day. On 17 July 2017, the Company acquired the entire issued share capital of Pentamaster Technology, Pentamaster Equipment and Pentamaster Instrumentation from PCB at a total consideration of MYR86,776,487. The consideration was settled by issuance of 999 shares of the Company to PCB on 21 July 2017. On 8 December 2017, 219,551 shares and 17,545 shares of HK\$0.01 each were allotted and issued to PCB and another shareholder.
- (ii) Pursuant to the written resolution of the shareholder passed on 19 December 2017, the authorised share capital of the Company was increased from HK\$380,000 to HK\$50,000,000 by creation of an additional of 4,962,000,000 shares of HK\$0.01 each, each ranking pari passu with the shares then in issue in all respects.
- (iii) There was no authorised and issued capital as at 31 December 2016 since the Company has not yet been incorporated.
- (iv) On 18 January 2018, 192,000,000 ordinary shares of HK\$0.01 each of the Company were allotted and issued at a price of HK\$1 per share in relation to the public offer and placing ("Share Offer").

The proceeds of HK\$1,920,000 (or MYR971,136) represents the par value of the shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK\$190,080,000 (or MYR96,142,464), before issuing expenses, were credited to the Company's share premium account. The shares allotted and issued rank pari passu with the then existing issued shares in all respects.

Pursuant to the written resolutions of the shareholder passed on 19 December 2017, subject to the share premium account of the Company being credited as a result of the Share Offer, the directors were authorised to allot and issue a total of 1,407,761,904 shares credited as fully paid at par by way of capitalisation of the sum of HK\$14,077,619 (or MYR7,120,460) standing to the credit of the share premium account of the Company ("Capitalisation Issue"). The Capitalisation Issue was completed on 19 January 2018. The shares allotted and issued rank pari passu in all respects with the then existing issued shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

27. RESERVES

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2017 and 2016 are presented in the consolidated statement of changes in equity of the consolidated financial statements.

Capital reserve

The capital reserve of the Group as at 31 December 2016 represents (a) the share capital of the subsidiaries now comprising the Group held by PCB before the Reorganisation and (b) the waiver of the amount due to ultimate holding company of MYR21,690,000 during the year ended 31 December 2014 as deemed contribution from ultimate holding company.

The capital reserve of the Group as at 31 December 2017 represents (a) the difference between the share capital of subsidiaries acquired by the Company and the nominal value of the Company's share issued for the acquisition under the Reorganisation, (b) the waiver of the amount due to ultimate holding company of MYR21,690,000 during the year ended 31 December 2014 as deemed contribution from ultimate holding company and (c) the proportionate of the carrying amount of the net assets of Pentamaster Instrumentation when PCB acquired its additional 40% interest in June 2017 (note 29).

Retained profits

Retained profits represent accumulated net profit or losses less dividends paid.

28. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | <i>Note</i> | 2017 MYR'000 |
|---------------------------------|-------------|-------------------------|
| ASSETS | | |
| Non-current asset | | |
| Interests in subsidiaries | | 86,776 |
| Current assets | | |
| Other receivable and prepayment | | 2,854 |
| Cash and cash equivalents | | 1 |
| | | 2,855 |
| Total assets | | 89,631 |
| EQUITY AND LIABILITIES | | |
| Share capital | 24 | 1 |
| Reserves (<i>note</i>) | | 80,258 |
| Total equity | | 80,259 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

28. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

| | 2017 MYR'000 |
|-------------------------------------|-----------------|
| LIABILITIES | |
| Current liabilities | |
| Accruals | 853 |
| Amount due to a subsidiary | 8,519 |
| Total liabilities | 9,372 |
| Total equity and liabilities | 89,631 |

Note:

The movements of the Company's reserves are as follows:

| | Capital reserves MYR'000 | Accumulated losses MYR'000 | Total MYR'000 |
|--|--------------------------------|----------------------------------|------------------|
| Loss and total comprehensive loss for the year | – | (6,518) | (6,518) |
| Issuance of share capital <i>(note 26 (i))</i> | 86,776 | – | 86,776 |
| As at 31 December 2017 | 86,776 | (6,518) | 80,258 |

