



FRONTKEN CORPORATION BERHAD
(651020-T)



ANNUAL
REPORT
2016

Total Integrated Engineering Solutions



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Corporate Information

BOARD OF DIRECTORS

Ng Wai Pin

Chairman / Managing Director

Dr Tay Kiang Meng

Executive Director / Chief Scientist

Dato' Haji Johar Bin Murat @ Murad

Independent Non-Executive Director

Aaron Sim Kwee Lein

Senior Independent Non-Executive Director

Dr Jorg Helmut Hohnloser

Non-Independent Non-Executive Director

Timo Fabian Seeberger

Alternate to Dr Jorg Helmut Hohnloser

AUDIT COMMITTEE

Dato' Haji Johar Bin Murat @ Murad
(Chairman)
Aaron Sim Kwee Lein
Dr Jorg Helmut Hohnloser

NOMINATION COMMITTEE

Dato' Haji Johar Bin Murat @ Murad
(Chairman)
Aaron Sim Kwee Lein
Dr Jorg Helmut Hohnloser

REMUNERATION COMMITTEE

Ng Wai Pin
(Chairman)
Dato' Haji Johar Bin Murat @ Murad
Aaron Sim Kwee Lein

COMPANY SECRETARIES

Mah Li Chen (MAICSA 7022751)
Chew Mei Ling (MAICSA 7019175)
Yeap Yee Ling (MAICSA 7067021)

REGISTERED OFFICE

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Fax : (03) 7968 3316
Email : erichee@frontken.com
Website : www.frontken.com

INVESTOR RELATIONS

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Email : erichee@frontken.com

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No. 8, Jalan Kerinchi
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Fax : (03) 2783 9222

AUDITORS

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

STOCK EXCHANGE LISTING

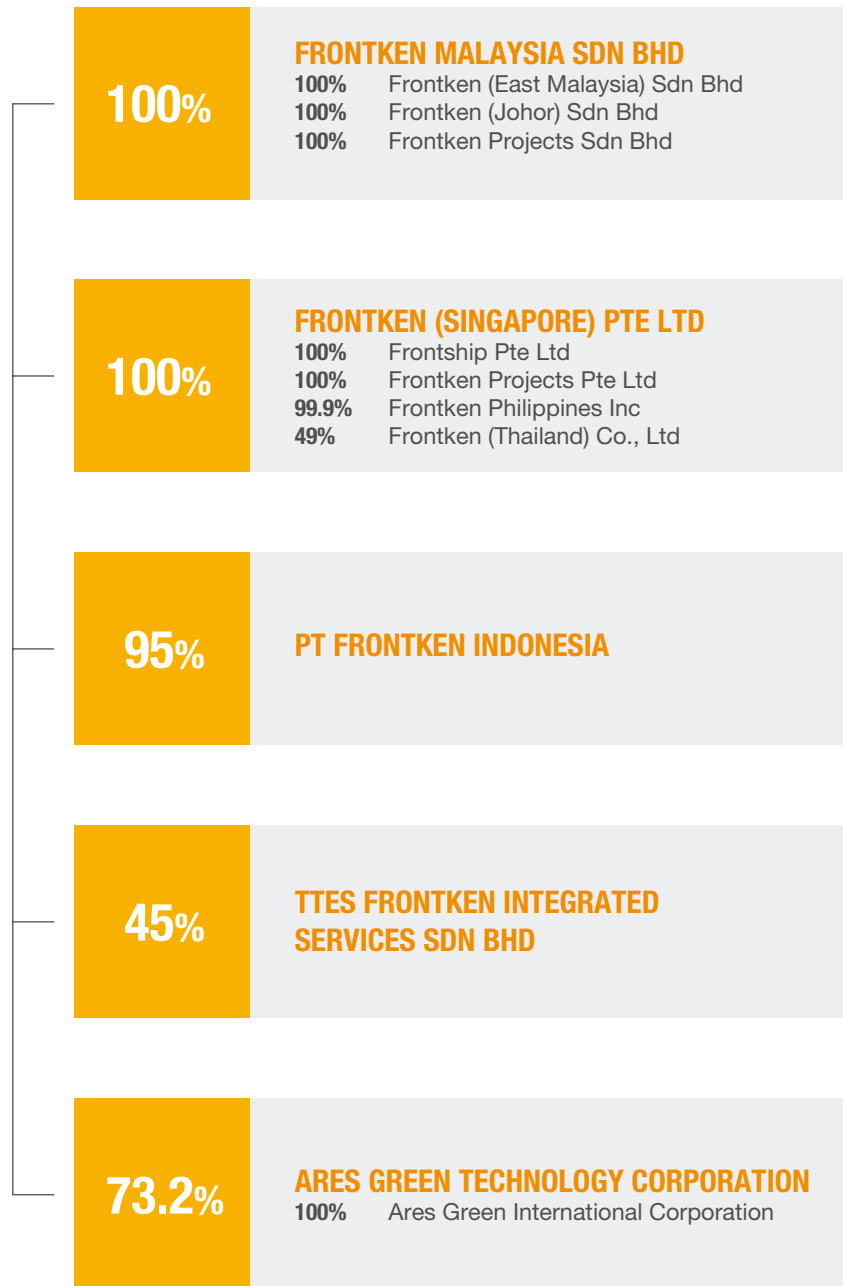
Main Market of Bursa Malaysia
Securities Berhad
Stock Name : FRONTKN
Stock Code : 0128
Reuters Code : 0128.KL
Bloomberg Code : FRCB MK

Group Corporate Structure As At 27 March 2017



FRONTKEN

FRONTKEN CORPORATION BERHAD
(651020-T)



Our Vision, Mission & Profile

OUR VISION

To be a continuing improving leader in performance excellence in advanced surface coating engineering and technology.

OUR MISSION

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

OUR PROFILE

Frontken Corporation Berhad, listed on the Main Market of Bursa Malaysia Securities Berhad, has since its inception in 1996, established itself as a leading service provider of surface engineering in the Asia Pacific region. The Group's comprehensive range of services increases the efficiency and extends the lifespan of machinery and equipment, therefore improving the customer's operating and maintenance cost.

The Group utilises numerous spray coating methods and mechanical repair and services know-how to improve the operational efficiency of various industries, including the oil and gas, petrochemical, power generation, semiconductor and electronics manufacturing sectors. The Group also undertakes research and development in advanced materials and surface engineering technology

to produce new and improved coatings for use in the protection against material degradation and to improve the productivity of industrial processes.

To date, the Group's customer portfolio comprises key players in the oil and gas, power generation, petrochemical and semiconductor industries in mainly Singapore, Malaysia and other countries such as the Philippines, Indonesia, Thailand, Vietnam, Taiwan and Japan.

The Group, together with its associates, has established a significant presence in the region. Furthermore, over the years, the Group has established an international network of representatives to market the Group's specialised services worldwide.

Our Services

Mechanical Restoration & Overhaul

Assessment, assembly, balancing, recovery and upgrading works on industrial rotating/non-rotating equipment such as pumps, valves, turbines and compressors, diesel engines and generators, motors and more.



Coating, Hardfacing & Plating

Protection, lifetime extension, performance and efficiency improvements via advanced surface engineering technologies such as thermal spray coating, PTA overlay, electroless plating and dry-film lubrication.

Precision Manufacturing

Quality fabrication and mass-production via aerospace standard manufacturing facility. Complementary activities include re-engineering, prototyping, assembly and integration.



Plant Engineering & Construction

Structural, mechanical and piping, electrical, instrumentation and control, equipment maintenance and overhaul, testing and commissioning for process and chemical facilities.

Machining & Grinding

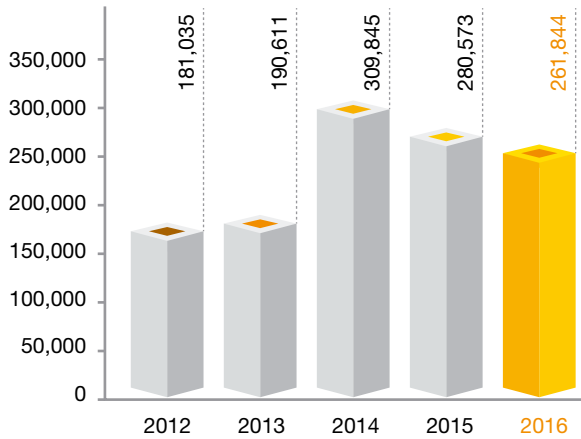
Comprehensive range of large capacity machining lathes for turning, boring and grinding of huge cylindrical components such as crankshafts and piston rods.

Precision Cleaning

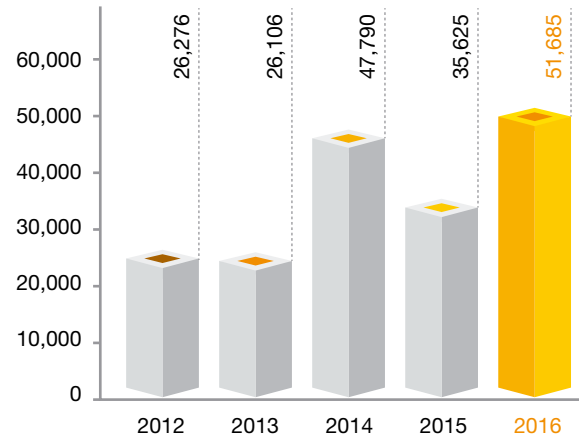
Decontamination of newly manufactured parts and routine recycling. Kit management of semiconductor manufacturing components.

