

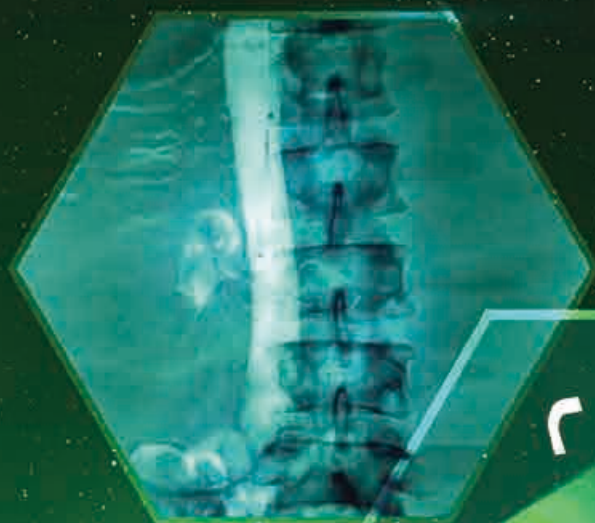
Pentamaster International Limited

檳傑科達國際有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1665

UNLEASHING INNOVATION FOR THE FUTURE



ANNUAL REPORT 2019

Our Vision

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

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. ”

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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 54, 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

HEADQUARTER 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
AmBank (M) Berhad
Public Bank Berhad

COMPANY WEBSITE

www.pentamaster-international-ltd.com

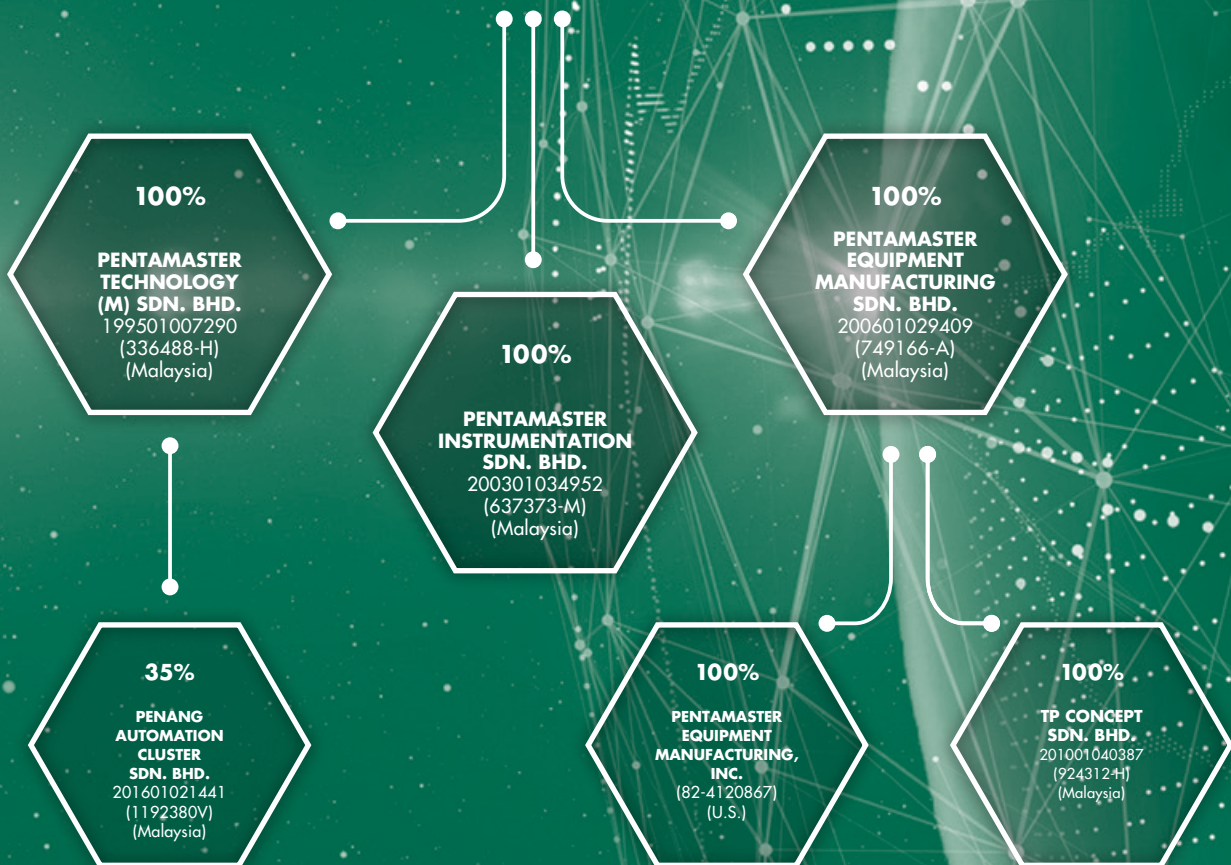
STOCK CODE

1665



Pentamaster International Limited 檳傑科達國際有限公司

(MC-323853)
(Cayman Islands)



CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Pentamaster International Limited (the "Company" or "PIL"), I am delighted to report another strong year in 2019 for the Company and its subsidiaries (collectively, the "Group", "we", "us"), in which the Group continued to deliver excellent results for its shareholders. In terms of revenue growth, margin improvement and cash flow, the company performed well – even though the economic environment was challenging.

BUSINESS REVIEW

The Group's revenue recorded a new height at MYR487.1 million, representing a 16.8% growth year-on-year while its profit after taxation increased by 31.4% hitting a historic record of MYR131.4 million during the year. PIL is a global company that addresses its market in highly competitive ways. This is vital when manufacturing industries are evolving so rapidly. We also have positioned ourselves in core businesses that are all on clear growth paths involving, for example, the uptake of Internet of Things ("IoT") smart sensors, electric vehicles ("EV"), medical and factory automation solutions through our proprietary i-ARMS (intelligent automated robotic manufacturing system) which enable the Group to be well positioned in fulfilling and meeting the changing needs of the new decade of technology era.

In spite of the diversity of our Group's products and solutions, one outstanding aspect of these results is that every segment is doing well. As the global technology marketplace evolves, the Group with its constant and committed focus on research and development ("R&D") in customised test equipment and automation solutions is able to cater to a wider spectrum of industry segments which have demonstrated positive results. During the year, the Group continued to witness encouraging progress from the execution of its strategies to diversify its revenue base and exposure to other segments by penetrating into more key premium customers, particularly in the area of automotive, consumer and industrial products as well as the medical devices segment.

The above is a testament to the strength of the management team's mid-term strategy which I am pleased to say is progressing well. One of which is the recent acquisition of TP Concept Sdn. Bhd. ("TP Concept") that has been effectively integrated during 2019 and the benefits of the synergy is materialising as planned.

STRATEGY AND CULTURE

This year, the Group will mark the 25th anniversary of its establishment. Those of us who have the privilege of being part of the Group today are grateful for the *courage* and *passion* of those who have paved the way and laid the foundation for our Group, being a leading global provider of the advanced automation solutions. The unprecedented speed and magnitude of evolution of technology today demands no less. From the Company's perspective, we have the *courage* to challenge the convention and explore new fields, spot opportunities and take calculated risks to reach our strategic goals. We welcome structural changes and paradigm shifts in the way we approach our short-term priorities and long-term growth objectives. We also have *passion* in believing we can accomplish great aspirations and objectives without hesitating to continuously strive for excellence, doing more with less, being better than yesterday.

With our culture mandate of five key values that has guided my team and I since last year—"Be fruitful, and multiply, and replenish, and subdue and have dominion", we want to be *fruitful* that generates good profitability, *multiply* our talent workforce, continue to replenish forefront technology innovation, thrive to *subdue* competition to become a market leader and to have a *dominant* presence in global market as our end goal. This has allowed the Group to earmark on its growth trajectory as we enter into a new decade.

CHAIRMAN'S STATEMENT *(continued)*



FUTURE POTENTIAL AND GROWTH

The Group is well positioned for the journey to grow its customers base and revenue. With our diverse range of solution offerings, advanced technology, investments in building infrastructure and increase in hiring of skilled engineers in recent years, we have built strong foundation for our future potential and growth. To mitigate any risks, revenue of the Group will have to be well diversified across different industry sectors and geographical locations. The Industry 4.0 revolution presents new opportunities for us to work with different sector of customers for both the automated test equipment (“ATE”) and factory automation solutions (“FAS”) segments. The ATE segment is expected to continue with its larger portion of revenue and profit contribution to the Group but we expect its contribution rate to ease to approximately 70.0% in 2020. Meanwhile, FAS segment is expected to grow from 15.0% to 30.0% or more for the coming years. With the current shortage of skilled workers, rise in labour costs and requirement for higher technology in manufacturing, such Industry 4.0 technologies are now widely adopted in various areas mainly covering production and supply chain.

In terms of industry sectors for ATE, we expect revenue of the Group from the automotive and medical sectors to grow besides the telecommunications sector. It has been reported that the sales of EVs are expected to accelerate and hence, this will lead to an increase for the demand of automotive power management and power devices. With this growth momentum of EV cars in the automotive industry, we forecast and expect the demand for our assembly and test equipment for this segment to grow based on the number of orders the Group secured from new global automotive component companies from Europe, the U.S. and China.

With the acquisition of TP Concept, a company engaged in the design and manufacturing of automation equipment for assembly and test of single used medical devices, the Group has diversified and strengthened its capabilities into the medical segment. We target to grow the medical segment contribution to more than 10.0% of Group’s revenue in the coming years.

The manufacturing industry has started to witness the adoption of automation in its industry linkages. However, as the era of Industry 4.0 kicks off, a new wave of automation is set to begin. Against this backdrop, the Group is leveraging on its proprietary factory automation system “i-ARMS” in customising integrated automation solutions through its intelligent material handling system and sophisticated manufacturing execution system (“MES”). So while we see many companies are still learning and adopting the new wave of manufacturing, the huge potential and opportunities in FAS segment will be prevalent and present an opportunity for the Group to play its role in this ecosystem.

Overall, I can conclude that the Group’s automation solutions will continue to remain robust and vibrant due to our effort to remain ahead of the curve with prudence and detailed planning in taking up our challenges. At the same time, we are well placed to take advantage of the opportunities that will undoubtedly arise from the increasing demand for automation solutions in the era of Industry 4.0.

My reflections are that the automation industry itself as a whole has learnt quite a few lessons: firstly, the overwhelming importance of catching up with latest technology in manufacturing process; secondly, the need to be aggressive with respect to time-to-market because technologies are evolving so rapidly; and, thirdly, the danger of over-reliance on a single customer or a single industry.

CHAIRMAN'S STATEMENT *(continued)*

Acknowledgement

The Group has shown how it has positioned itself in the world's growing markets and the strength of its balance sheet. However, we will not be complacent about the future and are confident that we will continue to deliver good performance in 2020. All these are possible because we have a good team of management and staff and I would like to express my heartfelt thanks to them for their continuous commitment and invaluable contribution to the Group, as well as my Board for their dedication, invaluable advice and undivided support over the past year.

My sincere appreciation also goes to our shareholders, customers, agents, business associates, partners, suppliers and the media for their unwavering support and confidence in our Group.

"Commit your way to the Lord; trust in Him and He will do this: He will make your righteous reward shine like the dawn, your vindication like the noon day sun"

CHUAH CHOON BIN

Chairman and Executive Director

27 February 2020

MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS REVIEW

Riding on the momentum and achievements of the past three years, 2019 was yet another solid year of progress where the Group achieved another milestone in delivering a strong set of financials. The Group's revenue recorded a new height at MYR487.1 million, representing a 16.8% growth year-on-year while its profit after taxation increased by 31.4% year-on-year to hit a historic record of MYR131.4 million during the year ended 31 December 2019 ("FY2019"). The Group's consistent focus on its business strategies with its key strengths in designing and developing holistic automation and test solutions for its customers has enabled the Group to be well positioned in fulfilling and meeting the changing needs of the new decade of technology era. As global technology marketplace evolves, the Group with its constant and committed focus on R&D in customised test equipment and automation solutions is able to cater to a wider spectrum of industry segments which have demonstrated positive results.

During the year, the Group continued to witness encouraging progress from the execution of its strategies to diversify its revenue base and exposure to other segments by penetrating more key premium customers particularly in the area of automotive, consumer and industrial products as well as the medical devices segments. These segments have contributed to a higher portion of the Group's revenue that resulted in a better product margin mix for the Group. Particularly, the Group has also aggressively pursued its diversification into the medical segment that witnessed the acquisition of TP Concept during FY2019, which is expected to contribute positively in the coming years. Acquisition of TP Concept would further add to the Group's progress in its organic approach for the medical segment in customising precision manufacturing automation which involves the Group's proprietary i-ARMS solution that cater for its medical customers. Together with the TP Concept platform, the Group will continue to expand its exposure in the medical segment.

Besides the segmental diversification being one of the Group's three growth catalysts, the Group's upward movement along the technology value chain is also worthy of mention. In particular, the Group's exposure to vertical cavity surface emitting laser ("VCSEL") with its proprietary "ZETA" and "TROOPER" has received encouraging feedback and results from its potential customers. Additionally, the broadening exposure to the 3D sensor module, the third growth catalyst for the Group, has also witnessed the Group's development of a complete end-to-end assembling and test solutions covering customers in the telecommunications mobile segment.

To date, the Group is proud to have a dedicated management team and employees that have weathered the ups and downs with the Group in delivering such performance. Whilst challenges remain ahead, the Group's commitment towards human capital and its investment for skilled engineers and employees as part of its business strategy shall remain, guided by the Group's core value of integrity, commitment, innovation and dedication.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

The following table sets out revenue breakdown by customers' segment for both the ATE and FAS segments:

By industry

For the year ended 31 December

| | 2019 | | 2018 | |
|----------------------------------|----------------|--------------|---------|-------|
| | MYR'000 | % | MYR'000 | % |
| Telecommunications | 337,394 | 69.3 | 304,421 | 73.0 |
| Automotive | 70,419 | 14.4 | 45,839 | 11.0 |
| Consumer and industrial products | 36,498 | 7.5 | 21,346 | 5.1 |
| Semiconductor | 34,494 | 7.1 | 41,228 | 9.9 |
| Medical devices | 8,283 | 1.7 | 1,421 | 0.3 |
| Others | – | – | 2,843 | 0.7 |
| | 487,088 | 100.0 | 417,098 | 100.0 |

In line with the Group's business expansion plan into the Greater China Region (which includes Mainland China and Taiwan), the Group continued to strengthen its presence and deepen its penetration into this region during the year. Given that China is a dominant market for the global semiconductor equipment industry in the coming years, it will be of paramount importance for the Group to play a part in the supply chain opportunities in Greater China Region. Set out below is the revenue breakdown based on shipment destination where Singapore, Taiwan, China, Philippines and Malaysia were the top five shipment markets for the Group in 2019.