Gan Pei Joo
Director

Chuah Choon Bin
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

29. A SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

The Group includes a subsidiary, Pentamaster Instrumentation, with material non-controlling interest ("NCI"), the details and the summarised financial information are as follows:

| | 2017 MYR'000 | 2016 MYR'000 |
|---|-------------------------------|-----------------|
| NCI percentage of ownership interest and voting interest | - | 40% |
| Carrying amount of NCI | - | 3,977 |
| Profit and total comprehensive income attributable to NCI | - | 2,556 |
| Dividend paid to NCI | - | 400 |

Summarised financial information:

| | 2017 MYR'000 | 2016 MYR'000 |
|-------------------------|-------------------------------|-----------------|
| Non-current assets | - | 269 |
| Current assets | - | 12,566 |
| Non-current liabilities | - | (70) |
| Current liabilities | - | (2,822) |
| Net assets | - | 9,943 |

| | 2017 MYR'000 | 2016 MYR'000 |
|--|-------------------------------|-----------------|
| Revenue | 6,597 | 14,960 |
| Profit and total comprehensive income for the year | 2,625 | 6,390 |
| Net cash flows from operating activities | 4,452 | 5,694 |
| Net cash flows (used in)/from investing activities | (18) | 1,214 |
| Net cash flows from/(used in) financing activities | 81 | (954) |
| Net cash inflow | 4,515 | 5,954 |

In June 2017, PCB acquired additional 40% interest in Pentamaster Instrumentation at a cash consideration of MYR6,000,000, which become a wholly owned subsidiary of the Group under merger basis since then. The balance of non-controlling interest of MYR 5,027,000 was transferred to capital reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

30. TRADE PAYABLES

The normal credit terms granted by trade payables range from 30 to 120 days. Based on the invoice date, the ageing analysis of the trade payables was as follows:

| | 2017 MYR'000 | 2016 MYR'000 |
|---------------|-----------------|-----------------|
| 0-30 days | 13,723 | 7,613 |
| 31-60 days | 6,150 | 1,528 |
| 61-90 days | 2,032 | 644 |
| 91-120 days | 1,457 | 248 |
| Over 120 days | 1,189 | 208 |
| | 24,551 | 10,241 |

31. OTHER PAYABLES, ACCRUALS AND PROVISION

| | 2017 MYR'000 | 2016 MYR'000 |
|---------------------------------|-----------------|-----------------|
| Other payables | 1,439 | 600 |
| Deposits received <i>(note)</i> | 116,031 | 10,787 |
| Accruals | 5,691 | 3,316 |
| Provision for warranty | 444 | 195 |
| | 123,605 | 14,898 |

Note: This is in respect of deposits received from customers upon placing sales orders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

32. FINANCE LEASE LIABILITIES

| | 2017 MYR'000 | 2016 MYR'000 |
|--|-----------------|-----------------|
| Total minimum lease payments: | | |
| Due within one year | 144 | 144 |
| Due in the second to fifth years | 36 | 180 |
| | 180 | 324 |
| Future finance charges | (6) | (18) |
| Present value of finance lease liabilities | 174 | 306 |
| Present value of minimum lease payments: | | |
| Due within one year | 138 | 132 |
| Due in the second to fifth years | 36 | 174 |
| | 174 | 306 |
| Less: Portion due within one year included under current liabilities | (138) | (132) |
| Portion due after one year included under non-current liabilities | 36 | 174 |

The Group has entered into finance leases for items of motor vehicles. As at 31 December 2017, the effective interest rate of the finance lease liabilities is 2.63% (2016: 2.63%) per annum, and finance lease liabilities are secured over the leased assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

33. BANK BORROWING

As at 31 December 2017, the Group's bank borrowing contain a repayable on demand clause and are shown under current liabilities. The carrying amounts of bank borrowings are considered to be a reasonable approximate of their fair values. As at 31 December 2017, the Group's bank borrowing, based on the scheduled repayment dates set out in the loan agreements, is repayable as follows:

| | 2017 | 2016 |
|----------------------------|----------------|---------|
| | MYR'000 | MYR'000 |
| Within one year | 320 | – |
| In the second year | 336 | – |
| In the third to fifth year | 1,108 | – |
| After the fifth year | 2,236 | – |
| | 4,000 | – |