Financial Highlights

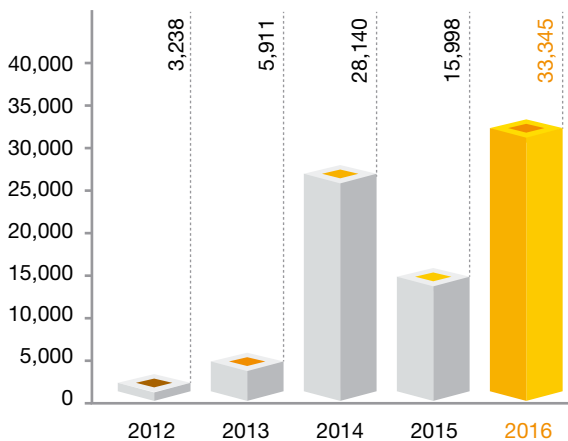
Revenue (RM'000)



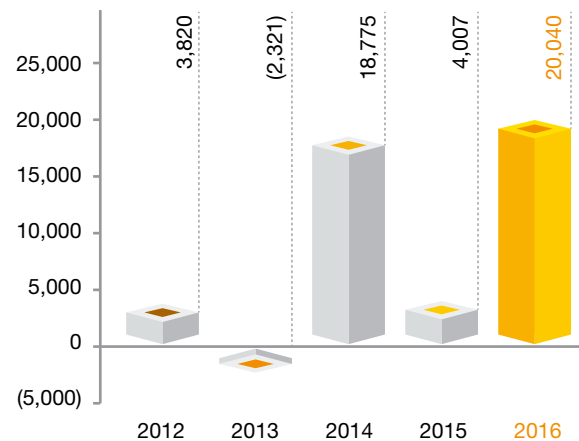
Earning Before Interest, Tax, Depreciation and Amortisation (RM'000)



Profit Before Tax (RM'000)



Net Profit (RM'000)



SEGMENTAL REVENUE – BY CUSTOMER LOCATION (RM'000)

	2012	2013	2014	2015	2016
Singapore	64,053	59,481	42,740	35,263	38,408
Malaysia	45,835	43,600	157,893	113,398	71,166
Taiwan	49,689	63,992	90,405	107,337	125,893
Others	21,458	23,538	18,807	24,575	26,377
	181,035	190,611	309,845	280,573	261,844

SEGMENTAL REVENUE – BY INDUSTRY (RM'000)

	2012	2013	2014	2015	2016
Oil & Gas	21,963	18,153	131,062	91,856	50,374
Power Generation	22,174	17,365	12,416	7,457	3,182
Semiconductor	90,636	107,344	139,600	158,737	185,162
General*	46,262	47,749	26,767	22,523	23,126
	181,035	190,611	309,845	280,573	261,844

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

Financial Highlights (cont'd)

SUMMARISED GROUP BALANCE SHEETS

As At 31 Dec (RM'000)	2012	2013	2014	2015	2016
Non-Current Assets	183,606	171,779	173,019	172,843	190,575
Current Assets	131,016	130,379	183,363	217,040	217,187
Total Assets	314,622	302,158	356,382	389,883	407,762
Share Capital	101,141	101,141	101,141	105,344	105,344
Reserves	83,752	85,162	105,663	131,211	156,266
Shareholders' Equity	184,893	186,303	206,804	236,555	261,610
Non-Controlling Interests	28,116	27,924	32,913	34,684	33,799
Total Equity	213,009	214,227	239,717	271,239	295,409
Non-Current Liabilities	32,095	29,484	28,341	32,331	25,420
Current Liabilities	69,518	58,447	88,324	86,313	86,933
Total Liabilities	101,613	87,931	116,665	118,644	112,353
Total Equity and Liabilities	314,622	302,158	356,382	389,883	407,762

SUMMARISED GROUP CASH FLOWS

Year Ended 31 Dec (RM'000)	2012	2013	2014	2015	2016
Net Cash Flows From Operating Activities	16,043	36,681	40,672	44,500	44,424
Net Cash Flows From/(For) Investing Activities	17,527	(8,010)	(21,164)	(7,386)	(35,037)
Net Cash Flows (For)/From Financing Activities	(16,946)	(34,105)	(4,426)	6,246	(18,473)
Net Increase/(Decrease) in Cash and Cash Equivalents	16,624	(5,434)	15,082	43,360	(9,086)
Effect of exchange differences	208	1,061	1,079	9,182	2,037
Cash and Cash Equivalents at Beginning of Year	23,955	40,787	36,414	52,575	105,117
Cash and Cash Equivalents at End of Year	40,787	36,414	52,575	105,117	98,068

FINANCIAL ANALYSIS

(RM'000)	2012	2013	2014	2015	2016
Turnover growth	-8.6%	5.3%	62.6%	-9.5%	-6.7%
Profit Before Tax Growth	8.0%	82.5%	376.1%	-43.2%	108.4%
Net Profit Growth	53.8%	-160.8%	909.0%	-78.7%	400.1%
Pre-tax Profit Margin	1.8%	3.1%	9.1%	5.7%	12.7%
Net Profit Margin	2.1%	-1.2%	6.1%	1.4%	7.7%
Gearing Ratio (Net of cash) (times)	0.1	0.0	0.0	0.0	0.0
Return on Average Shareholders' Equity	2.1%	-1.3%	9.6%	1.8%	8.1%
Return on Average Total Assets	1.2%	-0.8%	5.7%	1.1%	5.0%
Loss/Earnings Per Share (Sen)					
- Basic	0.4	-0.2	1.9	0.4	1.9
- Diluted	#n/a	#n/a	#n/a	^ 0.4	^ 1.9

The diluted earnings per share was not presented as the average market value of the ordinary shares of the Company is lower than the exercise price for the outstanding warrants and any exercise of warrants would be antidilutive.

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

Chairman's Message

Dear valued shareholders,

In an operating landscape fraught with severe macro-economic headwinds, Frontken Corporation Berhad ("Frontken" or "the Group") achieved an earnings before interest, tax, depreciation and amortisation ("EBITDA") of RM51.7 million and profit after tax ("PAT") of RM27.3 million for the year ended 31 December 2016 ("FYE2016"). This performance not only marks a significant jump in profit year-on-year but also reflects the Group's highest EBITDA and PAT to date.



Clearly, Frontken's strategic focus on delivering quality engineering solutions to diverse industries, while at the same, expanding our presence in selected high-growth countries within the Asia Pacific region, has and will continue to bear fruits for our Group. Simultaneously, we have also been carefully cultivating and nurturing our human capital to ensure that our talent have the right skill-set and mindset to take our Group to greater heights of success.

On this positive note and on behalf of the Board of Directors of Frontken, I am pleased to present to you the Annual Report and Audited Financial Statements of the Group and its subsidiary companies for FYE2016.

As part of this Annual Report, the following Management Discussion and Analysis ("MD&A") provides our shareholders with details of the Group's performance and business operations. We trust that you will find our MD&A both informative and insightful.

MANAGEMENT DISCUSSION AND ANALYSIS

A Multinational Integrated Engineering Solutions Group

Frontken is a leading provider of surface treatments, chemical and mechanical engineering solutions in the region. Leveraging on more than 20 years of industry experience, Frontken has successfully expanded its presence throughout Asia Pacific, specifically in Malaysia, Taiwan, Indonesia, Singapore, Thailand and the Philippines.

The Group's operations across these countries offer technical expertise and solutions to a diverse range of industries including semiconductor, oil and gas, power generation, petrochemical and marine.

Frontken's competitive advantage is derived from its commitment

towards delivery excellence as well as innovative research and development ("R&D"). Embracing state-of-the-art technologies and processes, the Group's highly skilled and motivated professionals of some 1,100 strong are fully capable of providing our broad spectrum of clients with quality one-stop solutions.

Operating Landscape

The global economy faced significant headwinds in 2016. Economic growth of advanced economies was in spurts-and-starts while China's economy grew at a slower pace. Further aggravating the situation were factors such as the continued slump in commodity and oil price, the Brexit referendum and the result of the Presidential Elections in the United States.

Against this backdrop, economies within the Asia Pacific region were impacted to varying degrees. Malaysia's economy remained resilient, with GDP growth at 4.2%, according to Bank Negara Malaysia. Taiwan, however, was more severely impacted with 2016 GDP growth estimated at only 1.5%, as stated by the Directorate General of Budget, Accounting and Statistics. Singapore also fared the same with a GDP growth of only 1.8% in 2016, as highlighted by its Ministry of Trade and Industry.

From an industry perspective, the persistent slump in oil and gas price naturally affected the oil and gas industry throughout the world. Investments in exploration, production and maintenance activities decreased significantly and as a consequence, oil and gas related companies throughout the value chain suffered declining performance. Frontken's oil and gas customers were not spared and this had led to a tough financial year for our operations that are focused in this sector.

The semiconductor industry, however, is growing from strength to strength. SEMI, a global industry association,

Chairman's Message (cont'd)

estimates spending of US\$19 billion on semiconductor equipment and materials in the Southeast Asia region for 2015 and 2016. This uptrend, resulting from the growth in telecommunications and Internet-of-Things (“IoT”) technologies, has enabled our Group’s semiconductor operations to turn in strong results.

Review of Financial Performance

For FYE2016, Frontken reported a revenue of RM261.8 million as compared to RM280.6 million in the last financial year. The year-on-year decrease in revenue was the result of an exceptional revenue derived from the completion of a project (“ATB Project”) that was recorded in FYE2015. If the revenue from the ATB Project was to be excluded, revenue for FYE2016 would have been 4.5% higher year-on-year.

The Group profit before tax (“PBT”) during the year under review jumped by a significant 108.4% to RM33.3 million from RM16.0 million recorded a year ago. As a result, profit after tax grew to RM27.3 million from RM9.5 million last year. The markedly improved profit was due to stronger contribution from our semiconductor solutions business in Taiwan and Malaysia. The Group also recorded better performance in the Philippines and Indonesia attributable to our expanding business portfolio in these two countries.

From a segmental standpoint, Frontken’s Taiwan operations continues to be the main profit generator as it contributed 72% to the Group’s overall operating profit in FYE2016. This was followed by Malaysia (22%) and the Philippines (10%). Frontken’s operations in Indonesia and Singapore recorded operating losses for the year under review.

Earnings per share attributable to equity holders of the company stood at 1.91 sen for FYE2016, up significantly from 0.39 sen a year ago. Net assets per share increased slightly to RM0.25

as at 31 December 2016 from RM0.23 as at the corresponding period last year.

In 2016, Frontken allocated a capital expenditure of RM9.7 million for FYE2017 in an effort to improve its overall operations.

Review of Business Operations

Frontken Malaysia

Frontken Malaysia turned in a strong performance during the year under review with an operating profit of RM7.2 million on the back of a revenue of RM68.5 million, as compared to an operating loss of RM3.5 million on a revenue of RM106.8 million recorded in the previous financial year.

The improved performance was the result of stronger contribution from Frontken Malaysia’s semiconductor division, which has operations in Kulim, Kuching and Melaka.

In Kulim, Frontken has maintained its dominant position as the largest parts cleaning service provider among the Group’s Malaysian subsidiaries. In addition to seeing increased sales from its semiconductor customers, Frontken’s Kulim operations also saw a rebound in business activity from the solar or photovoltaic (“PV”) industry throughout 2016.

In the oil and gas sector, the low price regime affected its related operations across the board. Frontken TTES Malaysia, the Group’s engineering services provider that also holds a license to supply and provide services to Petroliam Nasional Bhd (“Petronas”), experienced acute competition and lower margins in 2016. The company intends to aggressively manage cost and venture into power generation and general industry services to generate revenue and sustain its current operations.

In Johor, Frontken’s oil and gas business was able to secure a new customer that is a global leader in the detailed engineering, fabrication and construction of offshore floating production storage offloading vessels. In East Malaysia, Frontken fared better with increased revenue from new customers as well as from non-oil and gas related services.



Chairman's Message (cont'd)

Frontken Taiwan

Frontken's Taiwan operations, which are primarily focused on the semiconductor industry, remain the largest profit contributor to the Group. For FYE2016, Frontken Taiwan turned in a higher operating profit of RM23.9 million compared to RM20.6 million a year ago. Revenue was also higher at RM128.3 million compared to RM109.1 million last year.

The improved performance was due to the continued strong demand of thin-film-transistor liquid-crystal display ("TFT-LCD"), which are used in televisions, computer monitors, mobile phones and projectors. During the year, Frontken Taiwan was able to retain its market share in some products while securing greater market share in others. At the same time, our Taiwan operations continued to look at ways to improve its production processes to maximise efficiencies and strengthen margins.