By shipment

For the year ended 31 December

| | 2019 | | 2018 | |
|---------------------|----------------|--------------|---------|-------|
| | MYR'000 | % | MYR'000 | % |
| Singapore | 239,028 | 49.1 | 243,136 | 58.3 |
| Taiwan | 80,132 | 16.4 | 19,830 | 4.8 |
| China | 66,624 | 13.7 | 80,113 | 19.2 |
| Philippines | 32,105 | 6.6 | 3,091 | 0.7 |
| Malaysia | 27,242 | 5.6 | 27,075 | 6.5 |
| Thailand | 19,197 | 3.9 | 3,566 | 0.8 |
| Germany | 8,126 | 1.7 | 1,772 | 0.4 |
| United States | 6,221 | 1.3 | 12,308 | 3.0 |
| Japan | 3,431 | 0.7 | 16,153 | 3.9 |
| Republic of Ireland | 35 | 0.0 | 6,741 | 1.6 |
| Others | 4,947 | 1.0 | 3,313 | 0.8 |
| | 487,088 | 100.0 | 417,098 | 100.0 |

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*



FINANCIAL REVIEW

Revenue

Revenue of the Group grew by approximately 16.8% from MYR417.1 million in 2018 to MYR487.1 million in 2019, attaining another record for the Group since its inception. The double-digit growth was achieved amid the challenging environment of the macro front and was driven by the continuously improved contributions from the ATE segment which was partially offset by the slight decrease in revenue from the FAS segment. The ATE and FAS segments constituted approximately 86.7% and 13.3% of the total Group's revenue respectively.

| | Revenue | | |
|-----|-----------------|-----------------|------------------|
| | 2019 MYR'000 | 2018 MYR'000 | Fluctuation % |
| ATE | 431,222 | 348,698 | 23.7 |
| FAS | 84,311 | 86,402 | (2.4) |

ATE segment

In 2019, the ATE segment continued to contribute the larger portion of revenue and profit to the Group's results. During the year, the ATE segment grew at a double-digit rate of 23.7% to achieve a revenue of MYR431.2 million. With the global trade and technology war clouding global growth in 2019, such results from ATE segment is worth noting and commendable. The Group's unique business proposition has tapped into the continuous growth in the demand for smart sensors coupled with its evolving complexity and wider adoption rate across the telecommunications and automotive segments, leading to a demand-driven growth for the Group's smart device test handlers and solutions. Within the telecommunications sector, the Group witnessed delivery of a more diverse and complex portfolio covering, among others, test equipment as well as active alignment assembling equipment for 3D sensor modules encompassing lens, collimator and diffuser optics. These new ATE products and solutions further supplemented the continuous demand for the Group's flagship test solution in ambient and proximity sensors which are customised for the smartphones as well as its peripheral items.

While the telecommunications industry is still dominant within the ATE segment in terms of its revenue contribution, the Group has continuously endeavoured to diversify its revenue base to other segments, in particular, the automotive segment. During the year, the Group's exposure to the automotive segment had generated commendable contribution through the delivery of its test handling equipment mainly for MLCC (multilayer ceramic capacitors), IGBT (insulated-gate bipolar transistor), automotive power management and power devices. Moving forward, the momentum of the Group's exposure in the automotive industry is expected to grow based on the number of orders the Group secured from new global automotive component companies.

Taking into account the current trend where new generation devices typically have a higher turnover rate and shorter time-to-market, the demand for the Group's smart sensor test equipment and solutions remain robust in the coming year, notwithstanding the Group's increasing exposure to the consumer and industrial product segment that is showing positive momentum.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FAS segment

FAS segment experienced a slight decrease in contribution to the Group's results in FY2019 given the timing of project delivery for certain complex projects fell beyond the year end date. Revenue from this segment contracted slightly to MYR84.3 million in the financial year 2019 after chalking an impressive 75.6% growth rate in 2018. Nevertheless, the Group is positive in the FAS segment given the prevalence of Industry 4.0 and its advancement into the boundaries of artificial intelligence ("AI"). With the profound shortage of skilled workers, rise in labour costs and requirement for higher precision in manufacturing, the Group is witnessing strong potential and opportunities in various manufacturing stages covering production, procurement, storage and logistics with the aim to reduce the time-to-market interval. Against this backdrop, the Group is leveraging on its proprietary i-ARMS solutions in customising integrated automation solutions through its intelligent material handling system and sophisticated manufacturing execution system ("MES"). Within the year, the FAS segment has secured new customer in the Greater China region for its i-ARMS solutions for delivery in the coming financial year.

Post-acquisition of TP Concept, a company that is involved in the manufacturing and assembling of medical machines and manufacturing of die casting parts, the FAS segment will witness further growth and contribution from the medical segment. The acquisition presents a growing business segment that complements the Group's growth catalyst with positive synergy in value adding to the Group's current products and solutions.

The Group's establishment of the production plant in Batu Kawan, Penang took place at an opportune time to support the above opportunities of the FAS segment. The Group strongly believes on the growing needs for automation and with the current wave of AI and digitalisation, the FAS segment will be well positioned for the Group's growth prospects.

Gross margin

The Group's gross margin experienced continuous improvement to achieve 36.8% during the year as opposed to 32.7% in 2018. The improvement was primarily attributable to project scalability with repeat orders from the telecommunications segment as well as improved product margin mix secured from projects from a more diversified industry segments, such as the automotive, consumer and industrial products. Adding to the gross margin improvement was also the Group's upwards movement along the technology value chain in developing more complex test handling solutions for its customers in the telecommunications segment.

Other income

Other income of the Group increased from MYR6.5 million in 2018 to MYR14.3 million in 2019. This is mainly due to an increase in interest income by MYR4.8 million during the year as well as a gain from changes in fair value of foreign currency forward contracts of approximately MYR7.2 million recorded in 2019. The gain in the foreign currency forward contracts, arising mainly from the depreciation of U.S. dollar against MYR towards the end of the year, was offset by a net loss on foreign exchange of approximately MYR5.4 million as recorded under the administrative expenses during the year. This has resulted in a net gain of approximately MYR1.8 million recognised on the foreign exchange in 2019 (In 2018, the Group recorded a foreign exchange gain of approximately MYR4.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*



Administrative expenses

Administrative expenses of the Group mainly comprised of the movement arising from foreign exchange, professional fees and administrative staff cost. During the year, administrative expenses increased by MYR13.3 million from MYR32.6 million in 2018 to MYR45.9 million. This was mainly due to the following factors:

- (i) higher administrative staff cost by MYR11.5 million during the year due to increase in staff incentive and remuneration;
- (ii) allowance for doubtful debts of MYR3.0 million made during the year (2018: Nil); and
- (iii) loss on foreign exchange of MYR5.4 million during the year while the Group recorded loss from changes in fair value of foreign currency forward contracts of MYR5.3 million in 2018.

The above increase in costs were partially offset by:

- (i) non-recurring listing expenses of MYR1.7 million incurred in the first quarter of 2018 where there were no such expenses incurrence during the year.

The Group's sales and receivables were predominantly denominated in U.S. dollar. As part of the Group's treasury policy to manage its foreign exchange exposure, the Group entered into foreign exchange forward contracts to minimise the effects of adverse exchange rate fluctuations on its financials. During the year, the Group recorded a loss on foreign exchange of approximately MYR5.4 million under administrative expenses due to the depreciation of U.S. dollar against MYR towards the end of 2019. This loss was offset by a gain of MYR7.2 million from changes in fair value on foreign currency forward contracts recorded under other income. Effectively, the Group recorded a net gain on foreign exchange of approximately MYR1.8 million during the year.

Profit for the year

The Group recorded a net profit of MYR131.4 million, representing an increase of 29.1% as opposed to an adjusted net profit of MYR101.8 million achieved in 2018 after excluding the one-off listing expenses incurred in the first quarter of 2018. Accordingly, the Group's EBITDA (earnings before interest, tax, depreciation and amortisation) for 2019 stood at MYR143.8 million as compared to an adjusted EBITDA of MYR110.8 million recorded in 2018, representing an increase of 29.8%. Basic earnings per share rose from MYR6.29 sen in 2018 to MYR8.21 sen in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Liquidity, financial resources and capital structure

The Group's financial position continues to remain strong and liquid with a working capital of MYR305.4 million as at 31 December 2019 (31 December 2018: MYR244.3 million). Net cash generated from operations amounted to MYR141.4 million in 2019 as compared to MYR69.7 million in the previous year. Correspondingly, cash and cash equivalents increased from MYR217.7 million as at 31 December 2018 to MYR304.0 million as at 31 December 2019. The overall positive cash flow generated has been the result of the Group's continuous stringent credit policy adopted and maintained as well as healthier EBITDA being generated from operations. These surplus funds will continue to form part of the Group's working capital requirements going forward. As at 31 December 2019, the Group had available banking facilities of MYR19.5 million in the form of term loan and trade facilities, out of which the Group had utilised MYR3.4 million to partly finance the purchase of leasehold land for the Group's new production plant in Batu Kawan, Penang. As at 31 December 2019, the gearing ratio of the Group stood at 0.8% (31 December 2018: 3.7%). 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 2019, 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 2019, the Group's leasehold land of MYR4,911,000 (2018: MYR4,995,000) has been pledged to secure a bank loan.

Employees and remuneration

The Company recognises its employees as one of the Group's most important assets. The Company strongly believes in hiring the right talent, nurturing and retaining these talented employees with competitive remuneration packages. As at 31 December 2019, the total number of full time employees of the Group increased to 539 (31 December 2018: 503).

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*



Update on profit guarantee in respect of the acquisition of 100% equity interest of TP Concept

Reference is made to the announcements of the Company dated 26 September 2019 and 27 September 2019 in relation to the acquisition of 100% equity interest of TP Concept. Up to the date of this report, there are no changes to the terms of the profit guarantee where the aggregate profit after tax of TP Concept for the financial year ending 31 March 2020 and the financial year ending 31 March 2021 shall not be less than MYR12.0 million. Such aggregate profit guarantee is to be achieved by 31 March 2021. The Company has been in constant liaison with the management of TP Concept and monitoring closely on the status of the project delivery schedule of TP Concept.

Significant investments held, material acquisitions and disposal of subsidiaries, and future plans for material investments or capital asset

Save for those disclosed in this report, there were no other significant investments held, nor were there material acquisitions or disposals of subsidiaries during the year. Apart those disclosed in this report, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Use of 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 (“Listing”). The proceeds (net of listing expenses) from the Listing were approximately HK\$171.3 million (equivalent to approximately MYR92.6 million). In accordance with the proposed use of net proceeds as set out in the section headed “Future plans and use of proceeds” in the Company’s prospectus dated 29 December 2017 (“Prospectus”), the net proceeds utilised by the Group from the date of the Company’s listing on 19 January 2018 (the “Listing Date”) up to 31 December 2019 are as follows:

| Use of net proceeds | Amount of net proceeds earmarked | | Use of proceeds from the Listing Date up to 31 December 2019 | Unutilised amount | Unutilised proportion | Notes |
|---|----------------------------------|-------------|--|-------------------|-----------------------|--------|
| | HK\$ million | MYR million | MYR million | MYR million | % | |
| Capital investment and costs in relation to the new production plant and the expansion of the existing production plant | 84.8 | 45.8 | 41.7 | 4.1 | 9.0 | Note 1 |
| Business expansion into the Greater China region | 38.1 | 20.6 | 20.6 | – | – | |
| Establishment of an office in California, U.S. | 28.2 | 15.3 | 3.7 | 11.6 | 75.8 | Note 2 |
| Marketing, branding and promotional activities | 3.1 | 1.7 | 1.6 | 0.1 | 5.9 | Note 3 |
| Working capital | 17.1 | 9.2 | 9.2 | – | – | |
| Total | 171.3 | 92.6 | 76.8 | 15.8 | 17.1 | |

Note 1: Majority of the proceeds had been utilised in 2018 and 2019 respectively. Out of the unutilised amount of MYR4.1 million as at 31 December 2019, an amount of MYR2.3 million had been utilised up the date of this report. The balance of the unutilised proceeds is expected to be utilised within the first half of 2020 subject to the completion status of the expansion of the existing production plant.

Note 2 and Note 3: Such unutilised proceeds will be utilised within the next five years starting from the Listing Date.

The Directors are not aware of any material change to the proposed use of proceeds as at the date of this report. The unutilised net proceeds and its following intended timeframe for utilisation will be applied in the manner consistent with that mentioned in the Prospectus. The intended timeframe was based on the best estimation and assumption of future market conditions and industry development made by the Group as at the date of this report.

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 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 Group. 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 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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

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 Group. 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 Group's interest.

Financial risks

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

PROSPECTS

Having continuously chalked record-breaking revenue and profit in the past four years, the Group has come a long way in achieving its current result. The Group will not rest on its laurels but will continue to strive and grow positively in the years to come, capitalising on its technical expertise and capabilities that it has built over the years. The Group generally possess an optimistic view of its business momentum in 2020 judging from the current trend and development coupled with its secured orders visibility. In light of the current macro situation that has gripped world economies since 2019, the Group believes technology trends and evolution will continue. The pervasive use of the Information and Communication Technology ("ICT") products in our daily life has led to what is now often referred to as the 4th Industrial Revolution. From internet and smartphones to blockchain technology and the AI, the whole of society seems ready and eager to embrace the latest innovations in the ICT realm. Applications such as 3D, AI, Industry 4.0, IoT, autonomous cars, EV and 5G have become the topics that gather most attention.

Coming into the new decade, the traditional business-as-usual will be overhauled with "Smart Everything" that will result in more people being connected, more global data knowledge to be synchronised and analysed and more robots and automation to challenge the social, political and economic landscape. It has been reported that cities across the world has started adopting 3D facial recognition as the identification process and that sales of EVs are expected to accelerate to account for 57.0% of total car sales mainly due to the tightening of emissions regulations. Meanwhile by 2030, 800 million global workforce will be replaced by robotic automation.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*



With such onset staring at us, the Group believes in continuously exploring, developing and challenging itself to be a key player in the technology supply chain as we head towards the next decade. The Group will continue to seek potential opportunities that will enhance the Group's value and move itself upwards along the technology value chain that could further solidify and increase its market share and propel the Group to the next growth phase.

From its current product and solution offerings, the Group continue to see huge market opportunities for it to deepen its involvement in the optoelectronics field, catering for a wider adoption of smart sensors in a broader product range and segments. From test handling to assembling, from smartphones to peripherals, from biosecurity to gaming devices, from motion detection to augmented reality, from telecommunications to automotive and to industrial products, the Group has gained exposure into these technology advancements and will continue to gain deeper traction.

Concurrently, the Group is also witnessing significant potential and development in its FAS segment with more and more companies adopting robotic automation as part of its manufacturing process. With precision, efficiency, productivity, big data and digitalisation, coupled with intermediate supply chain disruption such as trade diversion, the Group will continue to leverage on its strong track record and capabilities in furthering its market share and capturing opportunities across different industry segments. It has been reported by Boston Consulting Group that robotic automation share of tasks is expected to grow from the current average rate of 10.0% to 25.0% by 2025 in the United States and such share growth opportunity will be more profound in the Asia Pacific region.

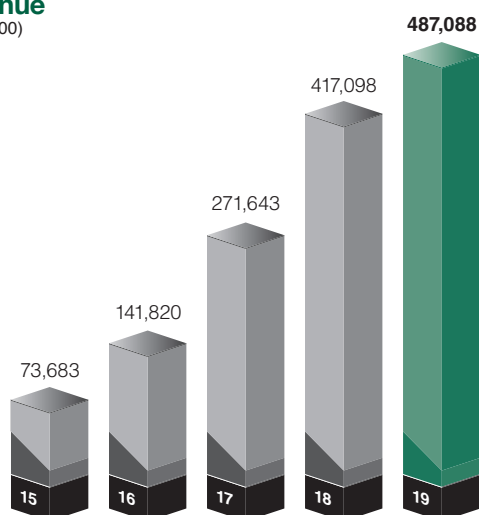
It has been unfortunate and with deep sorrow that the world has witnessed the start of the year and decade with major catastrophes and developments, from Australia bush fires to the outbreak of the novel coronavirus (COVID-19) epidemic. While the Group is closely monitoring these developments closely, it remains steadfast in its business strategies and is committed in its Environment, Social and Corporate Governance ("ESG") measures to ensure a long term sustainability of the Group's businesses. The Group will continue to strengthen its ESG effort and play its vital role as a good corporate citizen.

Going forward, with the global economy facing a confluence of risks, the Group believes strongly in a solid foundation of its business guided by its core values and the importance of its employees that will bring it to the next growth phase. Barring any acute external market conditions and macroeconomic factors, the Group will continue to grow positively in the coming years and the Group will remain constructive in creating value and returns to its shareholders. Acknowledging the only thing that is constant is "Change", the Group will develop organically as well as embarking on opportunities via acquisitions or collaborations that are synergistic to the Group going forward.