Note:

As at 31 December 2017, the bank borrowing is secured, repayable by monthly instalments with terms of 10 years and bears interest at floating rates. The bank borrowing is denominated in MYR, with effective interest rate of 4.75% per annum. The bank borrowing is secured by the leasehold land of the Group (note 15) and corporate guarantee as provided by PCB up to a limit of MYR4,000,000. The Group is still in progress of applying for the release with the bank of the corporate guarantee by PCB and to be replaced by a corporate guarantee to be given by the Company. In the opinion of directors of the Company, the Group is not required to incur significant additional cost in obtaining the said corporate guarantee.

Further details of the Group's management of interest rate risk were set out in note 39.4.

The Group's banking facilities are subject to the fulfilment of covenants as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become payable on demand. In addition, the bank loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations. The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the loans and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

34. DEFERRED INCOME

| | 2017 MYR'000 | 2016 MYR'000 |
|--------------------------------------|-----------------|-----------------|
| Balance at the beginning of the year | 451 | 1,131 |
| Received during the year | 260 | 368 |
| Released to profit or loss | (292) | (1,048) |
| Balance at the end of the year | 419 | 451 |

Deferred income represents government grants received by certain subsidiaries for reimbursements of capital expenditure spent on modernisation and upgrading of specified machineries and equipment. Deferred income is released to profit or loss over the periods to match the related cost which the grants are intended to compensate, on a systematic basis. There are no unfulfilled conditions or contingencies relating to the grants.

35. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Non-cash transactions

During the years ended 31 December 2017 and 2016, additions to motor vehicles financed by new finance lease were nil and MYR400,000 respectively.

(b) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities are as follows:

| | As at 31 December 2017 MYR'000 | Cash flows MYR'000 | As at 31 December 2016 MYR'000 |
|--|---|--------------------------|---|
| Amount due to ultimate holding company | 10,799 | 453 | 10,346 |
| Bank borrowing | 4,000 | 4,000 | - |
| Finance lease liabilities | 174 | (132) | 306 |
| | 14,973 | 4,321 | 10,652 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

36. CAPITAL COMMITMENT

| | 2017 MYR'000 | 2016 MYR'000 |
|---------------------------------|-----------------|-----------------|
| Contracted but not provided for | | |
| – Leasehold land | – | 2,508 |
| – Property, plant and equipment | 23,616 | – |
| | 23,616 | 2,508 |

37. FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2016, the Group provided guarantee with respect to banking facilities granted to PCB amounting to MYR7,500,000. Under this guarantee, the Group would have been liable to pay the bank if the bank is unable to recover the loans. The directors considered the fair values of the financial guarantee contracts are insignificant at initial recognition. As at 31 December 2016, none of the banking facilities were utilised by PCB. The guarantee provided to PCB was subsequently released on 4 December 2017.

38. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year:

(a) Names and relationship

| Name of related party | Relationship with the Group |
|--|---|
| PCB | Ultimate holding company |
| Pentamaster Smart Solution Sdn. Bhd. ("Pentamaster Smart Solution") | Entity controlled by the ultimate holding company |

(b) Related party transactions

| | 2017 MYR'000 | 2016 MYR'000 |
|--|-----------------|-----------------|
| Purchase from Pentamaster Smart Solution | 748 | 101 |
| Management fee expenses to PCB | 2,221 | 3,313 |
| Rental income from: | | |
| – Pentamaster Smart Solution | 108 | 108 |
| – PCB | 265 | 265 |

The related party transactions were conducted in the normal course of business and at prices and terms no less than those charged to and conducted with other third parties of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

38. RELATED PARTY TRANSACTIONS *(continued)*

(c) Compensation of key management personnel

Key management personnel are those persons including directors having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The remuneration of key management personnel during the financial year is as follows:

| | 2017 | 2016 |
|---|----------------|---------|
| | MYR'000 | MYR'000 |
| Employees' salaries, allowances and bonuses | 3,600 | 3,146 |
| Contribution to EPF | 431 | 378 |
| | 4,031 | 3,524 |