Frontken Philippines

For FYE2016, Frontken Philippines achieved an operating profit of RM3.2 million from a revenue of RM18.4 million. This was a marginal improvement compared with an operating profit of RM3.1 million from a revenue of RM15.8 million recorded a year ago.

In the solar panels sector, Frontken Philippines saw tangible growth throughout its precision cleaning business platforms. In addition, the commencement of operations of its customer's new solar panel fabrication plant (SunPower Fab 4) at the beginning of 2016 also contributed significantly towards revenue growth.

Apart from the photovoltaic industry, Frontken Philippines also saw growth in its energy business. This was due to an increase in on-site works for power plants' scheduled outages and the execution of plant efficiency improvement programmes.



The Group's oil and gas and utilities operations in the Philippines, however, were affected by deferred projects during the year.

Frontken Indonesia

Frontken Indonesia's operating loss narrowed significantly to RM0.1 million compared to RM0.8 million a year ago. The overall operations continued to be impacted by the oil and gas downturn.

Nevertheless, Frontken in Indonesia is only one out of four companies that possess an API certification. This would enable the company to carry out repairs and rectification works or tender for projects from large oil companies for blowout preventer repairs when the market recovers.

Frontken Singapore

Frontken's Singapore operations recorded an operating loss of RM1.1 million for FYE2016. This was higher compared to an operating loss of RM0.8 million for FYE2015.

While the Group's semiconductor related business in Singapore remained stable, with strong support from its customers, Frontken Singapore's marine and offshore as well as power generation businesses were severely impacted by the challenging operating conditions.

In order to strengthen its financial and operational position, Frontken in Singapore will continue to focus on improving cost effectiveness, undertake bigger projects, penetrate new markets and expand its capabilities and know-how.

Moving forward

The global economy is expected to fare better in 2017 compared to 2016. The International Monetary Fund expects the global economy to grow by 3.4% in 2017, which is slightly better than 3.1% in 2016. Nevertheless, uncertainties such as the future trade policy of the United States as well as the economic performances of Europe and China, continue to cause concerns.

Chairman's Message (cont'd)

The oil and gas industry is also expected to make a gradual recovery in 2017 as price strengthens and oversupply eases. The semiconductor sector is also predicted to sustain its uptrend, buoyed by demand from the telecommunications, automotive and IoT industries.

In view of this operating landscape, Frontken aims to sustain its strong performance in Malaysia, Taiwan and the Philippines, especially in relation to its semiconductor operations. In addition to maintaining its current client portfolio, the Group intends to win more clients by leveraging on its delivery track record and expertise.

In Indonesia, we remain confident of a turnaround in the foreseeable future in view of the API certification obtained in December 2016.

From a 'Big Picture' perspective, the Asia Pacific region, especially ASEAN countries, are expected to maintain robust growth. The Group's foothold in key economies within ASEAN as well as in Taiwan puts us in a unique position to tap into a dynamic and vibrant marketplace. As the ASEAN Economic Community ("AEC") gains momentum, we also foresee the rapid growth of ASEAN to ASEAN business activities and this will augur well for the Group in the long term.

shareholders' value in a sustainable manner. As we march forward into 2017, Frontken remains cautiously optimistic that its performance for its 2017 financial year will be satisfactory.



In Singapore, Frontken expects operating conditions to remain challenging. Nevertheless, a recovery in the oil and gas industry may be able to affect a sustainable turnaround for our business operations in the Island-

All in all, the Board of Directors of Frontken, its Senior Management Team as well as our multinational team of employees are committed towards working cohesively to ensure that the Group continues to deliver enhanced

Acknowledgement

As a Group, we would like to take this opportunity to thank our Board of Directors for their invaluable counsel and dedication in exercising their fiduciary duties. We would also like to thank our senior management team and all employees for staying committed to our Group and delivering a record breaking performance in FYE2016. Kudos and congratulations!

We would also like to thank our customers, suppliers, business associates, as well as policymakers, regulators, and relevant government authorities for their assistance and cooperation.

Last but not least, a big 'Terima Kasih' to our loyal shareholders for your continued trust and confidence in Frontken Corporation Berhad.





NG WAI PIN

Chairman / Managing Director

Financial Review

RESULTS OF OPERATIONS

in RM'000

REVENUE			EBITDA		
2015	280,573	 7%	2015	35,625	 45%
2016	261,844		2016	51,685	
NET PROFIT			EBITDA MARGIN as a % of revenue		
2015	4,007	 400%	2015	12.7	 7%
2016	20,040		2016	19.7	

REVENUE

The revenue for the Group for the financial year ended 31 December 2016 ("FYE2016") was RM261.8 million against RM280.6 million in the previous financial year. Overall, the Group revenue decreased by RM18.7 million or 6.7% compared to the preceding financial year mainly due to revenue derived from the completion of ATB Project that was recorded in the previous year. If the revenue from the ATB Project was to be excluded, revenue for FYE2016 would have been 4.5% higher year-on-year.

REVENUE (by customer location)	2016 RM'000	%	2015 RM'000	%	% change in revenue
Taiwan	125,893	48	107,337	38	17
Singapore	38,408	15	35,263	13	9
Malaysia	71,166	27	113,398	40	-37
Philippines	18,061	7	15,213	6	19
Others	8,316	3	9,362	3	-11
Total	261,844	100	280,573	100	-7

An analysis of revenue by customer location showed growth in our business across the Group particularly in Taiwan, the Philippines and Singapore. The revenue in Malaysia decreased from RM113.4 million to RM71.2 million mainly due to revenue derived from the completion of ATB Project that was recorded in the previous year and slowdown in our customers' business in the oil and gas industry had resulted in a drop of business for the Group's subsidiaries engaged in that industry in Malaysia.

The revenue in Taiwan increased from RM107.3 million to RM125.9 million in FYE2016 or a 17% increase compared to the preceding financial year. Our subsidiary in Taiwan continue to enjoy better business performance due to the positive growth of the semi-conductor business. The better performance for our subsidiaries in Philippines and Singapore was attributable to growing portfolio of our sales network and semiconductor related business in Singapore remained stable, with strong support from its customers.

EARNINGS





Earnings before interest, tax, depreciation and amortisation ("EBITDA") of the Group for FYE2016 increased to RM51.7 million from RM35.6 million the year before. As a percentage of revenue, EBITDA increased by 7% which was mainly due to the cost overrun suffered in the ATB project in the previous financial year.





Lower allowance for impairment loss on plant and equipment and lower plant and equipment written off had a positive contribution to the Group's net profit for FYE2016. The profit after tax increased by 187% to RM27.3 million from RM9.5 million in the previous financial year mainly because of our semiconductor division in Taiwan and Malaysia performed better this year and without the losses incurred in previous financial year from the ATB project.

Financial Review (cont'd)

The consolidated net profit attributable to shareholders of the Company for FYE2016 was RM20.0 million, an increase of RM16.0 million or 400% compared to the net profit attributable to shareholders of RM4.0 million for the preceding financial year was mainly due to better performances by our non-wholly owned subsidiary. This translated to basic earnings per share in FYE2016 of 1.91 sen compared to basic earnings per share of 0.39 sen in the previous financial year.

CASH FLOWS in RM'000

	NET DEBT			WORKING CAPITAL			
2015	(66,482)		2%	2015	130,727		0.4%
2016	(65,287)			2016	130,255		

	FREE CASH FLOW			CAPITAL EXPENDITURE			
2015	37,381		55%	2015	7,197		288%
2016	16,882			2016	27,901		

The free cash flow reduced from RM37.4 million to RM16.9 million in FYE2016 mainly due to higher capital expenditure in relation to the plant expansion of our subsidiary in Taiwan compared to the preceding financial year.

The net cash from operating activities was RM44.4 million and RM44.5 million in year 2016 and 2015 respectively. The net cash inflow from financing activities of RM6.2 million in year 2015 as compared to net cash outflow for financing activities of RM18.5 million in year 2016 was resulted from issuance of shares in year 2015 following conversion of the warrants and higher loan repayment in year 2016.

Net cash used for investing activities increased from RM7.4 million in the preceding financial year to RM35.0 million in year 2016. The increase in cash outflow for investing activities was mainly due to higher capital expenditure, investment in cash management fund and lower withdrawal of fixed deposits in year 2016.

Our Group has cash and cash equivalents of RM98.1 million as at the end of year 2016 compared to RM105.1 million at the end of year 2015. The Group will continue to exercise prudence in cash flow management while conserving the cash for potential future expansion and investing activities.

FINANCIAL POSITION

The Group's shareholders' fund improved from RM236.6 million as at 31 December 2015 to RM261.6 million as at 31 December 2016 due to increase in retained earnings.

Total assets of the Group increased from RM389.9 million as at 31 December 2015 to RM407.8 million as at 31 December 2016. Total Group's liabilities of RM112.4 million as at 31 December 2016 were lower by RM6.2 million or 5% compared to the previous year. The Group's borrowings decreased from RM43.3 million in year 2015 to RM29.3 million in year 2016 due to the repayment of borrowings via Group's surplus fund during the financial year.

The total Group's borrowings as at 31 December 2016 that is repayable within one year is 30%. Singapore Dollar borrowings represented 37% of the total borrowings whilst borrowings denominated in Taiwan Dollars and Ringgit Malaysia made up 48% and 15% of the total borrowings respectively. Foreign currency borrowings were drawn to hedge against our Group's overseas investments and receivables which were denominated in foreign currencies.

Board Of Directors' Profile

NG WAI PIN

Chairman / Managing Director

- Aged 51, Male, Malaysian
- Appointed to the Board on 10 April 2006
- Chairman of Remuneration Committee

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

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

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

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

DR TAY KIANG MENG

Executive Director / Chief Scientist

- Aged 52, Male, Singaporean
- Appointed to the Board on 10 April 2006

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

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

semiconductor-related manufacturing technology and advanced materials engineering.

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

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

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

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

Board Of Directors' Profile (cont'd)

DATO' HAJI JOHAR BIN MURAT @ MURAD

Independent Non-Executive Director

- Aged 70, Male, Malaysian
- Appointed to the Board on 10 April 2006
- Chairman of Audit Committee and Nomination Committee, Member of Remuneration Committee

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

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

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

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

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

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

AARON SIM KWEE LEIN

Senior Independent Non-Executive Director

- Aged 51, Male, Malaysian
- Appointed to the Board on 27 August 2009
- Member of Audit Committee, Nomination Committee and Remuneration Committee

Aaron Sim Kwee Lein was identified as the Senior Independent Non-Executive Director of FCB on 20 February 2012. He is a Fellow member of the Chartered Association of Certified Accountants (UK), a Chartered Accountant of the Malaysian Institute of Accountant, a member of CPA Australia and a Chartered Member of the Institute of Internal Auditors Malaysia. He commenced his career with an international accounting firm and gained professional exposure in stock-broking, trading, manufacturing and construction concerns. Thereafter, he joined a listed company on the Main Board of Bursa Malaysia Securities Berhad as an Internal Auditor where he was engaged in audit work of stock-broking, manufacturing, retail and distribution concerns. In addition, he was also involved in due diligence,

operational rationalisation and strategic planning work of corporate acquisitions. Subsequently, he joined a food retail franchise chain company as the Finance & Administrative Manager before becoming the Deputy General Manager of Corporate Strategies and Affairs of a glove manufacturing company. Thereafter, he has been involved in providing business and financial advisory services. Mr Sim also sits on the board of Freight Management Holdings Bhd and Excel Force MSC Berhad.