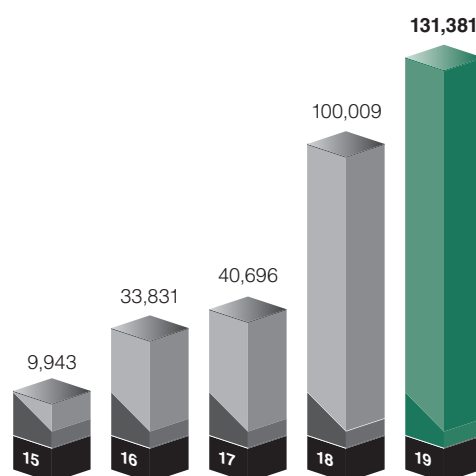
FINANCIAL SUMMARY

| | 2019 MYR'000 | 2018 MYR'000 | 2017 MYR'000 | 2016 MYR'000 | 2015 MYR'000 |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| RESULTS (Audited) | | | | | |
| Revenue | 487,088 | 417,098 | 271,643 | 141,820 | 73,683 |
| Profit before taxation | 139,180 | 105,366 | 45,179 | 32,788 | 11,815 |
| Profit after taxation | 131,381 | 100,009 | 40,696 | 33,831 | 9,943 |
| Profit attributable to: | | | | | |
| Owners of the Company | 131,381 | 100,009 | 39,646 | 31,275 | 9,606 |
| Non-controlling interests | - | - | 1,050 | 2,556 | 337 |
| ASSETS AND LIABILITIES | | | | | |
| Total assets | 578,357 | 497,947 | 292,009 | 126,478 | 76,620 |
| Total liabilities | 139,434 | 177,568 | 164,628 | 39,794 | 22,767 |
| Net assets | 438,923 | 320,379 | 127,381 | 86,684 | 53,853 |

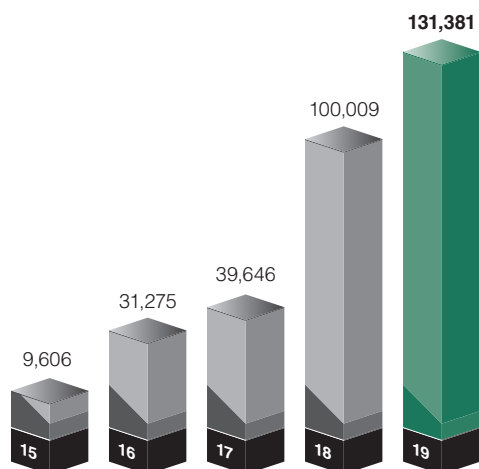
Revenue
(MYR '000)



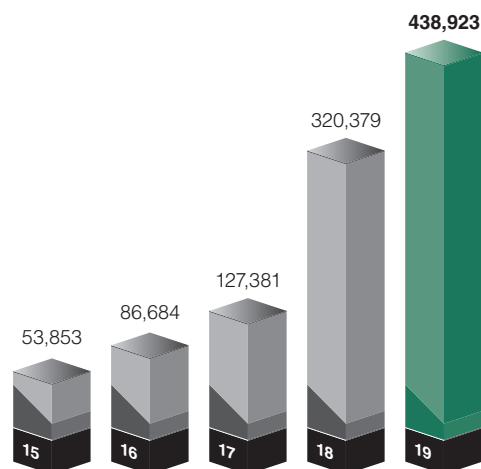
Profit after taxation
(MYR '000)



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 59, 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 2019, 2018 & 2017 Best Under a Billion list of companies that are publicly listed in the Asia Pacific region. The Company was also awarded the Highest Return to Shareholders Over Three Years and the Highest Growth in Profit After Taxes Over Three Years for technology sector under The Edge Billion Ringgit Club 2019. Furthermore, the Company has also won Focus Malaysia Best Under Billion Awards 2018 for the Best Revenue Growth, Best Enterprise Value Growth and Overall Winner category, Focus Malaysia Best Under Billion Awards 2017 for the Best Return on Assets category, 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 First Malaysian Ernst & Young Emerging Entrepreneur of the Year Award Malaysia 2002.

Currently, he is the 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 44, 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 45, 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 20 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 blueprint, 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, he served 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 53, 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 providing 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 and later transferred to Shanghai Eaton Engine Components Ltd (China) as financial controller. Upon returning to Malaysia in January 2012, he was appointed as chief operating officer and chief financial officer for The BIG Group Sdn Bhd. In January 2014, he joined Petrol One Resources Berhad as its chief financial officer and remained with the group until January 2019.

DIRECTORS AND SENIOR MANAGEMENT *(continued)*



From August 2014 to 19 December 2017, he was a non-executive independent director of PCB. 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. Mr. Sim also sits on the board of Nova Wellness Group Berhad (“Nova”), a company listed on the ACE Market of Bursa Malaysia Securities Berhad (stock code: 0201) as an independent non-executive director. He is also the chairman of audit committee and risk management committee of Nova.

He is a Chartered Accountant under Malaysian Institute of Accountants, a Certified Public Accountant of 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 58, 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 30 years of professional experience in the medical industry since he was registered as a medical practitioner in Queensland, Australia in 1988 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 54, 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 49, 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 25 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 63, 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 test equipment division

Mr. Teh Eng Chuan (“Mr. Teh”), aged 46, 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 – factory automation solutions division

Mr. Ng Chin Keng (“Mr. Ng”), aged 41, 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.

You Chin Teik

Vice President of New Business Development

Mr. You Chin Teik (“Mr. You”), aged 43, 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 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 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 year and up to the date of this annual report, the Company has complied with all the applicable provisions of the CG Code. Other than disclosed below, 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*)

Ms. Gan Pei Joo

Non-executive Director

Mr. Leng Kean Yong

CORPORATE GOVERNANCE REPORT *(continued)*



Independent non-executive Directors

Dr. Chuah Jin Chong

Ms. Chan May May

Mr. Sim Seng Loong @ Tai Seng

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. During the year and as at the date of this annual report, the Board comprises six Directors, two of which are female. The following table further illustrates the diversity of the Board members as of the date of this annual report.

| Name of Director | Age Group | | Educational Background | | | | Professional Experience | | | |
|-----------------------------|-----------|-------|------------------------|-----|-------------------------|----------|-------------------------|-----|-------------------------|----------|
| | 40-49 | 50-59 | Engineering | Law | Accountancy and finance | Medicine | Engineering | Law | Accountancy and finance | Medicine |
| Mr. Chuah Choon Bin | | ✓ | ✓ | | | | ✓ | | | |
| Ms. Gan Pei Joo | ✓ | | | | ✓ | | | | ✓ | |
| Mr. Leng Kean Yong | ✓ | | | | ✓ | | | | ✓ | |
| Mr. Sim Seng Loong@Tai Seng | | ✓ | | | ✓ | | | | ✓ | |
| Dr. Chuah Jin Chong | | ✓ | | | | | | | | ✓ |
| Ms. Chan May May | | ✓ | | ✓ | | | | ✓ | | |

Each of the Board members possessed different educational background and professional experience including engineering, law, accountancy and finance and medicine. The Board is characterised by significant diversity in terms of gender, age, education background and professional experience.

CORPORATE GOVERNANCE REPORT *(continued)*

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.

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. During the year ended 31 December 2019, four Audit Committee meetings were held, among other things, to review and consider the followings:

- (a) reviewed the quarterly, interim and annual financial results of the Company as well as its results announcement and subsequently presented the relevant 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.

CORPORATE GOVERNANCE REPORT *(continued)*



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.

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. During the year ended 31 December 2019, one Remuneration Committee meeting was held 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 2019 is set out below:

| Remuneration bands | Number of senior management |
|--------------------------------|------------------------------------|
| HK\$1,000,001 to HK\$1,200,000 | 3 |
| HK\$0 to HK\$1,000,000 | 2 |
| | 5 |

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.

CORPORATE GOVERNANCE REPORT *(continued)*

Pursuant to the terms of reference of the Nomination Committee, Nomination Committee meeting shall be held at least once every year. During the year ended 31 December 2019, one Nomination Committee meeting was held, among other things, to review and consider the followings:

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

Nomination policy

The Board has adopted a nomination policy which set out the criteria and process in the nomination and appointment of Directors. The policy stipulates the key selection criteria of the Company for the nomination of Directors as set out below.

- (a) character and integrity;
- (b) qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- (c) willingness to devote adequate time to discharge duties as a Board member and other directorships and significant commitments;
- (d) requirement for the Board to have independent directors in accordance with the Rules Governing The Listing of Securities on the Stock Exchange (the "Listing Rules") and whether the candidates would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- (e) the Company's Board Diversity Policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board; and
- (f) such other perspectives appropriate to the Company's business and succession planning and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of Directors and succession planning.

The Board has the relevant procedures for Directors' nomination which are pursuant to Listing Rules and the Articles of Association of the Company. The details are set out in the section headed "Appointment and re-election of Directors" in this annual report.

CORPORATE GOVERNANCE REPORT *(continued)*



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 | 4 | 4 | 1 | 1 | 1 |
| Name of Directors | Number of meetings attended/Number of meetings entitled to attend | | | | |
| Executive Directors | | | | | |
| Mr. Chuah Choon Bin (<i>Chairman</i>) | 4/4 | 4/4 | 1/1 | 1/1 | 1/1 |
| Ms. Gan Pei Joo | 4/4 | 4/4 | 1/1 | 1/1 | 1/1 |
| Non-executive Director | | | | | |
| Mr. Leng Kean Yong | 4/4 | 4/4 | 1/1 | 1/1 | 1/1 |
| Independent non-executive Directors | | | | | |
| Dr. Chuah Jin Chong | 4/4 | 4/4 | 1/1 | 1/1 | 1/1 |
| Ms. Chan May May | 4/4 | 4/4 | 1/1 | 1/1 | 1/1 |
| Mr. Sim Seng Loong @ Tai Seng | 4/4 | 4/4 | 1/1 | 1/1 | 1/1 |

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.

CORPORATE GOVERNANCE REPORT *(continued)*

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 of the Company. 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.



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. The Directors recognise the need to continue to undergo relevant training programs to update their knowledge and enhance their skills where relevant to enable them to sustain their active participation as a board member. During the year ended 31 December 2019, the Directors participated in the following training:

| Name of Directors | Type of trainings |
|--|-------------------|
| Executive Directors | |
| Chuah Choon Bin | A, B, C |
| Gan Pei Joo | A, B, C |
| Non-executive Director | |
| Leng Kean Yong | A, B, C |
| Independent non-executive Directors | |
| Chuah Jin Chong | A, B, C |
| Chan May May | A, B, C |
| Sim Seng Loong @ Tai Seng | A, B, C |

A: attending seminars and/or conferences and/or forums

B: attending in-house training relating to the ongoing compliance obligations, corporate governance and other related topics

C: reading newspapers, journals, Company's newsletters and updates relating to the economy, general business, automotive industry or Directors' duties and responsibilities, etc.

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 during the year and up to the date of this annual report.

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 2019, 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 | 650,000 |
| Non-audit services | 9,500 |
| <hr/> | |
| Total | 659,500 |

COMPANY SECRETARY

Ms. Tsui Sum Yi, a 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.



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.

For the year ended 31 December 2019, 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 2019. 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.

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.

CORPORATE GOVERNANCE REPORT *(continued)*

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: investor.relation@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.

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

There were no significant changes in the constitutional documents of the Company during the year.



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 2019.

CORPORATE INFORMATION AND LISTING

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 June 2017 under the Companies Law. 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 18 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 2019.

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 17 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 42 to 43 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.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 and the financial position of the Group at that date are set out in the consolidated financial statements on pages 61 to 66.

DIVIDEND POLICY

The Company has adopted a dividend policy ("Dividend Policy") on 27 February 2019 with the aim to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company.

DIRECTORS' REPORT *(continued)*

The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the articles of association of the Company and all applicable laws and regulations. In proposing any dividend payout, the Board shall also take into account, inter alia, the Group's operations, earnings, financial condition, working capital requirements, future expansion plans and other factors it may deem relevant and appropriate. Any final dividend for a financial year declared by the Company must be approved by an ordinary resolution of the shareholders at an annual general meeting of the Company and must not exceed the amount recommended by the Board.

The Dividend Policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific period. The Company's Dividend Policy is available on the Company's website.

FINAL DIVIDEND

In respect of the year ended 31 December 2019, the Board recommends the payment of a final dividend of HK\$0.015 per share ("Final Dividend") subject to approval of the shareholders at the forthcoming annual general meeting of the Company.

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 May 2020. The register of members of the Company will be closed from Tuesday, 28 April 2020 to Tuesday, 5 May 2020 (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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Monday, 27 April 2020.

The Final Dividend is payable on Friday, 29 May 2020 and the record date for entitlement to the Final Dividend is Thursday, 14 May 2020. For determining the entitlement to the Final Dividend, the register of members of the Company will be closed from Monday, 11 May 2020 to Thursday, 14 May 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the Final Dividend, all transfer of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 8 May 2020.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 25 to the consolidated financial statements.

DIRECTORS' REPORT *(continued)*



DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2019, calculated under Companies Law, Cap. 22 (Laws 3 of 1961 as consolidated and revised) of the Cayman Islands, amounted to approximately MYR148,391,000 (2018: MYR164,964,000)

DONATIONS

During the year under review, the Group made charitable donations amounting to MYR199,000 (2018: MYR135,000).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment totalling approximately RM14.0 million (2018: RM28.3 million). Details of the movements in the property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 14 to the consolidated financial statements of this annual report.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

The outbreak of novel coronavirus (COVID-19) continues to spread to countries across the world.

The COVID-19 has certain impact on the business operations of the Group in particular the supply chain from China as well as the delivery and buy-off process of machineries to certain degree, and the degree of the impact depends on the situation of the epidemic preventive measures and the duration of the epidemic.

The Group will monitor the developments of COVID-19 situation closely, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the annual report, the assessment is still in progress.

Given the dynamic nature of these circumstances, the related impact on our Group's consolidated results of operations, cash flows and financial condition could not be reasonably estimated at this stage and will be reflected in the Group's 2020 interim and annual financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements and the Prospectus of the Company, is set out in page 18 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 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 and investor relations |
| 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 year 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

Mr. Chuah Choon Bin (*Chairman*)
Ms. Gan Pei Joo

Non-executive Director

Mr. Leng Kean Yong

Independent non-executive Directors

Dr. Chuah Jin Chong
Ms. Chan May May
Mr. Sim Seng Loong @ Tai Seng

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, 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' 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' REPORT *(continued)*



DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 37 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.

CHANGE IN THE DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B OF THE LISTING RULES

The change in Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules is set out below:

- The Director's fees of Mr. Chuah Choon Bin has been revised to HK\$6,600 per month with effect from 1 January 2020.
- The Director's fees of Ms. Gan Pei Joo has been revised to HK\$6,600 per month with effect from 1 January 2020.
- The Director's fees of Mr. Leng Kean Yong has been revised to HK\$17,600 per month with effect from 1 January 2020.
- The Director's fees of Mr. Sim Seng Loong @ Tai Seng has been revised to HK\$12,100 per month with effect from 1 January 2020.
- The Director's fees of Dr. Chuah Jin Chong has been revised to HK\$12,100 per month with effect from 1 January 2020.
- The Director's fees of Ms. Chan May May has been revised to HK\$12,100 per month with effect from 1 January 2020.

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 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.

DIRECTORS' REPORT *(continued)*

CONTROLLING SHAREHOLDERS' INTEREST

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.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their respective holding of the Company's securities.