(d) Balances with related parties

| | 2017 | 2016 |
|--|----------------|---------|
| | MYR'000 | MYR'000 |
| Amount due to a fellow subsidiary: | | |
| Trade nature: | | |
| – Pentamaster Smart Solution | 555 | – |
| Amount due to ultimate holding company: | | |
| Non-trade nature: | | |
| – PCB | 10,799 | 10,346 |

The amounts due to related parties are unsecured, interest-free and repayable on demand except the balances in trade nature which are repayable on normal trade terms and aged within 90 days base on the invoice date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT

The Group is exposed to a variety of financial risks arising from their operations. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency exchange risk. The Group operates within clearly defined guidelines and the Group's policy is not to engage in speculative activities.

39.1 Categories of financial assets and liabilities

| | 2017 MYR'000 | 2016 MYR'000 |
|--|-----------------|-----------------|
| Financial assets | | |
| Financial assets at fair value through profit or loss | | |
| – Derivative financial assets | 461 | – |
| – Investment securities | – | 2,563 |
| Loans and receivables | | |
| – Trade receivables | 32,648 | 32,010 |
| – Other receivables and deposits | 2,584 | 557 |
| – Cash and cash equivalents | 81,643 | 26,298 |
| | 117,336 | 61,428 |
| Financial liabilities | | |
| Financial liabilities at fair value through profit or loss | | |
| – Derivative financial liabilities | – | 3,527 |
| Financial liabilities measured at amortised cost | | |
| – Trade payables | 24,551 | 10,241 |
| – Other payables, accruals and provision | 7,130 | 3,916 |
| – Amount due to ultimate holding company | 10,799 | 10,346 |
| – Amount due to a fellow subsidiary | 555 | – |
| – Bank borrowing | 4,000 | – |
| – Finance lease liabilities | 174 | 306 |
| | 47,209 | 28,336 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT *(continued)*

39.2 Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's exposure to credit risk arises principally from its trade receivables.

Credit risk arising from trade customers is addressed by the application of credit evaluation and close monitoring procedures by the management. The Group extends to existing customers credit terms that range between 0 to 90 days. In deciding whether credit terms shall be extended, the Group will take into consideration factors such as the relationship with the customer, its payment history and credit worthiness.

New customers are subject to a credit evaluation process and existing customers' risk profiles are reviewed regularly with a view to setting appropriate terms of trade and credit limits. Where appropriate, further sales are suspended and legal actions are taken to attempt recoveries and mitigate losses.

It is inherent in the Group's business to make individually large sales to its customers that may lead to significant concentration of credit risks. Such risks are managed by ensuring that transactions are only carried out with customers with a reliable financial profile. As at 31 December 2017, 20% (2016: 28%) of the total trade receivables were due from the Group's largest customer and 67% (2016: 61%) of the total trade receivables were due from the five largest customers of the Group respectively.

The concentration of significant portion of trade receivables on a small number of customers is managed by ensuring that transactions are only carried out with customers with a reliable financial profile.

The credit risk for liquid funds is considered negligible as the counterparties are reputable international banks with high quality external credit ratings.

The maximum exposure to credit risk on recognised financial assets is limited to the carrying amounts as summarised in note 39.1.

39.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group actively manages its debt maturity profile, operating cash flows and availability of funding so as to ensure that all repayment and funding needs are met.

The Group aims at maintaining a balance of sufficient cash and deposits and flexibility in funding by maintaining credit facilities with its banker.

Analysed below is the Group's remaining contractual maturities for its financial liabilities as at 31 December 2017 and 2016, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting periods) and the earliest date the Group can be required to pay. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT *(continued)*

39.3 Liquidity risk *(continued)*

Specifically, for bank borrowing which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

| | Within 1 year or on demand MYR'000 | Over 1 year but within 5 years MYR'000 | Over 5 years MYR'000 | Total undiscounted amount MYR'000 | Carrying amount MYR'000 |
|---|---|---|----------------------------|--|-------------------------------|
| As at 31 December 2017 | | | | | |
| <i>Non-derivative financial liabilities</i> | | | | | |
| Trade payables | 24,551 | - | - | 24,551 | 24,551 |
| Other payables and accruals | 7,130 | - | - | 7,130 | 7,130 |
| Amount due to ultimate holding company | 10,799 | - | - | 10,799 | 10,799 |
| Amount due to a fellow subsidiary | 555 | - | - | 555 | 555 |
| Bank borrowing | 4,000 | - | - | 4,000 | 4,000 |
| Finance lease liabilities | 144 | 36 | - | 180 | 174 |
| | 47,179 | 36 | - | 47,215 | 47,209 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT *(continued)*