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

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

Board Of Directors' Profile (cont'd)

DR JORG HELMUT HOHNLOSER

Non-Independent Non-Executive Director

- Aged 59, Male, German
- Appointed to the Board on 20 February 2012
- Member of Audit Committee and Nomination Committee

Dr Jorg Helmut Hohnloser received his M.D. from the University of Ulm, Germany and PhD (Medical Informatics) from the University of Munich, Germany. He has 25 years of working experience in the medical field, including research and teaching, and was involved in the development of medical IT systems. In 2000, he took over the management of Cleanpart GmbH and built the company from a single-location operation in Germany to a group with 12 locations in Germany, France and USA. Cleanpart GmbH was founded in 1998 and is principally involved in the cleaning

and refurbishment of recyclable components from production systems in the semiconductor and related industries. Dr Jorg Helmut Hohnloser also sits on the board of the FCB's subsidiary, Ares Green Technology Corporation.

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

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

TIMO FABIAN SEEBERGER

Alternate to Dr Jorg Helmut Hohnloser

- Aged 39, Male, German
- Appointed to the Board on 20 February 2012

Timo Fabian Seeberger holds a Master of Technical Business Administration (Dipl. Kfm. Techn.) from the University of Stuttgart, Germany. He joined a privately-owned international group of companies, which render services for high-tech industries, as a Controller in 2005. He assumed his current position as the Chief Financial Officer of the Cleanpart Group in 2009. He has extensive experience in financial

planning, management and reporting, financial modelling and information technology system.

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

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

Senior Management's Profile

HEE KOK HIONG

Chief Financial Officer

- Aged 44, Male, Malaysian
- Appointed in 2012

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

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

he was the Group Financial Controller of a private company with business operations worldwide, where he spend 5 years overseeing its finance, administration and human resource functions.

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

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

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

LEE BOON TIAN

Director of Frontken Malaysia Sdn Bhd ("FMSB")

- Aged 43, Male, Malaysian
- Appointed in 2016

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

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

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

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

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

MOHD SHUKRI BIN HITAM

Managing Director of TTES Frontken Integrated Services Sdn Bhd ("TFIS")

- Aged 50, Male, Malaysian
- Appointed in 2000

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

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

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

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

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

Senior Management's Profile (cont'd)

GEORGE I. LAGOS

President, Frontken Philippines Inc. ("FPI")

- Aged 57, Male, Filipino
- Appointed in 2003

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

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

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

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

TSAI YU MIN

General Manager, Ares Green Technology Corporation ("AGTC")

- Aged 40, Male, Taiwanese
- Appointed in 2013

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

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

strategies for AGTC.

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

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

MOK SIEW WAI

Chief Operating Officer, Frontken (Singapore) Pte Ltd ("FS")

- Aged 64, Male, Singaporean
- Appointed in 2013

Mok Siew Wai holds a Diploma in Production Engineering from Singapore Polytechnic and a Diploma in Sales & Marketing from Singapore Institute of Management.

He has extensive working experience in the business of rotating equipment repair technology, engineering applications in thermal coating processes and services including regional sales and marketing lead functions, prior to joining FS.

In 2002, he joined FS, a wholly-owned subsidiary of FCB, as a Senior Vice

President in sales and marketing and was promoted to Chief Operating Officer in 2013 to oversee the overall operations of FS non-semiconductor division.

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

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

Senior Management's Profile (cont'd)

PNG ENG WAH

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

- Aged 53, Male, Singaporean
- Appointed in 2004

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

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

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

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

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

Corporate Sustainability Statement

Corporate Sustainability Statement (“CSS”) is defined as *“The continuing commitment by business to behave ethically and contribute to economic social development while improving the quality of life of the workforce and their families as well as the local community and society at large”*. Recognizing this, Frontken Corporation Berhad is committed in integrating CSS as part of its business activities and in undertaking responsible practices that impacts our society and environment in a positive manner and to inculcate a culture of responsibility in all aspects of our business.

HEALTH AND SAFETY

The Group is heading operations in Malaysia, Singapore, Philippines, Indonesia and Taiwan, thus we undertake our role and responsibility to chief and comply with all the health and safety regulatory requirements where we operate earnestly. The Group ensures that it adopts the appropriate occupational health and safety systems to enhance the safety practices among its employees and to take precautionary measures against potential hazardous sources, which could arise from its daily operation.

THE WORK PLACE

We consider our employees as the most valuable asset. As Frontken is of a diverse community, we have always believed that everyone should be treated with mutual respect, dignity and fairness. We are continuously fostering a conducive working environment at all levels to encourage on-going development of our employees. Employees are provided with various training to develop and upgrade their skills, knowledge and attitudes so that everyone is exposed to the same opportunities.

ENVIRONMENT

We see it as an obligation to respect the surroundings and the people that we operate in. We believe that it is a responsibility to forge environmental sustainability into each of our business functions and processes – as our continued success depends on our efforts in sustaining our environment. The Group imprints energy saving practices in our daily operations to keep our environment footprint at the lowest possible level.

We work hand in hand with our clients in all aspects to maximize product life, through timely maintenance, treatment and functional repair. The Group promotes continuous education and awareness to clients in environmental impact and encourage the practices of reuse and recycling. We believe that by working together with our surrounding society plays an integral part in best practices that impacts our environment at large.

ETHICAL CONDUCT AND LEGAL COMPLIANCE

We view ethical conduct and legal compliance as a vital practice in a business. The Group ensures that our top management takes a clear position on the central importance of corporate ethics and legal compliance in corporate management. It is a principle that we uphold to ensure everyone in the Group advocates responsibility, fairness and high ethical standards, and to always act in accordance with the law to maintain trust.

Statement Of Directors' Responsibilities

The directors are required by the Companies Act 2016 to prepare financial statements which give a true and fair view of the state of affairs of the Group and of the Company as at the end of each financial year and of the results and cash flows of the Group and of the Company for the financial year then ended. The directors ensure that suitable accounting policies have been used and applied consistently, and that reasonable and prudent judgements and estimates have been made, in the preparation of the financial statements. The directors also ensure that applicable approved accounting standards have been followed. The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy the financial position of the Group and of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1965.

Corporate Governance Statement

The Board of Frontken Corporation Berhad (the “Company”) recognises the importance of adopting high standards of corporate governance in the Company in order to safeguard stakeholders’ interests as well as enhancing shareholders’ value. The Directors consider corporate governance to be synonymous with four key concepts, namely transparency, accountability, integrity as well as corporate performance.

This corporate governance statement (the “Statement”) sets out how the Company has applied the 8 Principles of the Malaysian Code on Corporate Governance 2012 (“MCCG 2012”) and observed the 26 Recommendations supporting the Principles during the financial year. Where a specific Recommendation of the MCCG 2012 has not been observed during the financial year under review, the non-observation, including the reasons thereof and, where appropriate, the alternative practice, if any, is mentioned in the Statement.

PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

1.1 The Board should establish clear functions reserved for the Board and those delegated to Management

To enhance accountability, the Board has established clear functions reserved for it and those delegated to Management. There is a formal schedule of matters reserved to the Board for its deliberation and decision to ensure the direction and control of the Group’s operations are in its hands. Key matters reserved for the Board include, inter-alia, the approval of annual budgets, quarterly and annual financial statements for announcement, investment and divestiture, as well as monitoring of the Group’s financial and operating performance. Such delineation of roles is clearly set out in the Board Charter (the “Charter”), which serves as a reference point for Board activities.

To assist the Board in fulfilling its duties and responsibilities, the Board has established the Audit Committee, Nomination Committee and Remuneration Committee. Each Committee is tasked with specific functions to operate within its terms of reference, which are included in the Charter. The ultimate responsibility for decision making, however, lies with the Board.

1.2 Board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions

Reviewing and adopting a strategic plan for the Company

The strategic initiatives of the Board are deliberated at its scheduled meetings where the goals of the Group are also discussed and formalised, culminating in the development of a comprehensive Group budget for the Board’s approval. Resources are identified and allocated accordingly towards meeting such goals and objectives. In addition, for any new business ventures, a proper and well researched meeting paper is required for tabling at the Board meeting so that the matter can be deliberated and decided without delay.

Overseeing the conduct of the Company’s business

The Executive Chairman, who is also the Managing Director of the Company, leads the Board and is also involved in the Company’s day-to-day management. He is supported by an Executive Director and a management team in managing the Group’s business. The Board’s role is to oversee the performance of Management to determine whether the business is properly managed. The Board gets updates from Management at the quarterly Board meetings when reviewing the unaudited quarterly results and annual audited financial statements. During such meetings, the Board participates actively in the discussion of the performance of the Company.

Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures

The Company engaged an external service provider to assist the Board in establishing an Enterprise Risk Management framework for the Group, formalising, amongst others, the processes to identify, evaluate, control, report and monitor significant business risks faced by the Group. The Board has approved the Enterprise Risk Management Framework for adoption across the Group. The Board, via its Audit Committee, reviews the outcome of risk assessment, including the implementation of appropriate internal controls and mitigation measures to address the risks identified.

Further details of the Enterprise Risk Management Framework are set out in the Statement on Risk Management and Internal Control in this Annual Report.

Corporate Governance Statement (cont'd)

PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

1.2 Board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions (cont'd)

Succession planning

The Board views succession planning as important for business continuity. Key positions which are vacated due to retirement and/or resignation are filled quickly to avoid business interruption. The issue of succession planning is deliberated at Board meetings such that pertinent actions are taken to provide for the orderly succession of senior management.

Overseeing the development and implementation of a shareholder communications policy for the Company

The Company has, on its interactive website, a dedicated Investor Relations section where shareholders can communicate with the Board through the designated Investor Relations officer. The Board has also identified a Senior Independent Director, namely Mr Aaron Sim Kwee Lein to whom the concerns of stakeholders and shareholders pertaining to the Company may be conveyed.

Reviewing the adequacy and integrity of the management information and internal controls system of the Company

The Board acknowledges the importance of the adequacy and integrity of the management information and internal control systems of the Company. Details of the Group's internal control system, including how the Board reviews its adequacy and operating effectiveness, are set out in the Statement on Risk Management and Internal Control in this Annual Report.

1.3 The Board should formalise ethical standards through a code of conduct and ensure its compliance

The Company has in place a Code of Conduct for its Directors and employees and it is available on the Company's website.

The Board also has formalised in writing its Whistle Blowing Policies and Procedures, including reporting templates, for employees to raise genuine concerns, without fear of reprisal, about possible improprieties on matters pertaining to financial reporting, compliance, malpractices and unethical business conduct within the Group. The Whistle Blowing Policies and Procedures document has been uploaded on the Company's website at www.frontken.com.