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 31 December 2019, 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% |
| Mr. Leng Kean Yong | Beneficial owner | 552,000(L) | 0.03% |
| Dr. Chuah Jin Chong | Beneficial owner | 112,000(L) | 0.01% |

DIRECTORS' REPORT *(continued)*



(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 | 93,280,080(L) | 19.64% |
| | | Interest in spouse <i>(Note 2)</i> | 92,340(L) | 0.02% |
| Ms. Gan Pei Joo | PCB | Beneficial owner | 324(L) | <0.01% |

Notes:

1. The letter "L" denotes the person's long position in the Shares.
2. Mr. Chuah Choon Bin is deemed under the SFO to be interested in the 92,340 shares in PCB held by his spouse.

Save as disclosed above, as at 31 December 2019, 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 31 December 2019, 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 | 1,019,364,000(L) | 63.71% |

Save as disclosed above, as at 31 December 2019, 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.

DIRECTORS' REPORT *(continued)*

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.

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 2019.

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 2.19 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. The total costs charged to profit or loss amounting to MYR5,384,000 (2018: MYR3,996,000) represent contributions paid to the retirement benefits scheme by the Group.

DIRECTORS' REPORT *(continued)*



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 2019 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.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the year ended 31 December 2019 are disclosed in note 37 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

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.

DIRECTORS' REPORT *(continued)*

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.

The Lease Agreements have a term of three years commencing from the Listing Date. On 1 October 2018, PT entered into two revised lease agreements with PCB and PSS respectively. The revised lease agreements have a term of 15 months until 31 December 2019. 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.

DIRECTORS' REPORT *(continued)*



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: 52.6%
- five largest customers in aggregate: 77.8%

Purchases

- the largest supplier: 7.5%
- five largest suppliers in aggregate: 22.6%

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.

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.

AUDITORS

The consolidated financial statements for the year ended 31 December 2019 have been audited by GTHK, who will retire at the forthcoming AGM and being eligible, offers themselves for re-appointment. A resolution for the re-appointment of GTHK as auditors of the Company will be proposed at the forthcoming AGM. There has been no change of auditor of the Company since the Listing Date.

INDEPENDENT AUDITOR'S REPORT



Grant Thornton
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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 52 to 140, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 notes 2.17, 4.1 and 5 to the consolidated financial statements

The Key Audit Matter

The revenue recognition from the automated test equipment and factory automation solutions segments depends on the nature of the contractual arrangement with the customer and this could impact the point at which the control is transferred and service is rendered to the customer. The revenue from these activities amounted to MYR487 million. We have identified revenue recognition as a key audit matter as there is a risk that revenue maybe incorrectly recognised as different contractual arrangements with customers will result in different timing in which revenue can be recognised.

How the matter was addressed in our audit

Our audit procedures in relation to revenue recognition included:

- Evaluating the assessment performed by management on compliance with revenue recognition policies.
- 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 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 checking 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 2.10, 4.2 and 20 to the consolidated financial statements

The Key Audit Matter

The Group has significant balance of inventories as at 31 December 2019. 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.
- Evaluating the consistency of the application of management's methodology for calculating the provision from year to year and assessing the adequacy of the provisions estimated and provided in the financial statements.
- Evaluating of the appropriateness of the methodologies applied in determining product cost and critically assessing the calculation.



INDEPENDENT AUDITOR'S REPORT *(continued)*

KEY AUDIT MATTERS *(continued)*

Valuation of inventories

Refer to notes 2.10, 4.2 and 20 to the consolidated financial statements

The Key Audit Matter

How the matter was addressed in our audit

- 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.
- On a sampling basis, testing the ageing of the inventories.
- On a sampling basis, we have independently tested the net realisable value of inventories.
- For work in progress where expected delivery is not in accordance with timeline stipulated in the purchase order, we have discussed with management on the status of the project and considered if provisions for write downs were necessary.

INDEPENDENT AUDITOR'S REPORT *(continued)*

KEY AUDIT MATTERS *(continued)*

Provision for expected credit losses of trade receivables

Refer to notes 2.12, 4.2 and 21 to the consolidated financial statements

The Key Audit Matter

The Group has significant exposure to credit risk arising from its trade receivables as at 31 December 2019.

Assessing expected credit losses of trade receivables requires the management's judgement and uses of estimates in determining the probability of default occurring by considering the ageing of receivable, historical loss experience and forward-looking information.

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.
- Evaluating the application of group policy for calculating the expected credit loss.
- Considering the ageing of the trade receivables.
- Evaluating techniques and methodology in the expected credit loss approach against the requirements of IFRS 9.
- Assessing the estimated future cash flows by examining the historical repayment records, historical loss rate of receivables, information regarding the current creditworthiness and any significant changes in credit quality of the debtors and evidence of subsequent settlements.
- Comparing the assumptions used to estimate the provision for impairment with the available industry data.
- Assessing the operating effectiveness of control policies over ongoing internal credit quality assessments.



INDEPENDENT AUDITOR'S REPORT *(continued)*

KEY AUDIT MATTERS *(continued)*

Purchase price allocation for acquisition of a subsidiary

Refer to notes 2.3, 2.6, 2.8, 4.2, 16 and 17 to the consolidated financial statements

The Key Audit Matter

During the financial year, the Group acquired a subsidiary, a company involved in the manufacturing and assembling of automation machines and die casting parts for the medical industry. The result of the subsidiary has been consolidated by the Group since the acquisition date.

Management has engaged an independent professional qualified valuer to assist them in identifying the intangible assets and to perform the valuation of the identified assets and liabilities of the acquired business at the acquisition date, based on which management performed a purchase price allocation exercise and resulted in recognition of intangible asset and goodwill.

We consider this area a key audit matter given the significant judgements involved in the fair value assessment of the identified technical know-how and the recognition of goodwill arising from the business acquisition. These significant judgements include the adoption of appropriate valuation methodology and the use of key parameters and inputs such as gross profit margin, discount rate, terminal value and expected useful life of identified technical know-how.

How the matter was addressed in our audit

Our procedures in relation to evaluating the purchase price allocation included:

- Evaluating the independent external valuer's competence, capabilities and objectivity.
- Engaging in discussion with the management and their external valuer to understand the methodology and assumption used in deriving the identified assets and liabilities from the purchase price allocation exercise conducted.
- Evaluating the methodology and assumptions used by management and management's external expert to estimate the fair value of identified technical know-how and goodwill.
- Comparing management's assumptions of gross profit margin and expected useful life of the technical know-how with historical data of the acquired business and the industry available data.
- Checking the mathematical accuracy of the calculations of the fair value of the identified technical know-how and goodwill.

INDEPENDENT AUDITOR'S REPORT *(continued)*

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the 2019 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.

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.



INDEPENDENT AUDITOR'S REPORT *(continued)*

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

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

27 February 2020

Chiu Wing Ning

Practising Certificate No.: P04920



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | <i>Notes</i> | 2019 MYR'000 | 2018 MYR'000 |
|---|--------------|-------------------------|-----------------|
| Revenue | <i>5</i> | 487,088 | 417,098 |
| Cost of goods sold | | (308,034) | (280,877) |
| Gross profit | | 179,054 | 136,221 |
| Other income | <i>6</i> | 14,332 | 6,522 |
| Distribution costs | | (7,201) | (4,426) |
| Administrative expenses | | (45,874) | (32,552) |
| Other operating expenses | | (211) | (145) |
| Operating profit | | 140,100 | 105,620 |
| Finance costs | <i>8</i> | (186) | (188) |
| Share of results of an associate | <i>19</i> | (734) | (66) |
| Profit before taxation | <i>9</i> | 139,180 | 105,366 |
| Taxation | <i>10</i> | (7,799) | (5,357) |
| Profit and total comprehensive income for the year attributable to owners of the Company | | 131,381 | 100,009 |
| Earnings per share attributable to owners of the Company (sen) | | | |
| Basic and diluted | <i>12</i> | 8.21 | 6.29 |

Note: The Group has initially applied IFRS 16 effective from 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The notes on pages 67 to 140 are an integral part of these consolidated financial statements. Details of dividends proposed for the year are set out in note 13.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

| | <i>Notes</i> | 2019 MYR'000 | 2018 MYR'000 |
|---|--------------|-------------------------|-----------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 14 | 78,088 | 64,034 |
| Leasehold land | 15 | 7,476 | 7,621 |
| Goodwill | 16 | 4,495 | – |
| Intangible assets | 17 | 30,985 | 1,697 |
| Interest in an associate | 19 | 4,062 | 3,046 |
| Other receivables, deposits and prepayments | 22 | 21,461 | – |
| | | 146,567 | 76,398 |
| Current assets | | | |
| Inventories | 20 | 59,458 | 138,115 |
| Trade receivables | 21 | 61,692 | 48,701 |
| Other receivables, deposits and prepayments | 22 | 4,253 | 16,212 |
| Amount due from ultimate holding company | 37(d) | 2 | – |
| Amount due from a fellow subsidiary | 37(d) | 6 | – |
| Derivative financial assets | 23 | 2,395 | – |
| Tax recoverable | | 29 | 816 |
| Cash and cash equivalents | 24 | 303,955 | 217,705 |
| | | 431,790 | 421,549 |
| Total assets | | 578,357 | 497,947 |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Share capital | 25 | 8,054 | 8,054 |
| Reserves | 26 | 430,869 | 312,325 |
| Total equity | | 438,923 | 320,379 |



CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 31 December 2019

| | <i>Notes</i> | 2019 MYR'000 | 2018 MYR'000 |
|---|--------------|-------------------------------|-----------------|
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade payables | <i>27</i> | 31,478 | 38,378 |
| Other payables, accruals and provisions | <i>28</i> | 40,023 | 21,915 |
| Contract liabilities | <i>29</i> | 49,559 | 99,092 |
| Amount due to ultimate holding company | <i>37(d)</i> | – | 8,207 |
| Amount due to a fellow subsidiary | <i>37(d)</i> | – | 6 |
| Derivative financial liabilities | <i>23</i> | – | 4,810 |
| Finance lease liabilities | <i>30</i> | – | 36 |
| Bank borrowing | <i>31</i> | 3,362 | 3,680 |
| Provision for taxation | | 1,968 | 1,156 |
| | | 126,390 | 177,280 |
| Non-current liabilities | | | |
| Deferred income | <i>32</i> | 2,072 | 288 |
| Other payables, accruals and provisions | <i>28</i> | 5,598 | – |
| Deferred tax liabilities | <i>33</i> | 5,374 | – |
| | | 13,044 | 288 |
| Total liabilities | | 139,434 | 177,568 |
| Total equity and liabilities | | 578,357 | 497,947 |

Gan Pei Joo
Director

Chuah Choon Bin
Director

Note: The Group has initially applied IFRS 16 effective from 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The notes on pages 67 to 140 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | Equity attributable to owners of the Company | | | | | |
|--|--|----------------------|----------------------|----------------------|-------------------------|----------------|
| | Share capital | Share premium | Capital reserve | Retained profits | Proposed final dividend | Total |
| | MYR'000 (note 25) | MYR'000 (note 26) | MYR'000 (note 26) | MYR'000 (note 26) | MYR'000 (note 13) | MYR'000 |
| As at 1 January 2018 | 1 | – | 44,477 | 82,903 | – | 127,381 |
| Profit and total comprehensive income for the year | – | – | – | 100,009 | – | 100,009 |
| Transactions with owners: | | | | | | |
| Issuance of share capital pursuant to the Share Offer (note 25) | 967 | 92,022 | – | – | – | 92,989 |
| Issuance of share capital pursuant to the Capitalisation Issue (note 25) | 7,086 | (7,086) | – | – | – | – |
| Total transactions with owners | 8,053 | 84,936 | – | – | – | 92,989 |
| 2018 final dividends proposed (note 13) | – | – | – | (12,433) | 12,433 | – |
| As at 31 December 2018 and 1 January 2019 | 8,054 | 84,936 | 44,477 | 170,479 | 12,433 | 320,379 |
| Profit and total comprehensive income for the year | – | – | – | 131,381 | – | 131,381 |
| 2018 final dividend declared | – | – | – | (404) | (12,433) | (12,837) |
| 2019 final dividends proposed (note 13) | – | – | – | (13,032) | 13,032 | – |
| As at 31 December 2019 | 8,054 | 84,936 | 44,477 | 288,424 | 13,032 | 438,923 |

Note: The Group has initially applied IFRS 16 effective from 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The notes on pages 67 to 140 are an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | Note | 2019 MYR'000 | 2018 MYR'000 |
|---|------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Profit before taxation | | 139,180 | 105,366 |
| Adjustments for: | | | |
| Amortisation of intangible assets | | 755 | 960 |
| Amortisation of leasehold land | | 145 | 83 |
| Deferred income released | | (252) | (131) |
| Depreciation | | 3,536 | 2,456 |
| Gain on disposal of property, plant and equipment | | (14) | - |
| (Gain)/Loss from changes in fair value of foreign currency forward contracts | | (7,205) | 5,271 |
| Interest expense | | 186 | 188 |
| Bank interest income | | (6,743) | (1,981) |
| Inventory written downs – addition | | 2,497 | 176 |
| Inventory written downs – reversal | | (435) | (21) |
| Bad debts recovery | | - | (6) |
| ECL allowance on trade receivables | | 3,019 | - |
| Property, plant and equipment written off | | 3 | - |
| Provision for warranty – current year | | 866 | 736 |
| Provision for warranty – reversal | | (736) | (444) |
| Share of results of an associate | | 734 | 66 |
| Unrealised loss/(gain) on foreign exchange | | 2,803 | (8,322) |
| Operating profit before working capital changes | | 138,339 | 104,397 |
| Decrease/(Increase) in inventories | | 95,398 | (16,729) |
| Increase in receivables | | (15,106) | (22,561) |
| (Decrease)/Increase in payables | | (21,331) | 27,764 |
| Decrease in contract liabilities | | (49,533) | (16,939) |
| Net change in a fellow subsidiary's balance | | (12) | (549) |
| Cash generated from operations | | 147,755 | 75,383 |
| Interest paid | | (186) | (188) |
| Tax paid | | (7,141) | (5,619) |
| Tax refunded | | 954 | 81 |
| <i>Net cash from operating activities</i> | | 141,382 | 69,657 |

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

For the year ended 31 December 2019

| | <i>Note</i> | 2019 MYR'000 | 2018 MYR'000 |
|---|-------------|-------------------------------|-----------------|
| Cash flows from investing activities | | | |
| Bank interest received | | 6,743 | 1,981 |
| Acquisition of subsidiary, net of cash acquired | | (15,379) | – |
| Proceeds from disposal of property, plant and equipment | | 25 | – |
| Purchase of intangible assets | | (7,650) | (1,725) |
| Purchase of property, plant and equipment | | (13,966) | (28,281) |
| Investment in an associate | | (1,750) | (2,100) |
| <i>Net cash used in investing activities</i> | | (31,977) | (30,125) |
| Cash flows from financing activities | | | |
| Proceed from issuance of share capital, net | | – | 92,989 |
| Repayment to ultimate holding company | | (8,209) | (2,592) |
| Repayment of term loan | | (318) | (320) |
| Repayment of finance lease liabilities | | (36) | (138) |
| Dividends paid to owners of the Company | | (12,837) | – |
| <i>Net cash (used in)/from financing activities</i> | | (21,400) | 89,939 |
| Net increase in cash and cash equivalents | | | |
| Cash and cash equivalents at the beginning of the year | | 217,705 | 81,643 |
| Effect of foreign exchange rate changes | | (1,755) | 6,591 |
| Cash and cash equivalents at the end of the year | <i>24</i> | 303,955 | 217,705 |

Note: The Group has initially applied IFRS 16 effective from 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The notes on pages 67 to 140 are an integral part of these consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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. The Company and its subsidiaries (collectively, the “Group”) are principally engaged in (i) designing, development and manufacturing of standard and non-standard automated test equipment and (ii) designing, development and installation of integrated factory automation solutions (the “Listing Businesses”). The acquisition of TP Concept during the year as described in note 38 are in line with the Group’s strategy to increase its medical sector exposure in the Greater China region.