39.3 Liquidity risk *(continued)*

| | Within 1 year or on demand MYR'000 | Over 1 year but within 5 years MYR'000 | Over 5 years MYR'000 | Total undiscounted amount MYR'000 | Carrying amount MYR'000 |
|---|---|---|----------------------------|--|-------------------------------|
| As at 31 December 2016 | | | | | |
| <i>Non-derivative financial liabilities</i> | | | | | |
| Trade payables | 10,241 | – | – | 10,241 | 10,241 |
| Other payables and accruals | 3,916 | – | – | 3,916 | 3,916 |
| Amount due to ultimate holding company | 10,346 | – | – | 10,346 | 10,346 |
| Finance lease liabilities | 144 | 180 | – | 324 | 306 |
| | 24,647 | 180 | – | 24,827 | 24,809 |
| <i>Derivative financial liabilities</i> | | | | | |
| Foreign currency forward contracts: | | | | | |
| Outflow-Net | 3,527 | – | – | 3,527 | 3,527 |
| | 28,174 | 180 | – | 28,354 | 28,336 |
| <i>Financial guarantee contracts</i> <i>(note 37):</i> | | | | | |
| Maximum amount guaranteed* | – | – | – | – | – |

* As at 31 December 2016, none of the banking facilities were utilised by PCB. As such, no guaranteed amount by the financial guarantee contracts was disclosed under the contractual maturity analysis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT *(continued)*

39.3 Liquidity risk *(continued)*

The following table summarises the maturity analysis of bank borrowing with repayment on demand clause based on agreed scheduled repayments set out in the bank loan agreement. The amounts include interest payment computed using contractual rates. The Group regularly monitors its compliance with the loan covenants, is up to date with the scheduled repayments of the loans and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements. The directors believe that these bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the bank loan agreements.

| | Within 1 year or on demand MYR'000 | Over 1 year but within 5 years MYR'000 | Over 5 years MYR'000 | Total MYR'000 |
|-------------------------------|---|---|-------------------------------------|--------------------------|
| As at 31 December 2017 | | | | |
| Bank borrowing | 503 | 2,013 | 2,517 | 5,033 |

39.4 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group's fixed rate deposits and finance lease arrangement are exposed to a risk of change in their fair value due to changes in interest rates. Bank borrowing bearing variable rates exposes the Group to cash flow interest rate risk. As at 31 December 2017, the exposure to interest rates for the Group's bank borrowing is considered immaterial.

The interest rate profile of the Group's interest-bearing financial instruments based on the carrying amount as at the end of the reporting period is as follows:

| | 2017 MYR'000 | 2016 MYR'000 |
|----------------------------------|-------------------------|-----------------|
| Variable rate instruments | | |
| Financial liabilities | 4,000 | - |
| Fixed rate instruments | | |
| Financial assets | 14,106 | 14,467 |
| Financial liabilities | 174 | 306 |
| | 14,280 | 14,773 |

The Group does not account for any fixed rate financial assets and financial liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT *(continued)*

39.5 Foreign currency exchange risk

The Group is exposed to foreign currency risk as a result of its normal trading activities whereby sales and purchases are principally transacted in US Dollar ("US\$"). The Group also holds investments and other financial assets and liabilities denominated in foreign currencies. These are not the functional currencies of the Group entities to which transactions relate.

The Group mitigates the exposure of this risk by maintaining US\$ denominated bank accounts and enters into foreign currency forward contracts.