1.4 The Board should ensure that the Company's strategies promote sustainability

The Board considers sustainability in its business operations. As such, it recognises the need for the Company to address sustainability in its business strategy, taking into consideration the governance, social and environmental aspects. In view of the forthcoming mandatory Sustainability Reporting required of listed issuers, the Board has, on 23 February 2017, deliberated on the need to formalise in writing a Corporate Sustainability Policy covering the environmental, social and economic aspects of the Group's operations, and has entrusted this role to an Executive Director to helm. Nonetheless, the Corporate Sustainability Statement in this Annual Report provides details on how sustainability initiatives have been taken by the Board and Management for the financial year under review.

1.5 The Board should have procedures to allow its members access to information and advice

The Board Charter provides a procedure for Directors to access information and independent advice in the discharge of their stewardship role, for example Directors may seek independent legal, financial or other advice as they consider necessary at the expense of the Company as a full Board or in their individual capacity, in the furtherance of their duties. Management is required to supply the Board and Committees with information in a form, timeframe and quality that enables the Directors to effectively discharge their duties. The Directors are provided with Board papers prior to each meeting to evaluate the proposals and, if necessary, to request for additional information.

Corporate Governance Statement (cont'd)

PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

1.6 The Board should ensure it is supported by a suitably qualified and competent company secretary

The Company Secretaries of the Company are suitably qualified and competent to support the Board. The Board is regularly updated by the Company Secretaries on the latest updates on changes in laws and regulations. During the financial year, the Board was briefed by the Company Secretary on the Companies Act 2016 and amendments to the Listing Requirements of Bursa Malaysia Securities Berhad.

Prior to the financial year end, the Company Secretaries would draw up a timetable of the proposed dates of all meetings of the Board and Board Committees and the Annual General Meeting of the following year. Thereafter, the Company Secretaries would draw up a detailed timetable for the year of all the events, actions and matters to be taken by the various parties involved throughout the whole year.

The Company Secretaries sends out all the notices of the meetings of the Board and the Board Committees at least seven (7) days before the meetings and also notice of closed period for dealings in securities to the Directors and Principal Officers prior to the closed period for dealings.

The Company Secretaries attends all Board and Board Committee meetings as well as the Annual General Meeting and ensures that the meetings are properly convened, constituted and conducted. After the meetings of the Board and Board Committees, the Company Secretaries summarised the actions that need to be taken and issue an action plan to Management for the appropriate actions to be taken and prepare the minutes for all the meetings accordingly.

Besides the continuous disclosure requirements under the listing requirements and the Companies Act 2016, the Company Secretaries also advise the Board and Board Committee and Management on disclosure requirements as and when they are asked on an ad hoc basis.

The Board has access to the advice and services of the Company Secretaries who are responsible in ensuring that the established procedures and relevant statutes and regulations are complied with.

1.7 The Board should formalise, periodically review and make public its board charter

The Board Charter, which was last reviewed and approved by the Board on 23 May 2016, has been uploaded on the Company's website at www.frontken.com. It sets out the composition of the Board, duties and responsibilities on matters relating to strategy and planning, human resource, remuneration, capital management and financial reporting, performance monitoring, risk management, audit and compliance and board processes and policies, Board Committees, Chairman of the Board, independence of Directors, access to information and independent advice, dealings in securities, orientation and continuing education and Board assessment.

PRINCIPLE 2 – STRENGTHEN COMPOSITION

2.1 The Board should establish a Nominating Committee which should comprise exclusively non-executive directors, a majority of whom must be independent

The Nomination Committee comprises exclusively Non-Executive Directors with a majority of Independent Directors. The Nomination Committee met twice during the financial year under review to deliberate matters within its terms of reference.

The terms of reference of the Nomination Committee provide that the Nomination Committee shall be appointed by the Board and shall consist of not less than two (2) members, comprising exclusively non-executive Directors, the majority of whom shall be independent Directors. The terms of reference of the Nomination Committee also outline the responsibilities and duties in relation to the selection and assessment of new and existing directors and a copy of the same can be found on the Company's website at www.frontken.com.

Corporate Governance Statement (cont'd)

PRINCIPLE 2 – STRENGTHEN COMPOSITION (CONT'D)

2.2 The Nominating Committee should develop, maintain and review the criteria to be used in the recruitment process and annual assessment of Directors

The Nomination Committee is responsible for assessing proposed candidates based on selection criteria expected of a Director and makes recommendation to the Board if the proposed candidates are found to be suitable. The decision on new appointment of Directors rests with the Board after considering the recommendation of the Nomination Committee.

The Nomination Committee is also responsible for carrying out an assessment of Board's effectiveness in terms of its composition, roles and responsibilities, and whether the Board Committees discharge their functions and duties in accordance with the terms of reference entrusted by the Board. The assessment of the Board takes into account the character, competence, experience, integrity and time availability of each Director as well as their ability to provide pertinent input at meetings and demonstrate high level of professionalism in decision making process. The Nomination Committee reviews the composition of the Board annually to ensure that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competencies for effective functioning and informed decision-making.

Insofar as Board diversity is concerned, the Board does not intend to set out any specific policy on targets for gender, age or ethnicity of Directors. The Board believes that the on-boarding process of Directors should not be based on any gender, age or ethnicity. As such, the evaluation of suitable candidates is solely based on the candidates' competency, character, time availability, integrity and experience in meeting the needs of the Company, including, where appropriate, the ability of the candidates to act as Independent Non-Executive Directors, as the case may be.

During the financial year under review, the Nomination Committee assessed the effectiveness of the Board, as a whole, the Board Committees and contribution of each individual Director, including those Directors who are subject to retirement at the forthcoming Annual General Meeting in accordance with the Company's Constitution.

Details of attendance of the Board Committee members for the financial year ended 31 December 2016 are as follows:-

Directors	Audit Committee	Nomination Committee	Remuneration Committee
Ng Wai Pin	N/A	N/A	2/2
Dato' Haji Johar bin Murat @ Murad	5/5	2/2	2/2
Aaron Sim Kwee Lein	5/5	2/2	2/2
Dr Jorg Helmut Hohnloser	3/5	2/2	N/A

2.3 The Board should establish formal and transparent remuneration policies and procedures to attract and retain directors

The Remuneration Committee, which comprises three (3) Directors, a majority of whom are Independent Directors, met once during the financial year under review to deliberate matters within its terms of reference. Its key function is to ensure that the Company is able to attract and retain Directors of the calibre and quality required to manage the business of the Group. The Remuneration Committee ensures that reward is measurably linked to achievement of business and performance objectives and the remuneration is determined by financial matrices such as the Group's overall performance and achievement of selected financial ratios. The remuneration to individual staff is determined by the performance and contribution of individual staff and the performance and achievement of the respective business unit or department.

As such, the Remuneration Committee is tasked to review the remuneration of Directors and Senior Management to ensure that they are remunerated at competitive levels in relation to the achievement of goals and the performance of the Group. The remuneration packages of the Executive Directors and Senior Management are then recommended to the Board for approval.

The Board recommends the fees payable to Directors on a yearly basis to the shareholders for approval at the Annual General Meeting in line with the provision of the Company's Constitution.

Corporate Governance Statement (cont'd)

PRINCIPLE 2 – STRENGTHEN COMPOSITION (CONT'D)

2.3 The Board should establish formal and transparent remuneration policies and procedures to attract and retain directors (cont'd)

The aggregate remuneration of the Directors of the Group and the Company for the financial year ended 31 December 2016 is as follows:-

	Executive Directors		Non-Executive Directors	
	The Group RM'000	The Company RM'000	The Group RM'000	The Company RM'000
Salaries	2,905	70	-	-
Fees	48	12	137	137
Bonuses	2,116	754	-	-
Other emoluments	241	159	-	-
	5,310	995	137	137

The number of Directors whose remuneration falls within the respective bands is as follows:

	Executive Directors		Non-Executive Directors	
	The Group	The Company	The Group	The Company
Below RM50,000	-	1	2	2
RM50,001 to RM100,000	-	-	1	1
RM950,000 to RM1,000,000	-	1	-	-
RM1,650,001 to RM1,700,000	1	-	-	-
RM3,650,001 to RM3,700,000	1	-	-	-
	2	2	3	3

PRINCIPLE 3 – REINFORCE INDEPENDENCE

3.1 The Board should undertake an assessment of its Independent Non-Executive Directors annually

On an annual basis, the Board through the Nomination Committee assesses the Independent Non-Executive Directors, adopting the criteria as set out in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and reports to the Board the outcome of its findings.

3.2 & 3.3 Tenure of Independent Non-Executive Director exceeding cumulative term of nine (9) years and seek shareholders' approval in retaining such Independent Non-Executive Director

At the date of this Statement, the Board has a Director, namely Dato' Haji Johar bin Murat @ Murad, who has served for more than nine (9) years as an Independent Non-Executive Director.

The Board has assessed, via the Nomination Committee, his independence and, accordingly, recommended him for shareholders' approval to continue to serve as an Independent Non-Executive Director of the Company for the ensuing year based on the following justifications:-

- He fulfils the criteria under the definition of Independent Non-Executive Director as stated in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and, thus, he is able to provide a check and balance by bringing an element of objectivity and independent judgement to the Board's deliberation;
- He brings with him vast experience and expertise to complement the competencies of the other Directors to enhance boardroom discussions and decision;
- He has been with the Company for more than nine (9) years since 2006 and, accordingly, is familiar with the nuances and understanding of the Group's business operations; and
- He has exercised due care and diligence during his tenure as an Independent Non-Executive Director of the Company and carried out his duties professionally and objectively in the interest of the Company and shareholders.

Corporate Governance Statement (cont'd)

PRINCIPLE 3 – REINFORCE INDEPENDENCE (CONT'D)

3.4 The positions of Chairman and Chief Executive Officer should be held by different individuals and the Chairman must be a non-executive member of the Board

The Board is mindful of the dual role held by Mr Ng Wai Pin as the Chairman and Managing Director which deviates from the Recommendation of the MCCG 2012. The Board is of the view that there is no concentration of power and authority, and that no one individual has unfettered powers for decision making. Furthermore, there are sufficient Independent Non-Executive Directors on the Board who are individuals of calibre, credibility and are free from any business or other relationship which could materially interfere with the exercise of their independent judgement. These Independent Non-Executive Directors are capable of exercising independent judgement to ensure fair and objective deliberations at Board meetings.

3.5 Board must comprise a majority of Independent Non-Executive Directors if Chairman is not an Independent Non-Executive Director

As the size of the Board is small, the Board is of the view that the composition of the Board meets with the minimum requirements of the Main Market Listing Requirements. Moreover, the Non-Executive Directors, which consist of the majority of Board members, provide a check in the balance of power vested in the Executive Chairman.

The composition of the Board will comprise of a majority of Independent Non-Executive Directors on 14 May 2017 as Dr Jorg Helmut Hohnloser will become independent as he has ceased to have an indirect interest via his shareholdings in CP Asia Holding GmbH on 14 November 2016.