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 2019, the directors regard PCB as the ultimate holding company.

These consolidated financial statements for the year ended 31 December 2019 were approved for issue by the board of directors on 27 February 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These annual consolidated financial statements on pages 61 to 140 have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), the collective term of which 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 derivative financial assets/liabilities 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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

2.2 Basis of consolidation *(continued)*

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 consolidated 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.

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.

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.

2.3 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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

2.3 Business combinations *(continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value on the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as bargain purchase gain.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

2.4 Associate

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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

2.4 Associate *(continued)*

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 associate. 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.

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 associate. 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 (i.e. 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.

2.5 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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

2.5 Property, plant and equipment *(continued)*

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% – 20% |
| 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.

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.

2.6 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary. Accounting for goodwill arising on acquisition of investment in an associate is set out in note 2.4.

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2.9).

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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

2.7 Leases

Definition of a lease and the Group as a lessee

Applicable from 1 January 2019

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contracts contain an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

For contracts that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Group is a lessee, the Group elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the condensed consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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

2.7 Leases *(continued)*

Definition of a lease and the Group as a lessee *(continued)*

Applicable from 1 January 2019 *(continued)*

Measurement and recognition of leases as a lessee *(continued)*

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less.

Refundable rental deposits paid are accounted for under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Applicable before 1 January 2019

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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

2.7 Leases *(continued)*

Definition of a lease and the Group as a lessee *(continued)*

Applicable before 1 January 2019 *(continued)*

Finance lease

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments of such assets, are included in “property, plant and equipment” and the corresponding liabilities, net of finance charges, are recorded as “finance lease liabilities”.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Operating lease

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

The Group as a lessor

As a lessor, the Group classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

The Group also earns rental income from operating leases of its buildings. Rental income is recognised on a straight-line basis over the term of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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

2.8 Intangible assets (other than goodwill)

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following useful lives are applied:

| | |
|-------------------------|-------------|
| Development expenditure | 5 years |
| Computer software | 2 – 5 years |
| Technical know-how | 10 years |

The assets' amortisation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Research and development expenditure

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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

2.8 Intangible assets (other than goodwill) *(continued)*

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.

Technical know-how

Technical know-how acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of these intangible assets.

2.9 Impairment of non-financial assets

The following assets are subject to impairment testing:

- Goodwill arising on acquisition of a subsidiary;
- Intangible assets;
- Property, plant and equipment (including right-of-use assets); and
- The Company's interests in subsidiaries and associate

Goodwill and other intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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

2.9 Impairment of non-financial assets *(continued)*

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose and not be larger than an operating segment.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.10 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.

2.11 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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

2.11 Financial instruments *(continued)*

Classification and subsequent measurement of financial assets

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost;
- fair value through profit or loss (FVTPL); or
- fair value through other comprehensive income (FVOCI).

In the periods presented, the Group does not have any financial assets categorised as FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of receivables which is presented within administrative expenses.

Subsequent measurement of financial assets

Debt investments

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, amounts due from ultimate holding company and a fellow subsidiary, trade and majority of other receivables fall into this category of financial instruments.

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

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at FVTPL. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements under IFRS 9 apply.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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

2.11 Financial instruments *(continued)*

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings, amounts due to ultimate holding company and a fellow subsidiary, finance lease liabilities, trade and other payables and derivative financial instruments.

Financial liabilities (other than finance lease liabilities) are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at FVTPL.

Subsequently, financial liabilities (other than finance lease liabilities) are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Accounting of finance lease liabilities are set out in note 2.7.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Trade payables

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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

2.12 Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to derive impairment using the expected credit loss ("ECL") approach. Instruments within the scope included loans and other debt-type financial assets measured at amortised cost and trade receivables.

The Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month ECL' are recognised for the first category while 'lifetime ECL' are recognised for the second category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade receivables

For trade receivables, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors such as external indicators surrounding the economic environment in which the debtor is operating.

To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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

2.12 Impairment of financial assets *(continued)*

Other financial assets measured at amortised cost *(continued)*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Detailed analysis of the ECL assessment of trade receivables and other financial assets measured at amortised cost are set out in note 39.2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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

2.13 Cash and cash equivalents

Cash comprises cash in hand, cash at bank and demand deposits with banks. Cash equivalents are short term and highly liquid investments with original maturities of three months or less that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

2.14 Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue (see note 2.17) when the Group satisfies its performance obligation under the contract.

2.15 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.

2.16 Provision for liabilities and warranty costs

Provisions for liabilities are recognised when the Group has a present (legal or constructive) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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

2.17 Revenue recognition

Revenue arises mainly from the sales of goods and rendering of services.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

Further details of the Group's revenue and other income recognition policies are as follows:

Sales of equipment

Revenue from sale of equipment usually includes the customised system/equipment and installation. The sale of the customised system/equipment and installation service are considered as one performance obligation because the promises to transfer customised system/equipment and provide installation service are not capable of being distinct and they are highly interrelated.

Revenue is recognised upon shipment or at delivery destination point, provided that the product meets the performance acceptance criteria which is normally carried out prior to shipment. Under certain circumstances, customer acceptance is conducted at customer's site i.e. to ensure that the equipment purchased can be integrated with the customer's existing production flow. Under such circumstance, revenue is only recognised once customer acceptance has been received at customer's site.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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

2.17 Revenue recognition *(continued)*

Sales of equipment *(continued)*

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). In determining the transaction price for the sale of customised system/equipment, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

Revenue from rendering of services

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

Rental income from operating leases

Rental income from operating lease is recognised over the term of the lease on a straight-line basis.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset.

2.18 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.

2.19 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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

2.20 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 liabilities are generally recognised for all taxable temporary differences.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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

2.21 Goods and services tax (“GST”) and sales and service tax (“SST”)

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.

The Finance Ministry of Malaysia has zero rated the GST effective from 1 June 2018. The government has replaced the GST with SST which came into effect on 1 September 2018.

The SST has two elements: a service tax that is charged and levied on taxable services provided by any taxable person on Malaysia in the course and furtherance of business, and a single stage sales tax levied on imported and locally manufactured goods, either at the time of importation or at the time the goods are sold or otherwise disposed of by the manufacturer.

The rate for sales tax is fixed at 5% or 10%, while the rate for service tax is fixed at 6%.

2.22 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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

2.23 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.

2.24 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.

2.25 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 party is considered to be related to the Group if:

- (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.
- (b) an 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



3. ADOPTION OF NEW AND AMENDED IFRSS

New and amended IFRSs that are effective for annual periods beginning or after 1 January 2019

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 2019:

| | |
|----------------------|--|
| IFRS 16 | Leases |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to IFRSs | Annual Improvements to IFRSs 2015-2017 Cycle |
| IFRIC – Int 23 | Uncertainty over Income Tax Treatments |

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.

IFRS 16 Leases

IFRS 16 "Leases" replaces IAS 17 "Leases" along with three Interpretations IFRIC-Int 4 "Determining whether an Arrangement contains a Lease", SIC Int-15 "Operating Leases-Incentives" and SIC Int-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease"). IFRS 16 has been applied using the modified retrospective approach, has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC-Int 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC-Int 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

The Group has already recognised the land use rights for leasehold land where the Group is a lessee. The application of IFRS 16 does not have impact on these assets except for the whole balance is now presented as "leasehold land" under non-current assets.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months, the Group has applied the practical expedient not to recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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

New and amended IFRSSs that are effective for annual periods beginning or after 1 January 2019 *(continued)*

IFRS 16 Leases *(continued)*

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

The Group's leases were mainly derived from hostel which the leases were currently recognised on a time proportion basis over the lease term. As at 31 December 2019, the Group did not have significant non-cancellable operating lease commitment as all leases were short-term leases. The Group applied elective recognition exemptions for lessees under IFRS 16.

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.

| | |
|---|--|
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest Rate Benchmark Reform ¹ |
| Amendments to IAS 1 and IAS 8 | Definition of Material ¹ |
| IFRS 17 | Insurance Contracts ² |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current ³ |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴ |
| Amendments to IFRS 3 | Definition of a Business ⁵ |

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for annual periods beginning on or after 1 January 2022

⁴ Effective date not yet determined

⁵ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

The directors of the Company anticipate that the application of other new and amended IFRSSs will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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 other than the following:

Revenue recognition

Revenue from sales of goods and rendering service are recognised at the point in time when control of the goods is transferred and service is rendered to the customer. The management has made judgments of identifying the performance obligations and estimating the point of revenue recognition under difference contractual agreements.

The details of revenue during the years ended 31 December 2019 and 2018 are disclosed in note 5.

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.

The carrying amount of property, plant and equipment as at 31 December 2019 and 2018 is disclosed in note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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 2019 and 2018 are disclosed in notes 14, 15 and 17, respectively. No impairment loss are provided for property, plant and equipment, leasehold land and intangible assets during the years ended 31 December 2019 and 2018.

Provision for ECL of receivables

The Group uses a provision matrix to calculate ECL for receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The carrying amount of trade receivables as at 31 December 2019 and 2018 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 2019 and 2018 are disclosed in note 20.

Estimation of goodwill impairment

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates about future cash flows and discount rates. In the process of estimating expected future cash flows, management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. Details of the estimates of the recoverable amounts of cash generating units containing goodwill are disclosed in note 16.

As at 31 December 2019, the carrying amount of goodwill is disclosed in note 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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:

| | 2019 | 2018 |
|---|----------------|---------|
| | MYR'000 | MYR'000 |
| Invoiced value of goods sold less returns and discounts | 479,068 | 410,650 |
| Service rendered | 8,020 | 6,448 |
| | 487,088 | 417,098 |

Disaggregation of revenue from contracts with customer

The Group derives revenue from the transfer of goods and services at a point in time in the following customers' segment for both the automated test equipment segment and factory automation solutions segment:

| | 2019 | 2018 |
|--|----------------|---------|
| | MYR'000 | MYR'000 |
| Automated test equipment (Previously known as automated equipment) | | |
| – Telecommunications | 319,674 | 258,723 |
| – Semiconductor | 32,309 | 37,857 |
| – Automotive | 44,958 | 30,002 |
| – Consumer and industrial products | 25,547 | 9,844 |
| – Medical devices | – | 24 |
| – Others | – | 1,434 |
| | 422,488 | 337,884 |
| Factory automation solutions (Previously known as automated manufacturing solution) | | |
| – Telecommunications | 17,720 | 45,698 |
| – Automotive | 25,461 | 15,837 |
| – Consumer and industrial products | 10,951 | 11,502 |
| – Semiconductor | 2,185 | 3,371 |
| – Medical devices | 8,283 | 1,397 |
| – Others | – | 1,409 |
| | 64,600 | 79,214 |
| | 487,088 | 417,098 |
| Timing of revenue recognition | | |
| – At a point in time | 487,088 | 417,098 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

5. REVENUE AND SEGMENT REPORTING *(continued)*

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 test equipment (Previously known as automated equipment): | Designing, development and manufacturing of standard and non-standard automated equipment. |
| (ii) | Factory automation solutions (Previously known as automated manufacturing solution): | Designing, development and installation of integrated factory automation 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".

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



5. REVENUE AND SEGMENT REPORTING *(continued)*

5.2 Segment information *(continued)*

| | Automated test equipment MYR'000 | Factory automation solutions MYR'000 | Adjustment MYR'000 | Note | Total MYR'000 |
|------------------------------------|---|---|-----------------------|------|------------------|
| Year ended 31 December 2019 | | | | | |
| Revenue | | | | | |
| External customers | 422,488 | 64,600 | | | 487,088 |
| Inter-segment revenue | 8,734 | 19,711 | (28,445) | (i) | - |
| Total revenue | 431,222 | 84,311 | | | 487,088 |
| Results | | | | | |
| Segment results | 128,758 | 8,334 | (3,735) | | 133,357 |
| Interest income | 6,313 | 430 | | | 6,743 |
| Interest expense | (186) | - | | | (186) |
| Share of results of an associate | - | - | (734) | | (734) |
| Profit before taxation | 134,885 | 8,764 | | | 139,180 |
| Taxation | (7,755) | (44) | | | (7,799) |
| Profit for the year | 127,130 | 8,720 | | | 131,381 |
| Assets | | | | | |
| Segment assets | 189,301 | 101,690 | (20,651) | | 270,340 |
| Interest in an associate | - | - | 4,062 | | 4,062 |
| Cash and cash equivalents | 251,769 | 15,745 | 36,441 | | 303,955 |
| Total assets | 441,070 | 117,435 | | | 578,357 |
| Liabilities | | | | | |
| Segment liabilities | 102,733 | 79,874 | (53,877) | | 128,730 |
| Bank borrowing | 3,362 | - | | | 3,362 |
| Provision for taxation | 1,959 | 9 | | | 1,968 |
| Deferred tax liabilities | - | 5,374 | | | 5,374 |
| Total liabilities | 108,054 | 85,257 | | | 139,434 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

5. REVENUE AND SEGMENT REPORTING *(continued)*

5.2 Segment information *(continued)*

| | Automated test equipment MYR'000 | Factory automation solutions MYR'000 | Adjustment MYR'000 | Total MYR'000 |
|--|---|---|-----------------------|------------------|
| Year ended 31 December 2019 | | | | |
| Other information | | | | |
| Additions to non-current assets | 19,875 | 33,494 | 523 | 53,892 |
| Depreciation and amortisation | 3,708 | 810 | (82) | 4,436 |
| Deferred income released | (183) | (69) | | (252) |
| Gain on disposal of property, plant and equipment | (96) | – | 82 | (14) |
| ECL allowance on trade receivables | 997 | 2,022 | | 3,019 |
| Inventory written downs to net realisable value | | | | |
| – addition | 2,474 | 23 | | 2,497 |
| – reversal | (405) | (30) | | (435) |
| Gain from changes in fair value of foreign currency forward contracts | (6,207) | (998) | | (7,205) |
| Unrealised loss on foreign exchange | 438 | 908 | 1,457 | 2,803 |
| Provision for warranty | | | | |
| – current year | 816 | 50 | | 866 |
| – reversal | (667) | (69) | | (736) |
| Property, plant and equipment written-off | 2 | 1 | | 3 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



5. REVENUE AND SEGMENT REPORTING *(continued)*

5.2 Segment information *(continued)*

| | Automated test equipment MYR'000 | Factory automation solutions MYR'000 | Adjustment MYR'000 | Note | Total MYR'000 |
|----------------------------------|---|---|-----------------------|------|------------------|
| Year ended 31 December 2018 | | | | | |
| Revenue | | | | | |
| External customers | 337,884 | 79,214 | | | 417,098 |
| Inter-segment revenue | 10,814 | 7,188 | (18,002) | (i) | - |
| Total revenue | 348,698 | 86,402 | | | 417,098 |
| Results | | | | | |
| Segment results | 93,812 | 8,917 | 910 | | 103,639 |
| Interest income | 1,908 | 73 | | | 1,981 |
| Interest expense | (188) | - | | | (188) |
| Share of results of an associate | - | - | (66) | | (66) |
| Profit before taxation | 95,532 | 8,990 | | | 105,366 |
| Taxation | (5,335) | (22) | | | (5,357) |
| Profit for the year | 90,197 | 8,968 | | | 100,009 |
| Assets | | | | | |
| Segment assets | 241,890 | 43,595 | (8,289) | | 277,196 |
| Interest in an associate | - | - | 3,046 | | 3,046 |
| Cash and cash equivalents | 112,110 | 10,897 | 94,698 | | 217,705 |
| Total assets | 354,000 | 54,492 | | | 497,947 |
| Liabilities | | | | | |
| Segment liabilities | 141,498 | 30,993 | 205 | | 172,696 |
| Finance lease liabilities | 36 | - | | | 36 |
| Bank borrowing | 3,680 | - | | | 3,680 |
| Provision for taxation | 1,151 | 5 | | | 1,156 |
| Total liabilities | 146,365 | 30,998 | | | 177,568 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

5. REVENUE AND SEGMENT REPORTING *(continued)*

5.2 Segment information *(continued)*

| | Automated test equipment MYR'000 | Factory automation solutions MYR'000 | Adjustment MYR'000 | Total MYR'000 |
|--|---|---|-----------------------|------------------|
| Year ended 31 December 2018 | | | | |
| Other information | | | | |
| Additions to non-current assets | 29,324 | 682 | 2,100 | 32,106 |
| Depreciation and amortisation | 3,123 | 376 | | 3,499 |
| Deferred income released | (131) | – | | (131) |
| Bad debts recovery | – | (6) | | (6) |
| Inventory written downs to net realisable value | | | | |
| – addition | 161 | 15 | | 176 |
| – reversal | (20) | (1) | | (21) |
| Loss from changes in fair value of foreign currency forward contracts | 5,098 | 173 | | 5,271 |
| Unrealised gain on foreign exchange | (1,114) | (1,233) | (5,975) | (8,322) |
| Provision for warranty | | | | |
| – current year | 667 | 69 | | 736 |
| – reversal | (405) | (39) | | (444) |

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 2019



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:

| | 2019 | 2018 |
|---------------------|----------------|---------|
| | MYR'000 | MYR'000 |
| Singapore | 257,512 | 243,782 |
| Taiwan | 68,670 | 19,780 |
| China | 39,123 | 44,709 |
| Japan | 31,026 | 17,398 |
| Malaysia | 26,421 | 26,995 |
| Republic of Ireland | 18,653 | 31,659 |
| Philippines | 18,205 | 2,065 |
| United States | 9,320 | 22,605 |
| Germany | 8,126 | 1,772 |
| Others | 10,032 | 6,333 |
| | 487,088 | 417,098 |

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:

| | 2019 | 2018 |
|-------------------------|----------------|---------|
| | MYR'000 | MYR'000 |
| Customer A ¹ | 256,121 | 241,465 |
| Customer B ² | 50,886 | N/A |
| Customer C ³ | N/A | 42,402 |

¹ Revenue from the Group's automated test equipment segment and factory automation solutions segment.