Foreign currency denominated financial assets and liabilities, translated into MYR at the closing rates, are as follows:

| | US\$ MYR'000 | Euro MYR'000 | Singapore Dollar MYR'000 | Chinese Renminbi MYR'000 | Australian Dollar ("AUD") MYR'000 |
|-------------------------------|-----------------|-----------------|--------------------------------|--------------------------------|--|
| As at 31 December 2017 | | | | | |
| Trade receivables | 15,892 | - | 2,991 | - | - |
| Cash and cash equivalents | 61,232 | 11 | 99 | 201 | - |
| Trade payables | (3,824) | - | (232) | - | - |
| Net exposure | 73,300 | 11 | 2,858 | 201 | - |
| As at 31 December 2016 | | | | | |
| Investment securities | - | - | - | - | 2,563 |
| Trade receivables | 27,723 | - | 406 | - | - |
| Cash and cash equivalents | 7,524 | 71 | 6 | 148 | - |
| Trade payables | (2,661) | - | (168) | - | - |
| Net exposure | 32,586 | 71 | 244 | 148 | 2,563 |

The Group is mainly exposed to the effects of fluctuation in US\$ and AUD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT *(continued)*

39.5 Foreign currency exchange risk *(continued)*

The following table illustrates the sensitivity of the Group's profit after income tax for the year and equity in regard to an appreciation in the Group entities' functional currencies against US\$ and AUD. These sensitivity rates represent the management's best assessment of the possible change in foreign exchange rates.

| | Sensitivity rate | Decrease in profit MYR'000 | Decrease in equity MYR'000 |
|-------------------------------|-----------------------------|---|---|
| As at 31 December 2017 | | | |
| US\$ | 11% | 6,128 | 6,128 |
| <hr/> | | | |
| As at 31 December 2016 | | | |
| US\$ | 15% | 3,715 | 3,715 |
| AUD | 13% | 253 | 253 |
| <hr/> | | | |
| | | 3,968 | 3,968 |
| <hr/> | | | |

The same % depreciation in the Group entities' functional currencies against the respective foreign currencies would have the same magnitude on the Group's profit for the year and equity but of opposite effect.

39.6 Fair value

The carrying amounts of financial assets and financial liabilities (other than those disclosed below) of the Group as at the end of the reporting period approximate their fair values due to their short-term nature.

The table below analyses financial instruments that are measured subsequent to initial recognition at fair value, grouped into three levels. The three levels are defined based on the observability of significant inputs to the measurements, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities

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

Level 3: unobservable inputs for the asset or liability

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

39. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT *(continued)*

39.6 Fair value *(continued)*

| | Level 1 MYR'000 | Level 2 MYR'000 | Level 3 MYR'000 | Total MYR'000 |
|---|--------------------|--------------------|--------------------|------------------|
| Financial assets/(liabilities): | | | | |
| As at 31 December 2017 | | | | |
| Foreign currency forward contract assets | - | 461 | - | 461 |
| As at 31 December 2016 | | | | |
| Investment securities | 2,563 | - | - | 2,563 |
| Foreign currency forward contract (liabilities) | - | (3,527) | - | (3,527) |
| | 2,563 | (3,527) | - | (964) |

There were no transfers between Level 1 and Level 2 during the year ended 31 December 2017 (2016: Nil).

The investment in quoted equity investments which are quoted in an active market are carried at fair value by reference to their quoted closing bid price at the end of the reporting period.

The derivative financial assets/liabilities arising from the fair value changes on the foreign currency forward contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the current contract using a risk-free interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2017

40. CAPITAL MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue its operations as a going concern in order to maintain an optimal capital structure to reduce the cost of capital. In order to maintain the optimal capital structure, the Group may, from time to time, issue new shares, redeem debts or sell assets to reduce debts, where necessary.

The net debt to equity ratio is as follows:

| | 2017 MYR'000 | 2016 MYR'000 |
|---------------------------------|-----------------|-----------------|
| Borrowings | 4,174 | 306 |
| Less: Cash and cash equivalents | (81,643) | (26,298) |
| Net cash | (77,469) | (25,992) |
| Total equity | 127,381 | 86,684 |
| Net debt to equity ratio | N/A | N/A |

41. EVENT AFTER THE REPORTING DATE

The Company's shares are listed on the Main Board of the Stock Exchange on 19 January 2018. Details of the Share Offer and the Capitalisation Issue are disclosed in notes 26(iv).