PRINCIPLE 4 – FOSTER COMMITMENT

4.1 The Board should set expectations on time commitment for its members and protocols for accepting new directorships

The Board, on an annual basis, sets out the meeting dates for the whole financial year so that each member of the Board is able to plan his schedule accordingly. This helps to ensure that the Board is committed to meet when the time arises.

The Board has also established a guideline on the acceptance of new directorship by Board members. Any Director intending to take on new directorship is required to notify the Board Chairman before accepting the new directorship and also to confirm his commitment that the new directorship will not impair his time commitment to the Company.

Details of the Directors' attendance at Board meetings for the financial year ended 31 December 2016 are set out below:-

Directors	Designations	Attendance	%
Ng Wai Pin	Executive Chairman and Managing Director	6/6	100
Dr Tay Kiang Meng	Executive Director / Chief Scientist	6/6	100
Dato' Haji Johar bin Murat @ Murad	Independent Non-Executive Director	6/6	100
Aaron Sim Kwee Lein	Independent Non-Executive Director	6/6	100
Dr Jorg Helmut Hohnloser	Non-Independent Non-Executive Director	4/6	67

Mr Timo Fabian Seeberger, the Alternate Director to Dr Jorg Helmut Hohnloser, attended two (2) Board meetings by invitation.

4.2 The Board should ensure members have access to appropriate continuing education programme

The Board encourages its members to enrol in appropriate continuing education programme to equip them to serve the interests of the Company.

The Directors were updated on an ongoing basis by way of circulars on matters relating to changes to the Listing Requirements and briefing by the Company Secretaries at the Board Meeting following the changes.

Corporate Governance Statement (cont'd)

PRINCIPLE 4 – FOSTER COMMITMENT (CONT'D)

4.2 The Board should ensure members have access to appropriate continuing education programme (cont'd)

During the year, the Directors were apprised by the Company Secretary immediately after every Board Meeting three (3) times consecutively on the new, updated and amended provisions found in the Companies Act 2016 as compared to the Companies Act 1965.

For the financial year under review and up to the date of this Statement, the training courses, forums and briefings attended by the Directors are as follows:-

Ng Wai Pin	<ul style="list-style-type: none"> • Financial Statements - Numbers tell a story, what to look out for. • SEMICON Taiwan 2016
Dr Tay Kiang Meng	<ul style="list-style-type: none"> • SEMICON Taiwan 2016
Dato' Haji Johar bin Murat @ Murad	<ul style="list-style-type: none"> • Strategic Management
Aaron Sim Kwee Lein	<ul style="list-style-type: none"> • Financial Statements - Numbers tell a story, what to look out for.
Dr Jorg Helmut Hohnloser	<ul style="list-style-type: none"> • International Trade Fair for Surface Treatments and Coatings (31 May 2016 to 2 June 2016) • International Trade Fair for System Solutions in Laser Material Processing. In an unrivalled way it shows the entire user spectrum of lasers, covering a comprehensive range of laser applications across different industries and materials (31 May 2016 to 2 June 2016)
Timo Fabien Seeberger	<ul style="list-style-type: none"> • CeBit about Smart Data • Hannover Trade Fair about Industry 4.0

PRINCIPLE 5 – UPHOLD INTEGRITY IN FINANCIAL REPORTING

5.1 The Audit Committee should ensure financial statements comply with applicable financial reporting standards

The Board, through the Audit Committee, endeavours to provide and present a balanced and meaningful assessment of the Group's financial performance and prospects to shareholders, primarily through the Annual Reports and quarterly announcements of the Group's results to the regulators. The Board is assisted by the Audit Committee in overseeing the Group's financial reporting process and the accuracy, consistency and appropriateness of the use and application of accounting policies and standards.

On a yearly basis, the Audit Committee meets with the External Auditors to go through the Audit Planning Memorandum prior to commencement of the audit. In addition, the Audit Committee also meets with the External Auditors to discuss their report to the Audit Committee following completion of their audit. The External Auditors share with the Audit Committee any significant issues on the financial statements and regulatory updates. The Audit Committee obtains assurance from the External Auditors on the Company's compliance with the applicable financial reporting standards.

5.2 The Audit Committee should have policies and procedures to assess the suitability and independence of external auditors

The Audit Committee assesses the performance of the External Auditors on an annual basis and reports to the Board its recommendation for the re-appointment of the External Auditors at the Annual General Meeting.

In addition, the Audit Committee has formalised a policy on the provision of non-audit services by the External Auditors. During the financial year ended 31 December 2016, the fees for non-audit services rendered by the External Auditors to the Group amounted to approximately RM240,000. The amount and nature of non-audit services provided by the External Auditors accorded with the policy on the provision of non-audit services.

The External Auditors had provided a written assurance to the Audit Committee that they were independent throughout the conduct of the audit engagement based on the independence criteria of relevant professional and regulatory requirements.

Corporate Governance Statement (cont'd)

PRINCIPLE 6 – RECOGNISE AND MANAGE RISKS

6.1 The Board should establish a sound framework to manage risks

The Board had established an Enterprise Risk Management framework to identify, evaluate, control, report and monitor significant risks faced by the Group. Such a framework also includes pertinent risk management policies and guidelines to provide structured guidance to personnel across the Group in addressing risk management. The risk appetite of the Group is articulated via the use of risk parameters in the framework, covering financial and non-financial metrics, to assess the likelihood of risks occurring and the impact thereof should the risks crystallise. Internal controls deployed by Management are linked to, and mitigate, the business risks identified.

The Audit Committee works with the Internal Auditors to ensure that the Internal Audit Annual Plan encompasses the audit of areas with higher vulnerability. The Internal Auditors are also required to perform periodic testing of the internal control system to ensure that the system is robust, including follow-up on the status of Management's implementation of action plans to address issues raised by the Internal Auditors.

Further details of the Enterprise Risk Management framework and the system of internal control of the Group are set out in the Statement on Risk Management and Internal Control in this Annual Report.

6.2 The Board should establish an internal audit function which reports directly to Audit Committee

During the financial year under review, the Company outsourced its internal audit function to an independent professional firm, namely BDO Governance Advisory Sdn Bhd in place of the outgoing service provider, i.e. KPMG Management & Risk Consulting Sdn Bhd, with the objective of conducting systematic testing and assessment of the Group's internal control system based on an internal audit plan approved by the Audit Committee. Its responsibilities included providing independent and objective reports on the state of internal control of the significant operating units in the Group to the Audit Committee, with recommendations for improvement to the control procedures, so that remedial actions can be taken in relation to weaknesses noted in the system. Further details of the activities carried out by the internal audit function are set out in the Statement on Risk Management and Internal Control included in this Annual Report.

PRINCIPLE 7 – ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

7.1 The Board should ensure the Company has appropriate disclosure policies and procedures

The Board has established an internal Corporate Disclosure Policy in compliance with the disclosure requirements as set out in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The Board delegated the authority to the Chairman of the Company to ensure that the Corporate Disclosure Policy is adhered to by Senior Management and the Company Secretaries with respect to disclosure obligations.

7.2 The Board should encourage the Company to leverage on information technology for effective dissemination of information

The Company's website has a section dedicated to shareholders under Investor Relations where shareholders can check on the latest announcements of the Company, press release, media news, share and warrant prices and also contact the designated person on investor relations matters. The shareholders are also encouraged to subscribe for any news alert of the Company.

PRINCIPLE 8 – STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

8.1 The Board should take reasonable steps to encourage shareholder participation at general meetings

The Board encourages the attendance of shareholders at the Company's Annual General Meeting. The notice period of the Annual General Meeting is given to the shareholders slightly longer than the minimum of 21 clear days. With a slightly longer time, the shareholders are provided with ample time to review the annual report, to appoint proxies and to collate questions to be asked at the Annual General Meeting.

Corporate Governance Statement (cont'd)

PRINCIPLE 8 – STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS (CONT'D)

8.1 The Board should take reasonable steps to encourage shareholder participation at general meetings (cont'd)

General meetings remain the principal forum for dialogue between the Company and its shareholders. The Company holds its general meetings at the Company's premises which is easily accessible by the shareholders and at a time convenient to the shareholders to encourage them to attend and participate in the meetings either in person, by corporate representative, by proxy or by attorney. The shareholders are encouraged and given sufficient opportunity to enquire about the Group's activities and prospects as well as to communicate their expectations and concerns to the Board at these meetings.

The Company held its Twelfth Annual General Meeting ("Twelfth AGM") on 24 June 2016. The Notice of AGM, Annual Report and the related circular were sent to the shareholders in accordance with the regulatory and statutory provisions. The Notice of the Twelfth AGM was also advertised in a national English newspaper within the prescribed deadline.

During the AGM, the Chairman and Managing Director took on questions and provided the relevant information on the performance for the financial year 2015. The Chairman, when presenting the agenda items for voting, also gave a brief description of the items to be voted and shareholders were invited to ask questions before voting commenced besides informing them that they could demand for a poll, if need be.

The shareholders approved all the resolutions put forth at the Twelfth AGM and the results of the Twelfth AGM were announced to the shareholders via the Bursa Link at the conclusion of the AGM.

Minutes were kept to record the proceedings of the Twelfth AGM and shareholders may inspect the minutes in accordance with the provisions of the Companies Act 1965.

8.2 Board should encourage poll voting

With the amendments to the Listing Requirements of Bursa Malaysia Securities Berhad on 24 March 2016 that require resolutions at General Meetings to be decided by poll, all the resolutions to be voted on at the forthcoming Annual General Meeting will be decided by way of poll with a duly appointed scrutineer(s) to oversee the voting process and the outcome thereof. The Company's share registrar is well equipped to facilitate the conduct of such polling process.

At the Twelfth AGM of the Company, which was held on 24 June 2016, all the resolutions were decided on a show of hands.

8.3 Board should promote effective communication and proactive engagements with shareholders

Shareholders' meetings are important events for the Board to meet the shareholders. The Chairman allots sufficient time to encourage the shareholders, proxies and the corporate representatives to ask questions pertaining to the matters tabled at the shareholders' meetings. The Senior Management and External Auditors are present at the shareholders' meetings to answer any query that the shareholders, proxies and corporate representatives may ask.

The Board has set up the corporate website at www.frontken.com to encourage shareholders and investors to pose questions and queries to the Company. These questions and queries will be attended to by the Company's senior management. In addition, the Board also encourages shareholders, stakeholders and other investors to communicate with the Company through other channels, via post at Suite 301, Block F, Pusat Dagangan Phileo Damansara 1, No. 9, Jalan 16/11, Off Jalan Damansara, 46350 Petaling Jaya, Selangor, Malaysia, fax at (03) 7968 3316 or e-mail at erichce@frontken.com.

This statement is made in accordance with the resolution of the Board dated 27 March 2017.