² Revenue from the Group's automated test equipment segment. Revenue from this customer in the prior year did not exceed 10% of the Group's revenue.

³ Revenue from the Group's factory automation solutions segment. Revenue from this customer in current year did not exceed 10% of the Group's revenue.

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 2019

6. OTHER INCOME

| | 2019 MYR'000 | 2018 MYR'000 |
|---|-----------------|-----------------|
| Bank interest income | 6,743 | 1,981 |
| Deferred income released | 252 | 131 |
| Bad debts recovery | – | 6 |
| Net gain on foreign exchange | – | 3,970 |
| Gain on disposal of property, plant and equipment | 14 | – |
| Gain from changes in fair value of foreign currency forward contracts | 7,205 | – |
| Rental income from operating leases | 89 | 302 |
| Others | 29 | 132 |
| | 14,332 | 6,522 |

7. EMPLOYEE BENEFITS EXPENSES (including directors' emoluments)

| | 2019 MYR'000 | 2018 MYR'000 |
|--|-----------------|-----------------|
| Salaries, allowances, commission and bonuses | 58,108 | 42,764 |
| Contribution to EPF | 5,384 | 3,996 |
| Employee Insurance Scheme | 42 | 37 |
| Social Security Organisation contribution | 725 | 634 |
| | 64,259 | 47,431 |

8. FINANCE COSTS

| | 2019 MYR'000 | 2018 MYR'000 |
|--|-----------------|-----------------|
| Interest on bank borrowing | 186 | 183 |
| Finance charges on finance lease liabilities | – | 5 |
| | 186 | 188 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



9. PROFIT BEFORE TAXATION

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

| | 2019 | 2018 |
|---|----------------|---------|
| | MYR'000 | MYR'000 |
| Amortisation of intangible assets | 755 | 960 |
| Amortisation of leasehold land | 145 | 83 |
| Auditor's remuneration | 476 | 429 |
| Deferred income released | (252) | (131) |
| Depreciation | 3,536 | 2,456 |
| ECL allowance on trade receivables | 3,019 | – |
| (Gain)/Loss from changes in fair value of foreign currency forward contracts | (7,205) | 5,271 |
| Gain on disposal of property, plant and equipment | (14) | – |
| Inventory written downs to net realisable value | | |
| – current year | 2,497 | 176 |
| – reversal | (435) | (21) |
| Net loss/(gain) on foreign exchange | 5,370 | (3,970) |
| Lease charges of short term leases and leases with lease term shorter than 12 months as at initial application of IFRS 16 (2018: Operating lease charges) | | |
| – hostel | 783 | 880 |
| – office | 153 | 75 |
| Property, plant and equipment written off | 3 | – |
| Provision for warranty | | |
| – current year | 866 | 736 |
| – reversal | (736) | (444) |
| Listing expenses | – | 1,746 |

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 2019 (2018: 24%) on the estimated chargeable income arising in Malaysia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

10. TAXATION *(continued)*

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

| | 2019 MYR'000 | 2018 MYR'000 |
|---------------------------------------|-------------------------------|-----------------|
| Malaysian income tax | | |
| Current tax | (7,730) | (5,446) |
| (Under)/Over provision in prior years | (58) | 92 |
| | (7,788) | (5,354) |
| Overseas income tax | | |
| Current tax | (11) | (3) |
| | (7,799) | (5,357) |

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

| | 2019 MYR'000 | 2018 MYR'000 |
|---|-------------------------------|-----------------|
| Profit before taxation | 139,180 | 105,366 |
| Income tax at Malaysian statutory tax rate | (33,403) | (25,288) |
| Share of results of an associate | (176) | (15) |
| Income not subject to tax | 1,537 | 473 |
| Exempt pioneer income <i>(note (i))</i> | 24,569 | 20,638 |
| Expenses not deductible for tax purposes | (3,229) | (739) |
| Difference in overseas profits tax rates | 7 | 10 |
| Deferred tax movement not recognised | 1,880 | 158 |
| Utilisation of unabsorbed tax losses and capital allowances | 1,074 | (686) |
| (Under)/Over provision in prior years | (58) | 92 |
| | (7,799) | (5,357) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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. The effective period of the relevant pioneer status is ten years starting from April 2016 subject to renewal before the fifth anniversary of its effective date.

(ii) The deferred tax assets not recognised as at the end of the reporting period prior to set-off are as follows:

| | 2019 | 2018 |
|--|----------------|---------|
| | MYR'000 | MYR'000 |
| Depreciation allowance | 1,527 | 11 |
| Unabsorbed tax losses and capital allowances | (2,862) | (3,936) |
| Others | 240 | (124) |
| | (1,095) | (4,049) |

(iii) The unabsorbed tax losses and capital allowances 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:

| | 2019 | 2018 |
|--|-----------------|----------|
| | MYR'000 | MYR'000 |
| Unabsorbed tax losses and capital allowances | (11,925) | (16,399) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

11. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

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 2019 | | | | |
|---|-----------------------------|---|--------------------|-----------------------------------|------------------|
| | 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 | 38 | 1,982 | 600 | 369 | 2,989 |
| Gan Pei Joo | 38 | 664 | 66 | 134 | 902 |
| Non-executive director: | | | | | |
| Leng Kean Yong | 101 | 5 | - | - | 106 |
| Independent non-executive directors: | | | | | |
| Sim Seng Loong @ Tai Seng | 70 | 5 | - | - | 75 |
| Chuah Jin Chong | 70 | 4 | - | - | 74 |
| Chan May May | 70 | 5 | - | - | 75 |
| | 387 | 2,665 | 666 | 503 | 4,221 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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

11.1 Directors' emoluments *(continued)*

| | Year ended 31 December 2018 | | | | |
|---|-----------------------------|---|--------------------|-----------------------------------|------------------|
| | 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 | 35 | 1,968 | – | 233 | 2,236 |
| Gan Pei Joo | 35 | 579 | 40 | 70 | 724 |
| Non-executive director: | | | | | |
| Leng Kean Yong | 92 | 5 | – | – | 97 |
| Independent non-executive directors: | | | | | |
| Sim Seng Loong @ Tai Seng | 64 | 5 | – | – | 69 |
| Chuah Jin Chong | 64 | 3 | – | – | 67 |
| Chan May May | 64 | 5 | – | – | 69 |
| | 354 | 2,565 | 40 | 303 | 3,262 |

Note: 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 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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

11.2 Five highest paid individuals' emoluments

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2019 included two (2018: two) director(s) whose emoluments are disclosed in note 11.1. The aggregate of the emoluments in respect of the remaining three (2018: three) individuals are as follows:

| | 2019 | 2018 |
|---|----------------|---------|
| | MYR'000 | MYR'000 |
| Salaries, allowances and benefits in kind | 1,395 | 1,130 |
| Bonuses | 190 | 114 |
| Contribution to EPF | 182 | 136 |
| | 1,767 | 1,380 |

The above individuals' emoluments are within the following bands:

| | Number of individuals | |
|-------------------------------|------------------------------|------|
| | 2019 | 2018 |
| Emolument bands: | | |
| HK\$1,000,001 – HK\$1,200,000 | 3 | 3 |
| Nil – HK\$1,000,000 | – | – |
| | 3 | 3 |

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 2019 (2018: Nil). No director or the five highest paid individual has waived or agreed to waive any emolument during the year ended 31 December 2019 (2018: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

| | 2019 MYR'000 | 2018 MYR'000 |
|---|-------------------------------|-----------------|
| Earnings | | |
| Profit for the year attributable to owners of the Company | 131,381 | 100,009 |
| Number of shares | | |
| Weighted average number of ordinary shares | 1,600,000,000 | 1,591,057,534 |

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company of MYR131,381,000 (2018: MYR100,009,000) and 1,600,000,000 ordinary shares in issue during the year ended 31 December 2019 (2018: the weighted average 1,591,057,534 ordinary shares).

There were no dilutive potential ordinary shares during the years ended 31 December 2019 and 2018 and therefore, diluted earnings per share equals to basic earnings per share.

13. DIVIDENDS

(a) Dividends attributable to the year:

| | 2019 MYR'000 | 2018 MYR'000 |
|---|-------------------------------|-----------------|
| Proposed final dividend of HK\$0.015 per ordinary share (2018: HK\$0.015 per ordinary share) | 13,032 | 12,433 |

The final dividend proposed after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of retained profits for the year ended 31 December 2019.

(b) Dividends attributable to the previous financial year, approved and paid during the year:

| | 2019 MYR'000 | 2018 MYR'000 |
|--|-------------------------------|-----------------|
| Final dividend in respect of the previous financial year, of HK\$0.015 per ordinary share (2018: Nil) | 12,837 | – |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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 2018 | 44,233 | 11,202 | 736 | 2,016 | 2,312 | 923 | 1,345 | 62,767 |
| Additions | 436 | 1,475 | 433 | 1,366 | 100 | 207 | 24,264 | 28,281 |
| Transfer during the year | 25,584 | - | - | - | - | - | (25,584) | - |
| As at 31 December 2018 | 70,253 | 12,677 | 1,169 | 3,382 | 2,412 | 1,130 | 25 | 91,048 |
| As at 1 January 2019 | 70,253 | 12,677 | 1,169 | 3,382 | 2,412 | 1,130 | 25 | 91,048 |
| Acquisition of a subsidiary (note 38) | - | 2,974 | 15 | 412 | 237 | - | - | 3,638 |
| Additions | 1,924 | 450 | 224 | 1,017 | 35 | 74 | 10,242 | 13,966 |
| Disposals | - | - | - | - | - | (70) | - | (70) |
| Written off | - | (921) | (361) | (196) | - | - | - | (1,478) |
| Transfer during the year | 9,642 | 120 | 485 | - | 20 | - | (10,267) | - |
| As at 31 December 2019 | 81,819 | 15,300 | 1,532 | 4,615 | 2,704 | 1,134 | - | 107,104 |
| Accumulated depreciation | | | | | | | | |
| As at 1 January 2018 | 10,243 | 9,939 | 653 | 1,051 | 2,302 | 370 | - | 24,558 |
| Current charge | 897 | 551 | 49 | 745 | 3 | 211 | - | 2,456 |
| As at 31 December 2018 | 11,140 | 10,490 | 702 | 1,796 | 2,305 | 581 | - | 27,014 |
| As at 1 January 2019 | 11,140 | 10,490 | 702 | 1,796 | 2,305 | 581 | - | 27,014 |
| Current charge | 1,240 | 900 | 160 | 979 | 28 | 229 | - | 3,536 |
| Disposals | - | - | - | - | - | (59) | - | (59) |
| Written off | - | (920) | (360) | (195) | - | - | - | (1,475) |
| As at 31 December 2019 | 12,380 | 10,470 | 502 | 2,580 | 2,333 | 751 | - | 29,016 |
| Carrying amount | | | | | | | | |
| As at 31 December 2019 | 69,439 | 4,830 | 1,030 | 2,035 | 371 | 383 | - | 78,088 |
| As at 31 December 2018 | 59,113 | 2,187 | 467 | 1,586 | 107 | 549 | 25 | 64,034 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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

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

| | 2019 MYR'000 | 2018 MYR'000 |
|----------------|-------------------------------|-----------------|
| Motor vehicles | – | 249 |

15. LEASEHOLD LAND

| | 2019 MYR'000 | 2018 MYR'000 |
|---|-------------------------------|-----------------|
| Cost | | |
| At the beginning and the end of the year | 8,705 | 8,705 |
| Accumulated amortisation | | |
| At the beginning of the year | 1,084 | 1,001 |
| Current charge | 145 | 83 |
| At the end of the year | 1,229 | 1,084 |
| Carrying amount at the end of the year | 7,476 | 7,621 |

As at 31 December 2019, the Group's leasehold land of MYR4,911,000 (2018: MYR4,995,000) has been pledged to secure a bank loan. Details of the secured bank borrowing is set out in note 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

16. GOODWILL

The Group's goodwill arose from business combinations in connection with the acquisition of TP Concept in 2019. The net carrying amount of goodwill can be analysed as follows:

| | 2019 MYR'000 |
|--|-------------------------|
| At the beginning of year | – |
| Acquisition of a subsidiary <i>(note 38)</i> | 4,495 |
| Impairment losses | – |
| Net carrying amount at 31 December | 4,495 |

The carrying amount of goodwill, net of any impairment loss, is allocated to the cash generating unit of factory automation solutions – medical devices.

The recoverable amount for the cash generating unit was determined based on value-in-use calculations covering a detailed five-year budget plan followed by an extrapolation of expected cash flows at the growth rates stated below.

The key assumptions used for value in use calculations were as follows:

| | 2019 | 2018 |
|----------------------|-------------|------|
| Average growth rates | 4% | N/A |
| Discount rates | 17% | N/A |

Apart from the considerations described in determining the value in use of the cash generating units above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates. However, the estimate of recoverable amount of the Group's unit of factory automation solutions – medical devices is particularly sensitive to the discount rate applied. The impact from a reasonable change in the discount rate is assessed in note 4.2 together with other critical accounting estimates and assumptions.

17. INTANGIBLE ASSETS

| | 2019 MYR'000 | 2018 MYR'000 |
|---|-------------------------|-----------------|
| Development expenditure <i>(note 17.1)</i> | 7,483 | 283 |
| Computer software <i>(note 17.2)</i> | 1,109 | 1,414 |
| Technical know-how <i>(note 17.3)</i> | 22,393 | – |
| Carrying amount at the end of the year | 30,985 | 1,697 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



17. INTANGIBLE ASSETS *(continued)*

17.1 Development expenditure

| | 2019 | 2018 |
|---|----------------|---------|
| | MYR'000 | MYR'000 |
| Cost | | |
| Balance at the beginning of the year | 20,133 | 19,850 |
| Additions | 7,200 | 283 |
| Balance at the end of the year | 27,333 | 20,133 |
| Accumulated amortisation | | |
| Balance at the beginning of the year | 16,260 | 15,910 |
| Current charge | - | 350 |
| Balance at the end of the year | 16,260 | 16,260 |
| Impairment loss | 3,590 | 3,590 |
| Carrying amount at the end of the year | 7,483 | 283 |

Development expenditure relates to development of test and measurement instruments, test handler and solutions and automation warehouse solutions. Development expenditure is amortised over the estimated commercial life of 5 years. Amortisation commences upon commercialisation of the respective products developed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

17. INTANGIBLE ASSETS *(continued)*

17.2 Computer software

| | 2019 MYR'000 | 2018 MYR'000 |
|---|-----------------|-----------------|
| Cost | | |
| Balance at the beginning of the year | 4,909 | 3,467 |
| Additions | 450 | 1,442 |
| Written off | (490) | – |
| Balance at the end of the year | 4,869 | 4,909 |
| Accumulated amortisation | | |
| Balance at the beginning of the year | 3,495 | 2,885 |
| Current charge | 755 | 610 |
| Written off | (490) | – |
| Balance at the end of the year | 3,760 | 3,495 |
| Carrying amount at the end of the year | 1,109 | 1,414 |

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.

17.3 Technical know-how

| | 2019 MYR'000 | 2018 MYR'000 |
|---|-----------------|-----------------|
| Cost | | |
| Acquisition of a subsidiary <i>(note 38)</i> | 22,393 | – |
| Accumulated amortisation | | |
| Current charge | – | – |
| Balance at the end of the year | – | – |
| Impairment loss | – | – |
| Carrying amount at the end of the year | 22,393 | – |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



17. INTANGIBLE ASSETS *(continued)*

17.3 Technical know-how *(continued)*

The technical know-how represents the research development information, technical data, design, prototypes and empirical data related to the technology of manufacturing and assembling of the automation machines and die casting parts for the medical industry.

The technical know-how was measured at their fair values using the income approach (excess earnings method) at the date of acquisition, i.e. 27 September 2019 and the valuation of the technical know-how is performed by Graval Consulting Limited, an independent professional valuer not related to the Group. The expected useful lives of technical know-how is 10 years.

18. INTERESTS IN SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2019 and 2018 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 |
|---|---------------------------------------|---|---|------|---|
| | | | 2019 | 2018 | |
| 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% | 100% | 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 |
| Indirectly held through Pentamaster Equipment | | | | | |
| Pentamaster Equipment Manufacturing, Inc. | United States of America | USD0.01 million comprising 1,000 shares | 100% | 100% | Providing of sales and support services |
| TP Concept Sdn. Bhd. ("TP Concept") <i>(Note)</i> | Malaysia | MYR0.25 million comprising 250,000 shares | 100% | – | Manufacturing and assembling of medical machines and manufacturing of die casting parts |

Note: Newly acquired during the year 31 December 2019 and refer to note 38 for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

19. INTEREST IN AN ASSOCIATE

| | 2019 | 2018 |
|--|----------------|---------|
| | MYR'000 | MYR'000 |
| Cost of investment | 4,900 | 3,150 |
| Share of post-acquisition results and other comprehensive income | (838) | (104) |
| | 4,062 | 3,046 |

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 |
|---|---------------------------------------|---|--|------|--|
| | | | 2019 | 2018 | |
| Penang Automation Cluster Sdn. Bhd. ("PAC") | Malaysia | MYR14 million comprising 14,000,000 shares (2018: MYR9 million comprising 9,000,000 shares) | 35% | 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. During the year ended 31 December 2019, PAC effected an increase in registered capital whereby the Group and other investors injected additional capital to PAC amounting to MYR1,750,000 and MYR3,250,000, respectively. Upon the completion date, the registered capital of PAC increased from MYR9,000,000 in 2018 to MYR14,000,000 in 2019.

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 test equipment supporting various industries globally. PAC commenced operations in October 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



19. INTEREST IN AN ASSOCIATE *(continued)*

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

| | 2019 | 2018 |
|---|-----------------|---------|
| | MYR'000 | MYR'000 |
| Non-current assets | 41,070 | 11,096 |
| Current assets | 1,990 | 1,298 |
| Current liabilities | (31,461) | (3,699) |
| Net assets | 11,599 | 8,695 |
| Revenue | 344 | – |
| Loss for the year and total comprehensive loss for the year | (2,097) | (186) |
| Dividends received from the associate | – | – |

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

| | 2019 | 2018 |
|--|----------------|---------|
| | MYR'000 | MYR'000 |
| Net assets of PAC | 11,599 | 8,695 |
| Proportion of ownership interests held by the Group | 35% | 35% |
| Goodwill | 3 | 3 |
| Carrying amount of the Group's interest in an associate | 4,062 | 3,046 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

20. INVENTORIES

| | 2019 MYR'000 | 2018 MYR'000 |
|------------------|-----------------|-----------------|
| Raw material | 2,356 | 5,174 |
| Work-in-progress | 56,459 | 131,376 |
| Finished goods | 643 | 1,565 |
| | 59,458 | 138,115 |

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

| | 2019 MYR'000 | 2018 MYR'000 |
|---|-----------------|-----------------|
| Cost of inventories recognised as cost of sales, including: | 305,972 | 280,722 |
| – write down to net realisable value | 2,497 | 176 |
| – reversal of write down to net realisable value | (435) | (21) |

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

21. TRADE RECEIVABLES

| | 2019 MYR'000 | 2018 MYR'000 |
|---------------------|-----------------|-----------------|
| Trade receivables | 64,711 | 48,701 |
| Less: ECL allowance | (3,019) | – |
| | 61,692 | 48,701 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



21. TRADE RECEIVABLES *(continued)*

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 ECL allowance, was as follows:

| | 2019 MYR'000 | 2018 MYR'000 |
|-----------------|-----------------|-----------------|
| 0-30 days | 18,147 | 3,553 |
| 31-60 days | 11,668 | 3,708 |
| 61-90 days | 6,654 | 10,448 |
| 91-180 days | 10,336 | 15,077 |
| 181 to 270 days | 4,720 | 10,352 |
| Over 270 days | 10,167 | 5,563 |
| | 61,692 | 48,701 |

The movement in the ECL allowance of trade receivables is as follows:

| | 2019 MYR'000 | 2018 MYR'000 |
|--------------------------------------|-----------------|-----------------|
| Balance at the beginning of the year | - | 106 |
| ECL allowance | 3,019 | - |
| Written off | - | (106) |
| | 3,019 | - |

22. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2019 MYR'000 | 2018 MYR'000 |
|--|-----------------|-----------------|
| Other receivables | 20 | 43 |
| Refundable deposits | 23,106 | 1,396 |
| Non-refundable deposits <i>(note (i))</i> | 1,738 | 9,023 |
| Prepayments | 490 | 420 |
| GST claimable | 360 | 5,330 |
| | 25,714 | 16,212 |
| Less: non-current portion Deposits <i>(note (ii))</i> | (21,461) | - |
| Current portion | 4,253 | 16,212 |

Notes:

- (i) Non-refundable deposits are mainly for deposits paid to suppliers for purchase of raw materials and machines.
- (ii) The balance represented a potential investment in a manufacturing company in Taiwan, which is subject to certain conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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.

As at 31 December 2019

| Notional amount | Settlement date | Term | Forward rate |
|-----------------|----------------------------|-----------------|------------------------|
| US\$21,500,000 | 19 March to 27 August 2020 | 226 to 366 days | MYR4.20 – 4.24/US\$ |

As at 31 December 2018

| Notional amount | Settlement date | Term | Forward rate |
|-----------------|------------------------------|-----------------|------------------------|
| US\$30,200,000 | 25 March to 16 December 2019 | 218 to 369 days | MYR3.93 – 4.19/US\$ |
| HK\$80,000,000 | 10 May 2019 | 362 days | MYR0.51/HK\$ |

24. CASH AND CASH EQUIVALENTS

| | 2019 MYR'000 | 2018 MYR'000 |
|---|-----------------|-----------------|
| Cash and bank balances | 95,113 | 114,856 |
| Fixed deposits with a licensed bank <i>(note (i))</i> | – | 65,590 |
| Short-term investment <i>(note (ii))</i> | 208,842 | 37,259 |
| | 303,955 | 217,705 |

Notes:

- (i) The fixed deposits earn from 3.20% to 3.30% interest per annum and have a maturity of 1 month in 2018.
- (ii) The effective interest rate for the short-term investment are from 3.12% to 3.70% (2018: 3.45% to 3.70%) 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 2019



25. SHARE CAPITAL

| | 2019 | | 2018 | |
|--|----------------------|---------------|----------------------|---------------|
| | Number of shares | MYR'000 | Number of shares | MYR'000 |
| Authorised: | | | | |
| Ordinary shares of HK\$0.01 each as at 1 January | 5,000,000,000 | 26,052 | 5,000,000,000 | 26,052 |
| As at 31 December | 5,000,000,000 | 26,052 | 5,000,000,000 | 26,052 |
| Issued and fully paid: | | | | |
| As at 1 January | 1,600,000,000 | 8,054 | 238,096 | 1 |
| Issuance of share capital pursuant to the Share Offer <i>(note (i))</i> | – | – | 192,000,000 | 967 |
| Issuance of share capital pursuant to the Capitalisation Issue <i>(note (i))</i> | – | – | 1,407,761,904 | 7,086 |
| As at 31 December | 1,600,000,000 | 8,054 | 1,600,000,000 | 8,054 |

Note:

- (i) 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 MYR966,528) 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 MYR95,686,272), 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 MYR7,086,673) 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 2019

26. RESERVES

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2019 and 2018 are presented in the consolidated statement of changes in equity of the consolidated financial statements.

Share premium

The share premium represents the difference between the par value of the shares of the Company and net proceeds received from the issuance of the shares of the Company.

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to the shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

Capital reserve

The capital reserve of the Group as at 31 December 2019 and 2018 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.

Retained profits

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

27. TRADE PAYABLES

The normal credit terms granted by trade payables range from 30 to 150 days (2018: 30 to 120 days). Based on the invoice date, the ageing analysis of the trade payables was as follows:

| | 2019 | 2018 |
|---------------|----------------|---------|
| | MYR'000 | MYR'000 |
| 0-30 days | 17,422 | 17,379 |
| 31-60 days | 9,556 | 17,692 |
| 61-90 days | 3,752 | 2,034 |
| 91-120 days | 403 | 907 |
| Over 120 days | 345 | 366 |
| | 31,478 | 38,378 |

Included in trade payables were amounts due to the Group's associate of MYR87,000 (2018: Nil). The outstanding balances were trading in nature and had credit period of 90 days (2018: Nil). See note 37(b) for details of these transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



28. OTHER PAYABLES, ACCRUALS AND PROVISIONS

| | 2019 MYR'000 | 2018 MYR'000 |
|--|-----------------|-----------------|
| Other payables | 1,610 | 1,831 |
| Amounts due to former shareholders of a subsidiary <i>(note (i))</i> | 5,500 | – |
| Consideration payables related to acquisition of a subsidiary <i>(note (ii))</i> | 11,393 | – |
| Accruals | 26,252 | 19,348 |
| Provision for warranty | 866 | 736 |
| | 45,621 | 21,915 |
| Less: non-current portion | | |
| Consideration payables related to acquisition of a subsidiary <i>(note (ii))</i> | (5,598) | – |
| Current portion | 40,023 | 21,915 |

Notes:

- (i) The amounts due are unsecured, interest free and repayable on demand. The carrying amounts of the amounts due are considered reasonable approximation of their fair values.
- (ii) The consideration payable referred to the balance sum of the consideration payable to the outgoing vendors of a subsidiary acquired during the financial year (note 38). The consideration is payable subject to the subsidiary achieving certain performance milestones and will be settled in 2020 and 2021.

29. CONTRACT LIABILITIES

| | 2019 MYR'000 | 2018 MYR'000 |
|--|-----------------|-----------------|
| Contract liabilities arising from receiving deposits of manufacturing orders | 49,559 | 99,092 |

Notes:

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract. The deposit will be reversed and recognised as revenue upon satisfying the performance obligation within the contract.

All deposits received are expected to be settled within one year.

Contract liabilities outstanding at the beginning of the year amounting to MYR82,892,000 (2018: MYR113,951,000) have been recognised as revenue during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

30. FINANCE LEASE LIABILITIES

| | 2019 MYR'000 | 2018 MYR'000 |
|--|-----------------|-----------------|
| Total minimum lease payments: | | |
| Due within one year | - | 36 |
| Future finance charges | - | - |
| | | |
| Present value of finance lease liabilities | - | 36 |
| | | |
| Present value of minimum lease payments: | | |
| Due within one year included under current liabilities | - | 36 |

The Group has entered into finance leases for items of motor vehicles. As at 31 December 2018, the effective interest rate of the finance lease liabilities is 2.63% per annum, and finance lease liabilities are secured over the leased assets.

During the year ended 31 December 2019, the total cash outflows for the leases are MYR972,000.

31. BANK BORROWING

As at 31 December 2019 and 2018, the Group's bank borrowing contains a repayable on demand clause and is shown under current liabilities. The carrying amount of bank borrowing is considered to be a reasonable approximate of its fair value. As at 31 December 2019 and 2018, the Group's bank borrowing, based on the scheduled repayment dates set out in the loan agreements, is repayable as follows:

| | 2019 MYR'000 | 2018 MYR'000 |
|----------------------------|-----------------|-----------------|
| Within one year | 358 | 334 |
| In the second year | 374 | 350 |
| In the third to fifth year | 1,230 | 1,158 |
| After the fifth year | 1,400 | 1,838 |
| | | |
| | 3,362 | 3,680 |

Note:

As at 31 December 2019 and 2018, the bank borrowing is secured, repayable by monthly instalments with terms of 10 years and bears interest at floating rate. The bank borrowing is denominated in MYR, with effective interest rate of 4.55% (2018: 4.80%) per annum. The bank borrowing is secured by the leasehold land of the Group (note 15) and corporate guarantee provided by the Company up to a limit of MYR4,500,000 (2018: MYR4,500,000).

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 2019



32. DEFERRED INCOME

| | 2019 MYR'000 | 2018 MYR'000 |
|--|-----------------|-----------------|
| Balance at the beginning of the year | 288 | 419 |
| Acquisition of a subsidiary <i>(note 38)</i> | 2,036 | - |
| Released to profit or loss | (252) | (131) |
| Balance at the end of the year | 2,072 | 288 |

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.