Statement On Risk Management And Internal Control

INTRODUCTION

Paragraph 15.26 (b) of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa”) stipulates that a listed issuer must ensure that its board of directors makes a statement (“Statement on Risk Management and Internal Control” or “Statement”) about the state of internal control of the listed issuer as a group. The Statement is expected to include sufficient and meaningful information needed by shareholders to make an informed assessment of the main features and adequacy of the listed issuer’s risk management and internal control system as a group.

The Board of Directors (“Board”) is pleased to furnish this Statement, which outlines the nature and scope of the system of risk management and internal control in the Group (comprising the Company and its subsidiaries) for the financial year ended 31 December 2016 and up to the date of approval of this Statement for inclusion in the Company’s Annual Report. For the purpose of disclosure, this Statement has taken into consideration the “Statement on Risk Management and Internal Control - Guidelines for Directors of Listed Issuers”, a publication of Bursa which provides guidance to boards in preparing the Statement.

RESPONSIBILITY OF THE BOARD

The Board acknowledges its overall responsibility for the Group’s system of risk management and internal control to safeguard shareholders’ investment and the Group’s assets as well as reviewing the adequacy and integrity of the system in meeting the Group’s business and corporate objectives. The Board is mindful of the need to establish clear roles and responsibilities in discharging its fiduciary and leadership functions in line with Recommendation 1.2 (“Recommendation”) of the Malaysian Code on Corporate Governance 2012 (“MCCG 2012”). As such, the Board is aware that its principal responsibilities, as outlined in the Commentaries of the same Recommendation, include, inter-alia, the following:-

- to identify principal risks and ensure the implementation of appropriate controls and mitigation measures; and
- to review the adequacy and integrity of the management information and internal control systems.

The Group’s risk management and internal control system addresses strategic, operational, financial and compliance risks as well as the associated internal controls implemented by Management to mitigate the principal business risks as identified. In view of the limitations inherent in any system of risk management and internal control (“system”), the system is designed to manage, rather than eliminate, the risk of failure to achieve the Group’s business and corporate objectives. The system can therefore only provide reasonable, but not absolute, assurance against any material misstatement, financial loss or fraudulent activity.

In embracing Recommendation 6.1 of the MCCG 2012, the Board has formalised an Enterprise Risk Management framework (“ERM framework” or “framework”) that sets out pertinent policies and guidelines to streamline the Group’s risk management initiatives and activities in a structured and holistic manner to safeguard shareholders’ investment and the Group’s assets. Based on this framework, the Board has established an on-going process to identify, evaluate, control, report and monitor significant business risks faced by the Group. The Board, through its Audit Committee, reviews the results of this process, including mitigating measures implemented by Management to address the key risks as identified. This process has been in place for the financial year under review and up to the date of approval of this Statement for inclusion in the Annual Report of the Company.

RISK MANAGEMENT FRAMEWORK

Risk management is embedded in the Group’s key business processes through its ERM framework, which provides, amongst others, an easy-to-understand step by step approach to identify and evaluate risks faced by business units and, by extension, the Group. To streamline risk management processes and activities, the Board has formalised in writing pertinent risk management policies and guidelines for adherence by business units across the Group. The ERM framework embodies a structured risk assessment process, which results in the compilation of specific risk profiles of key business units and companies in the Group by Risk Management Units (“RMUs”), including the periodic update of risk profiles to take into account the vagaries of changing business environment as well as emerging risks.

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

Statement On Risk Management And Internal Control (cont'd)

RISK MANAGEMENT FRAMEWORK (CONT'D)

Details of specific risks are recorded in individual risk registers, covering the risk description, causes of risk, risk consequences, internal controls implemented by Management to address the causes of risk, Management's assessment of the effectiveness of internal controls and the residual risk rating, i.e. the balance of risk after considering the effects of controls deployed to mitigate the risk.

The action plans that Management has taken and/or is taking to mitigate the risks to acceptable levels are reported by the RMUs to the Audit Committee and the outcome is documented in the Audit Committee meeting minutes. For each of the business risks identified, a risk owner is entrusted to ensure appropriate actions are taken to mitigate the risk to an acceptable level within specified timeline. The Risk Coordinator of the Group, when reviewing the risk update by business units, enquires into the status of action plans undertaken by Management of the business units concerned. During the financial year, a risk update was conducted by the various business units and companies in the Group with the outcome reported to the Audit Committee and the Board for further comments.

INTERNAL CONTROL SYSTEM

The Group's internal control system comprises the following key elements:-

- an organisation structure with clearly defined lines of responsibilities and appropriate levels of delegation and authority, including financial limits of authority in approving transactions/activities as well as mandate to operate bank accounts. The structure also sets out clear reporting lines and segregation of duties for key processes like strategic management, operations, sales and collections, procurement and payment, human resource, capital expenditure, research and development, financial reporting, corporate affairs, and investments;
- a process of hierarchical reporting which provides a documented and auditable trail of accountability, with appropriate sign-off by personnel entrusted with the responsibilities;
- an annual budgetary exercise that requires all business units and companies in the Group to formulate financial budgets which are then consolidated into a Group budget, presented to the Board for comments and approval. Quarterly review of the Group's performance against budget is carried out at Board meetings where explanations on significant variances are furnished by Management. Management meetings at operational level are conducted to review financial performance against business plans and monitor the respective business unit's performance against budget;
- significant changes in business development are reported by Management to the Board at scheduled meetings. This oversight review enables the Board to evaluate and monitor the Group's business performance vis-à-vis its corporate objectives;
- the Audit Committee, which is entrusted by the Board to oversee the Company's financial reporting process, in particular the quarterly and annual announcements of the Group's financial performance, meets at least quarterly to review the announcements, seeks clarification and explanations from Management before recommending the announcements to the Board for approval;
- internal policies and procedures on key business processes are formalised in writing for adherence across the Group. These policies and procedures serve as guidance to enable compliance by personnel with internal control requirements and applicable laws and regulations;
- structured whistle-blower policies and procedures are formalised in writing to enable employees of the Group to raise genuine concerns about suspected improprieties on matters of financial reporting, non-compliance with laws and regulations, malpractices or unethical business conduct within the Group at the earliest opportunity and in an appropriate way without fear of reprisal; and
- where issues arise that affect the reliability and integrity of financial information of any business unit, special audits are commissioned by the Audit Committee or Senior Management, as the case may be, to assist the Board in fulfilling its oversight responsibilities.

Statement On Risk Management And Internal Control (cont'd)

INTERNAL AUDIT FUNCTION

During the financial year, the internal audit function was outsourced to an independent professional firm, namely BDO Governance Advisory Sdn Bhd in place of the outgoing service provider, i.e. KPMG Management & Risk Consulting Sdn Bhd. The appointment of the new service provider followed an assessment of its suitability and capability by the Audit Committee.

The internal audit function conducted an assessment of the Group's system of internal control, focusing on selected significant business units and reported its observations, including Management's response and action plans thereto, directly to the Audit Committee. The internal audit function was also tasked to conduct a follow-up on the status of implementation by Management on the recommendations highlighted, as deemed relevant. The Audit Committee took note of the issues raised and questions were posed to Management on the timeliness of measures to address the concerns as reported.

The internal audit plan for the financial year was prepared based largely on the Group's financial information and the relative risks of the business units to the achievement of the Group's objectives. The internal audit function adopted a risk-based and process life cycle approach in identifying auditable entities within the Group as well as the auditable areas. For the financial year ended 31 December 2016, the following 2 significant business units in Malaysia, together with the identified processes, were selected for internal audit with the Audit Committee's concurrence:-

Name of business unit	Processes covered by internal audit addressing the key business risks therein
Frontken Malaysia Sdn Bhd (Kulim Branch)	<ul style="list-style-type: none"> • Sales to receipt cycle (including credit control) • Procure to pay cycle (including expenses management) • Fixed assets management cycle (including maintenance and spare part management)
Frontken (Johor) Sdn Bhd	<ul style="list-style-type: none"> • Sales to receipt cycle (including credit control) • Procure to pay cycle (including expenses management) • Fixed assets management cycle (including maintenance and spare part management)

Detailed internal audit tests were carried out by the internal audit function to assess the adequacy and operating effectiveness of the Group's system of internal controls in achieving business objectives. Transactions and activities were selected for testing on a sample basis. Internal audit observations on systems weakness and areas for improvement, including recommended mitigating measures to address the concerns raised, were included in internal audit reports presented to the Audit Committee. Further details of the internal audit function and its activities are provided in the Audit Committee Report included in this Annual Report.

For the financial year ended 31 December 2016, the Audit Committee reviewed the work of the internal audit function, its observations and recommendations in order to obtain assurance on the adequacy and effectiveness of the Group's risk management and internal control system. The total cost incurred for the outsourced internal audit function for the financial year under review amounted to approximately RM115,000 (2015: RM90,000).

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

In assisting the Board to assess the adequacy and operating effectiveness of the Group's risk management and internal control system, the Audit Committee reviewed the observations raised by the internal and external auditors, as well as actions taken by Management to address the areas of concern for the financial year ended 31 December 2016. The Audit Committee reported to the Board the outcome of its engagement with the internal and external auditors concerning the adequacy and operating effectiveness of the Group's system of risk management and internal control.

Statement On Risk Management And Internal Control (cont'd)

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

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

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

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

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

REVIEW OF STATEMENT BY THE EXTERNAL AUDITORS

Pursuant to Paragraph 15.23 of Bursa's Listing Requirements, the external auditors have reviewed this Statement for inclusion in the Annual Report for the financial year ended 31 December 2016. The external auditors have reported to the Board that, based on their review procedures performed and evidence obtained, nothing has come to their attention that causes them to believe that this Statement intended to be included in the Annual Report is not prepared, in all material respects, in accordance with the disclosures required by Paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issues to be set out, nor is the Statement factually inaccurate.

This Statement is made in accordance with the resolution of the Board of Directors dated 27 March 2017.

Audit Committee Report

A. COMPOSITION AND ATTENDANCE

The members of the Audit Committee (the "Committee") are as follows:

Chairman of Committee

Dato' Haji Johar bin Murat @ Murad	Independent Non-Executive Director
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Members of Committee

Aaron Sim Kwee Lein	Senior Independent Non-Executive Director
Dr Jorg Helmut Hohnloser	Non-Independent Non-Executive Director

The Board must appoint the members of the Committee from amongst its Directors which fulfils the following requirements:-

- (a) the Committee must be composed of not fewer than three (3) members;
- (b) all the Committee members must be non-executive directors, with a majority of them being independent directors; and
- (c) at least one (1) member of the audit committee:
 - (i) must be a member of the Malaysian Institute of Accountants;
 - (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years' working experience and:
 - (aa) he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
 - (bb) he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967; or
 - (iii) fulfils such other requirements as prescribed or approved by Bursa Securities.

The Board, through the Nomination Committee, assesses the performance of the Committee in terms of its effectiveness and contribution of Committee members on an annual basis to determine whether the Committee and its members have carried out their duties in accordance with their terms of reference.

The meeting attendance of the Committee members is provided in the Corporate Governance Statement in this Annual Report.