33. DEFERRED TAX LIABILITIES

The movement during the year in the deferred tax liabilities is as follows:

| | 2019 MYR'000 | 2018 MYR'000 |
|--|-----------------|-----------------|
| At 1 January | - | - |
| Acquisition of a subsidiary <i>(note 38)</i> | 5,374 | - |
| At 31 December | 5,374 | - |

The movement in deferred tax liabilities arising from fair value adjustment on business combination during the year is as follows:

| | 2019 MYR'000 | 2018 MYR'000 |
|--|-----------------|-----------------|
| At 1 January | - | - |
| Acquisition of a subsidiary <i>(note 38)</i> | 5,374 | - |
| At 31 December | 5,374 | - |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Reconciliation of liabilities arising from financing activities are as follows:

| | Amount due to/(from) ultimate holding company MYR'000 | Bank borrowing MYR'000 | Finance lease liabilities MYR'000 | Total MYR'000 |
|-------------------------------|--|------------------------------|---|------------------|
| As at 1 January 2019 | 8,207 | 3,680 | 36 | 11,923 |
| Cash flows | (8,209) | (318) | (36) | (8,563) |
| As at 31 December 2019 | (2) | 3,362 | - | 3,360 |
| As at 1 January 2018 | 10,799 | 4,000 | 174 | 14,973 |
| Cash flows | (2,592) | (320) | (138) | (3,050) |
| As at 31 December 2018 | 8,207 | 3,680 | 36 | 11,923 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | <i>Note</i> | 2019 MYR'000 | 2018 MYR'000 |
|--|-------------|-------------------------|-----------------|
| ASSETS | | | |
| Non-current asset | | | |
| Interests in subsidiaries | | 86,776 | 86,776 |
| Current assets | | | |
| Other receivable and prepayment | | 119 | 157 |
| Amounts due from subsidiaries | | 33,495 | – |
| Cash and cash equivalents | | 36,442 | 94,698 |
| | | 70,056 | 94,855 |
| Total assets | | 156,832 | 181,631 |
| EQUITY AND LIABILITIES | | | |
| Share capital | <i>25</i> | 8,054 | 8,054 |
| Reserves (<i>note</i>) | | 148,391 | 164,964 |
| Total equity | | 156,445 | 173,018 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accruals | | 387 | 383 |
| Amount due to ultimate holding company | | – | 8,227 |
| Amount due to a subsidiary | | – | 3 |
| Total liabilities | | 387 | 8,613 |
| Total equity and liabilities | | 156,832 | 181,631 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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

Note:

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

| | Share premium | Capital reserves | Accumulated losses | Proposed final dividend | Total |
|--|--------------------------|-----------------------------|-------------------------------|--|----------------|
| | MYR'000 | MYR'000 | MYR'000 | MYR'000 | MYR'000 |
| | <i>(note 26)</i> | <i>(note 26)</i> | <i>(note 26)</i> | <i>(note 13)</i> | |
| As at 1 January 2018 | – | 86,776 | (6,518) | – | 80,258 |
| Loss and total comprehensive loss for the year | – | – | (230) | – | (230) |
| Issuance of share capital pursuant to the Share Offer <i>(note 25)</i> | 92,022 | – | – | – | 92,022 |
| Issuance of share capital pursuant to the Capitalisation Issue <i>(note 25)</i> | (7,086) | – | – | – | (7,086) |
| 2018 final dividends proposed <i>(note 13)</i> | – | – | (12,433) | 12,433 | – |
| As at 31 December 2018 and 1 January 2019 | 84,936 | 86,776 | (19,181) | 12,433 | 164,964 |
| Loss and total comprehensive loss for the year | – | – | (3,736) | – | (3,736) |
| 2018 final dividends declared <i>(note 13)</i> | – | – | (404) | (12,433) | (12,837) |
| 2019 final dividends proposed <i>(note 13)</i> | – | – | (13,032) | 13,032 | – |
| As at 31 December 2019 | 84,936 | 86,776 | (36,353) | 13,032 | 148,391 |

Gan Pei Joo
Director

Chuah Choon Bin
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



36. CAPITAL COMMITMENT

| | 2019 MYR'000 | 2018 MYR'000 |
|--|-----------------|-----------------|
| Contracted but not provided for – Property, plant and equipment | 11,976 | 18,155 |

37. 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 |
| PAC | Associate |
| Pentamaster Smart Solution Sdn. Bhd. ("Pentamaster Smart Solution") | Entity controlled by the ultimate holding company |

(b) Related party transactions

| | 2019 MYR'000 | 2018 MYR'000 |
|------------------------------|-----------------|-----------------|
| Purchase from: | | |
| – Pentamaster Smart Solution | 84 | 971 |
| – PAC | 186 | – |
| Rental income from: | | |
| – Pentamaster Smart Solution | 53 | 94 |
| – PCB | 36 | 208 |

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 2019

37. 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:

| | 2019 MYR'000 | 2018 MYR'000 |
|---|-----------------|-----------------|
| Employees' salaries, allowances and bonuses | 8,179 | 6,718 |
| Contribution to EPF | 831 | 714 |
| | 9,010 | 7,432 |

(d) Balances with related parties

| | 2019 MYR'000 | 2018 MYR'000 |
|---|-----------------|-----------------|
| Amount due from/(to) a fellow subsidiary: | | |
| Trade nature: | | |
| – Pentamaster Smart Solution | 6 | (6) |
| Amount due from/(to) ultimate holding company: | | |
| Non-trade nature: | | |
| – PCB | 2 | (8,207) |

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 2019



38. ACQUISITION OF A SUBSIDIARY

Subsidiary acquired

| | Principal activity | Date of acquisition | Proportion of Shares acquired | Consideration transferred MYR'000 |
|-------------|---|----------------------------|--------------------------------------|--|
| 2019 | | | | |
| TP Concept | Manufacturing and assembling of medical machines and manufacturing of die casting parts | 27 September 2019 | 100% | 20,393 |

TP Concept was acquired to continue the expansion of the Group's factory automation solutions operations.

Consideration transferred

| | |
|------------------------|-------------------------|
| | 2019 MYR'000 |
| Cash | 9,000 |
| Consideration payables | 11,393 |

Acquisition-related costs amounting to MYR31,000 have been excluded from the consideration transferred and have been recognised as other expenses in the consolidated statement of profit or loss and other comprehensive income.

All existing shareholders of TP Concept jointly and severally warrant that the aggregate profit before tax ("PBT") in respect of TP Concept for year ended 31 March 2020 ("FYE 2020") and year ended 31 March 2021 ("FYE 2021") shall not be less than MYR12,000,000 ("Aggregate Profit Guarantee"). They shall be liable to pay the shortfall to the Group if the aggregate profit guarantee is not achieved.

The Profit Guarantee Shortfall shall be calculated as follows:

Profit Guarantee Shortfall = Aggregate Profit Guarantee – PBT for FYE 2020 and FYE 2021

Details of the investment agreement were set out in the Group's announcement dated 26 September 2019. The Directors of the Group consider the fair value of the contingent consideration receivable arising from the profit guarantee as at the acquisition date and at 31 December 2019 was insignificant by reference to a cash flow forecast prepared by the Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

38. ACQUISITION OF A SUBSIDIARY *(continued)*

Assets acquired and liabilities recognised at the date of acquisition

| | 2019 MYR'000 |
|-------------------------------|-----------------|
| Property, plant and equipment | 3,638 |
| Intangible assets | 22,393 |
| Inventories | 18,803 |
| Trade and other receivables | 11,484 |
| Cash and cash equivalents | (6,379) |
| Trade and other payables | (26,631) |
| Deferred income | (2,036) |
| Deferred tax liabilities | (5,374) |
| | 15,898 |

The receivables acquired (which principally comprised trade receivables) in these transactions with a fair value of MYR11,484,000 had gross contractual amounts of MYR11,484,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected are MYR11,484,000.

Goodwill arising on acquisition

| | 2019 MYR'000 |
|--|-----------------|
| Consideration transferred/payable | 20,393 |
| Fair value of identifiable net assets acquired | (15,898) |
| | 4,495 |

Goodwill arose in the acquisition of TP Concept as the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of TP Concept. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



38. ACQUISITION OF A SUBSIDIARY *(continued)* Net cash outflow on acquisition of a subsidiary

| | 2019 MYR'000 |
|-----------------------------------|-----------------|
| Consideration paid in cash | (9,000) |
| Cash and cash equivalent acquired | (6,379) |
| | (15,379) |

Impact of acquisition on the results of the Group

Included in the profit for the year is loss of MYR684,000 attributable to the additional business generated by TP Concept. Revenue for the year includes MYR7,200,000 in respect of TP Concept.

If the acquisition had occurred on 1 January 2019, the Group's revenue would have been MYR501,287,000 and profit for the year would have been MYR137,414,000 for the year ended 31 December 2019. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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

| | 2019 MYR'000 | 2018 MYR'000 |
|--|-----------------|-----------------|
| Financial assets | | |
| Financial assets at FVTPL | | |
| – Derivative financial assets | 2,395 | – |
| Financial assets at amortised cost | | |
| – Trade receivables | 61,692 | 48,701 |
| – Other receivables and deposits | 23,126 | 1,439 |
| – Amount due from ultimate holding company | 2 | – |
| – Amount due from a fellow subsidiary | 6 | – |
| – Cash and cash equivalents | 303,955 | 217,705 |
| | 391,176 | 267,845 |
| Financial liabilities | | |
| Financial liabilities at FVTPL | | |
| – Derivative financial liabilities | – | 4,810 |
| Financial liabilities measured at amortised cost | | |
| – Trade payables | 31,478 | 38,378 |
| – Other payables, accruals and provisions | 44,755 | 21,179 |
| – Amount due to ultimate holding company | – | 8,207 |
| – Amount due to a fellow subsidiary | – | 6 |
| – Bank borrowing | 3,362 | 3,680 |
| – Finance lease liabilities | – | 36 |
| | 79,595 | 76,296 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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.

The maximum exposure to credit risk on recognised financial assets is limited to the carrying amounts as summarised in note 39.1. The maximum exposure as at 31 December 2019 is the carrying amount of these instruments.

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.

In addition, as set out in note 2.12, the Group assesses ECL under IFRS 9 on trade receivables based on provision matrix, the expected loss rates are based on the payment profile for sales in the past 5 years as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed. However given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

The Group applies the IFRS 9 simplified approach to measuring ECL, which uses a lifetime expected loss allowance for all trade receivables using a provision matrix. The ECL rate of collectively assessed trade receivables that were neither past due nor impaired is ranged from 0.00% to 1.24%, past due between 0 to 30 days is ranged from 0.25% to 1.49%, past due between 31 to 90 days is ranged from 0.49% to 1.99%, past due between 91 to 365 days is ranged from 0.99% to 2.24% and past due more than 365 days is 100.00%. ECL allowance for the year is MYR3,019,000 (2018: Nil).

Management considers that the loss allowance inherent in the Group's outstanding trade receivables within one year are not significant while loss allowance was made in full on the Group's outstanding trade receivables over one year except for customers with good credit quality after considering their historical settlement record, credit quality and financial position.

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 2019, 26% (2018: 1%) of the total trade receivables were due from the Group's largest customer and 43% (2018: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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

39.2 Credit risk *(continued)*

Other financial assets at amortised cost

Other financial assets at amortised cost include amounts due from ultimate holding company and a fellow subsidiary, other receivables and cash and cash equivalent. In order to minimise the credit risk of other receivables, the management would make periodic collective and individual assessment on the recoverability of other receivables based on historical settlement records and past experience as well as current external information. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of other receivables are considered to be low.

Besides, the management is of opinion that there is no significant increase in credit risk on these other receivables since initial recognition as the risk of default is low and the outstanding balance is insignificant after considering the factors as set out in note 2.12 and, thus, no ECL is recognised based on 12-month ECL.

The credit risks on pledged time deposits and cash and cash equivalents are considered to be insignificant because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

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

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 2019 and 2018, 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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 2019 | | | | | |
| <i>Non-derivative financial liabilities</i> | | | | | |
| Trade payables | 31,478 | - | - | 31,478 | 31,478 |
| Other payables and accruals | 39,157 | 6,000 | - | 45,157 | 44,755 |
| Bank borrowing | 3,362 | - | - | 3,362 | 3,362 |
| | 73,997 | 6,000 | - | 79,997 | 79,595 |

| | 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 2018 | | | | | |
| <i>Non-derivative financial liabilities</i> | | | | | |
| Trade payables | 38,378 | - | - | 38,378 | 38,378 |
| Other payables and accruals | 21,179 | - | - | 21,179 | 21,179 |
| Amount due to ultimate holding company | 8,207 | - | - | 8,207 | 8,207 |
| Amount due to a fellow subsidiary | 6 | - | - | 6 | 6 |
| Bank borrowing | 3,680 | - | - | 3,680 | 3,680 |
| Finance lease liabilities | 36 | - | - | 36 | 36 |
| | 71,486 | - | - | 71,486 | 71,486 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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 this bank borrowing will be repaid in accordance with the scheduled repayment dates set out in the bank loan agreement.

| | 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 2019 | | | | |
| Bank borrowing | 503 | 2,013 | 1,499 | 4,015 |
| As at 31 December 2018 | | | | |
| Bank borrowing | 503 | 2,013 | 2,025 | 4,541 |

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 2019, 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:

| | 2019 MYR'000 | 2018 MYR'000 |
|----------------------------------|-----------------|-----------------|
| Variable rate instruments | | |
| Financial liabilities | 3,362 | 3,680 |
| Fixed rate instruments | | |
| Financial assets | - | 102,849 |
| Financial liabilities | - | 36 |
| | - | 102,885 |

The Group does not account for any fixed rate financial assets and financial liabilities at FVTPL, 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 2019



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\$ | Euro | Singapore Dollar | Chinese Renminbi (“RMB”) | Hong Kong Dollar (“HK\$”) |
|-------------------------------|----------------|-------------|-----------------------------|--|---|
| | MYR'000 | MYR'000 | MYR'000 | MYR'000 | MYR'000 |
| As at 31 December 2019 | | | | | |
| Trade receivables | 45,739 | – | 313 | 7,179 | – |
| Cash and cash equivalents | 5,122 | 33 | 296 | 284 | 36,433 |
| Trade payables | (2,016) | (20) | (184) | (54) | – |
| Net exposure | 48,845 | 13 | 425 | 7,409 | 36,433 |
| As at 31 December 2018 | | | | | |
| Trade receivables | 42,502 | 174 | 480 | – | – |
| Cash and cash equivalents | 9,908 | 330 | 113 | 192 | 94,696 |
| Trade payables | (1,723) | (38) | (184) | – | – |
| Net exposure | 50,687 | 466 | 409 | 192 | 94,696 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

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\$, RMB and HK\$. 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 2019 | | | |
| US\$ | 3% | 1,114 | 1,114 |
| RMB | 4% | 225 | 225 |
| HK\$ | 3% | 831 | 831 |
| As at 31 December 2018 | | | |
| US\$ | 8% | 3,082 | 3,082 |
| HK\$ | 9% | 6,477 | 6,477 |

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 measurement of financial instruments

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 and significant of 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, and not using significant unobservable inputs

Level 3: significant unobservable inputs for the asset or liability

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019



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

39.6 Fair value measurement of financial instruments *(continued)*

| | Level 1 MYR'000 | Level 2 MYR'000 | Level 3 MYR'000 | Total MYR'000 |
|--|--------------------|--------------------|--------------------|------------------|
| Financial assets/(liabilities): | | | | |
| As at 31 December 2019 | | | | |
| Foreign currency forward contract assets | - | 2,395 | - | 2,395 |
| As at 31 December 2018 | | | | |
| Foreign currency forward contract liabilities | - | (4,810) | - | (4,810) |

There were no transfers between Level 1 and Level 2 during the year ended 31 December 2019 (2018: Nil).

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.

40. CAPITAL MANAGEMENT

The Group's objective of managing capital remains unchanged and 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 at the reporting date is as follows:

| | 2019 MYR '000 | 2018 MYR '000 |
|---------------------------------|------------------|------------------|
| Borrowings | 3,362 | 3,716 |
| Less: Cash and cash equivalents | (303,955) | (217,705) |
| Net cash | (300,593) | (213,989) |
| Total equity | 438,923 | 320,379 |
| Net debt to equity ratio | N/A | N/A |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

41. EVENT AFTER THE REPORTING DATE

The outbreak of novel coronavirus (COVID-19) continues to spread throughout China and to countries across the world.

The COVID-19 has certain impact on the business operations of the Group in particular the supply chain from China as well as the delivery and buy-off process of machineries to certain degree, and the degree of the impact depends on the situation of the epidemic preventive measures and the duration of the epidemic.

The Group will monitor the developments of COVID-19 situation closely, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the report, the assessment is still in progress.

Given the dynamic nature of these circumstances, the related impact on the Group's consolidated results of operations, cash flows and financial condition could not be reasonably estimated at this stage and will be reflected in the Group's interim and annual financial statements in 2020.