B. MEETINGS

There were five (5) meetings held during the financial year under review. As at the date of this report, the Committee has held three (3) private sessions with the External Auditors without the presence of the Executive Directors and Management. During the private sessions, the Committee enquired into the co-operation extended by Management in the course of the audit, including the supply of information to facilitate the conduct of the external audit and whether the External Auditors encountered any difficulty in obtaining such co-operation and information for the purpose of the External Audit.

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

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

C. ROLES AND RESPONSIBILITIES

In compliance with the Listing Requirements of Bursa Malaysia Securities Berhad, the roles and responsibilities of the Audit Committee, which remained unchanged during the financial year under review, are uploaded on the Company's website at www.frontken.com.

Audit Committee Report (cont'd)

D. AUTHORITY

The Committee shall have the authority to:-

1. Investigate any matter within its terms of reference;
2. Have the resources which are required to perform its duties;
3. Have full and unrestricted access to an information which it requires in the course of performing its duties;
4. Have direct communication channels with the internal and external auditors;
5. Obtain independent/external professional or other advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary; and
6. Convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other Directors and employees of the Company, whenever deemed necessary.

E. SUMMARY OF WORKS DURING THE FINANCIAL YEAR

The principal activities undertaken by the Committee during the financial year are summarised as follows:-

1. Reviewed the unaudited quarterly and year-end financial statements prior to recommending the same for the Board's approval, focusing particularly on significant and unusual events and compliance with accounting standards and other legal requirements;
2. Reviewed the appointment of the external and internal auditors, their independence and effectiveness, and their fees;
3. Reviewed the external auditors' audit planning memorandum, comprising their scope of audit, key audit areas, audit approach and timetable;
4. Met with the external auditors three (3) times during the year without the presence of the Executive Directors and Management to review the audit report and discuss relevant issues and obtain feedback;
5. Reviewed the external auditors' management letter and recommendations regarding opportunities for improvement to internal controls based on observations made in the course of the audit;
6. Reviewed the adequacy of the scope, functions, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;
7. Reviewed the scope and results of the internal audit procedures as well as Management's response to recommendations for improvement, and evaluation of adequacy of the internal control system based on the reports from the internal auditors;
8. Reviewed the related party transactions within the Group;
9. Reviewed semi-annually the summary reports on risk management of the Group as presented by the Risk Management Units on the status of risks faced by the Group and action plans deployed to manage the risks concerned;
10. Reviewed the Group's financial and accounting policies and practices; and
11. Evaluated the performance of the external auditors' function based on timeliness, competency, adequacy of resources to achieve the agreed scope of audit, and assistance given by the employees of the Group to the external auditors before recommending the re-appointment of external auditors to the Board.

The meeting dates for the Audit Committee meeting are pre-planned and communicated to the auditors in advance for them to prepare the Audit Review Memorandum, Audit Planning Memorandum and Audited Financial Statements for presentation to the Audit Committee to meet the respective deadlines.

The Audit Committee noted the internal control deficiencies or areas of improvement identified by the Internal Auditors and action plan for corrective actions or improvement by Management.

Audit Committee Report (cont'd)

F. INTERNAL AUDIT FUNCTION

The Group outsourced its internal audit function to an independent internal audit service provider, namely BDO Governance Advisory Sdn Bhd in place of the outgoing service provider, i.e. KPMG Management & Risk Consulting Sdn Bhd. The principal function of internal audit is to undertake systematic reviews of the governance, risk and internal control systems within the Group in accordance with an internal audit plan, so as to provide assurance that such systems are adequate and functioning as intended. Its responsibilities are to provide independent and objective reports on the state of internal controls of the various operating units within the Group to the Audit Committee and provide recommendations for the improvement of the control procedures, so that remedial actions are taken to mitigate weaknesses noted in the system and controls of the respective operating units.

Details of the internal audit activities and scope of coverage, including the cost incurred on the outsourced internal audit function, are set out in the Statement on Risk Management and Internal Control included in this Annual Report.

Additional Disclosure

1. SHARE BUY-BACK

At the Twelfth Annual General Meeting held on 24 June 2016, the shareholders of the Company granted authority to the Company to purchase its own shares provided that the aggregate number of shares purchased shall not exceed 10% of the total issued and paid-up share capital of the Company at the time of purchase.

The monthly breakdown of the shares purchased by the Company and retained as treasury shares during the financial year are set about below:-

Month	No. of Shares	Nominal Value Per Share (RM)	Total Consideration (RM)	Purchase Price Per Share (RM)		
				Highest	Lowest	Average
February 2016	200,000	0.10	34,261	0.170	0.170	0.170
September 2016	200,000	0.10	30,230	0.150	0.150	0.150

As at 31 December 2016, the Company held 5,466,600 repurchased or treasury shares out of its total issued and paid-up share capital of 1,053,435,130 ordinary shares of RM0.10 each. Such treasury shares were held at a carrying amount of RM663,237. There was no resale or cancellation of treasury shares during the financial year.

2. AUDIT FEES AND NON-AUDIT FEES

During the financial year, the audit fees paid or payable by the Company and the Group to our external auditors in respect of audit of the financial statements for the financial year ended 31 December 2016 amounted to approximately RM102,000 and RM527,000 respectively and the non-audit fees paid or payable by the Company and the Group to our external auditors, or a firm or company affiliated to the external auditors for the financial year ended 31 December 2016 amounted to approximately RM40,000 and RM240,000 respectively.

3. MATERIAL CONTRACT

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

4. CORPORATE SOCIAL RESPONSIBILITY

Our Group acknowledged the importance of Corporate Social Responsibility ("CSR") in our business practices. Our CSR platform touches upon responsible business practices, environmental stewardship and education stewardship.

We run our operations in line with our values, applicable laws and regulations and with integrity. We believe in empowering people close to the actions to take ownership and responsibility, and instil a culture that values honesty, integrity and transparency alongside innovation and continuous improvement. To that end, we launched our whistle-blowing policy in 2011 to strengthen our corporate governance practices and provide employees with accessible avenue to report in good faith suspected fraud, corruption, dishonest practices or other similar matters.

As well as meeting our customers' needs, our business activities are directed towards addressing environmental aspiration. We work alongside our customers to develop effective solutions that will help them address green issues by reducing the life-cycle impact of their equipment and improving processes through recycling, reusing, repairing, refurbishing and re-manufacturing their equipment.

We integrate health, safety and environment (HSE) considerations into all aspects of our business operations and processes as far as practicable and provide constant training and monitoring to ensure the safety and overall well-being of our people. We implement and progressively certify the plants' Occupational Safety and Health Management System in accordance with OHSAS 18001:2007 with the aim of preventing accidents, injuries, occupational illness and pollution, and conserving natural resources.

Additional Disclosure (cont'd)

4. CORPORATE SOCIAL RESPONSIBILITY (CONT'D)

In line with the increasing global awareness for environmental protection, we require all our business to operate in an environmentally responsible manner. Our approach is to ensure strict adherence to environmental legislation governing treatment of plant effluents and waste water, and maintain strict control to minimise the adverse impact on the environment. Our facilities are accorded ISO 14001:2004 certification and we encourage all our operating subsidiaries to adopt an environmental management system to manage their environmental performance.

Delivering outstanding performance requires exceptional people. At Frontken, we aim to create a culture of lifelong learning, driven by a training and development programme to support continual self-improvement and help our people achieve their potential. We sponsor students to compete in events to create a culture where students not only emulate leaders in science, technology and engineering, but also realise the potential within them to someday be one of those pioneers.

From a community prospective, we continue to support and promote education and training in the regions where we operate, seeking to improve the future prospects of both future leaders of the world and our workforce, we extended support to Singapore's Institute of Technical Education by providing its students with skills and knowledge, as well as exposure in global business trends and developments and different work practices cultural environments at our service plants in Singapore and Malaysia. We also encourage employees' involvement in efforts to help local communities.

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Directors' Report

The directors of **FRONTKEN CORPORATION BERHAD** have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

The principal activities of the subsidiaries are disclosed in Note 11 to the financial statements.

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

FINANCIAL RESULTS

	The Group RM	The Company RM
Profit after taxation for the financial year	27,285,714	6,154,262
Attributable to:		
Owners of the Company	20,040,231	6,154,262
Non-controlling interests	7,245,483	-
	27,285,714	6,154,262

DIVIDEND

No dividend has been paid or declared by the Company since the end of the previous financial year. The directors do not recommend the payment of any dividends in respect of the current financial year.

RESERVES AND PROVISIONS

All material transfers to or from reserves or provisions during the financial year are disclosed in the financial statements.

ISSUES OF SHARES AND DEBENTURES

During the financial year,

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

TREASURY SHARES

During the financial year, the Company repurchased 400,000 of its issued ordinary shares from the open market at an average price of RM0.16 per share. The total consideration paid for the repurchase including transaction costs amounted to RM64,491. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act 1965 and are presented as a deduction from total equity.

As at 31 December 2016, the Company held 5,466,600 treasury shares at a carrying amount of RM663,237. Relevant details on the treasury shares are disclosed in Note 21 to the financial statements.

Directors' Report (cont'd)

SHARE OPTIONS

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

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

OTHER FINANCIAL INFORMATION

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

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for impairment losses on receivables, and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for impairment losses on receivables; and
- (b) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

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

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

Other than the contingent liability as disclosed in Note 27 to the financial statements, at the date of this report, there does not exist:-

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

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Company for the succeeding financial year.

**Directors' Report
(cont'd)****DIRECTORS**

The following directors served on the Board of the Company since the date of the last report:

Ng Wai Pin
Dr. Tay Kiang Meng
Dato' Haji Johar Bin Murat @ Murad
Aaron Sim Kwee Lein
Dr. Jorg Helmut Hohnloser
Timo Fabian Seeberger (Alternate to Dr. Jorg Helmut Hohnloser)

DIRECTORS' INTERESTS

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

Shares in the Company	Balance as of 1.1.2016	Number of ordinary shares of RM0.10 each		Balance as of 31.12.2016
		Bought	Sold	
Direct Interests				
Ng Wai Pin	3,000,000	2,000,000	-	5,000,000
Dr. Tay Kiang Meng	9,404,808	-	-	9,404,808
Indirect Interest				
Dr. Jorg Helmut Hohnloser	290,991,473	-	290,991,473	-

By virtue of the above directors' interests in the shares of the Company, they are deemed to have interests in the shares of the subsidiaries to the extent the directors have their interests.

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

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors as shown in the financial statements, or fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest except for any benefits which may be deemed to arise from transactions entered into in the ordinary course of business with companies in which certain directors have substantial financial interests as disclosed in Note 17 to the financial statements.

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

Directors' Report (cont'd)

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

The significant events during the financial year are disclosed in Note 29 to the financial statements.

SIGNIFICANT EVENT OCCURRING AFTER THE REPORTING PERIOD

The significant event occurring after the reporting period is disclosed in Note 30 to the financial statements.

AUDITORS

The auditors, Messrs. Crowe Horwath, have expressed their willingness to continue in office.

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

NG WAI PIN

DR. TAY KIANG MENG

27 March 2017

Independent Auditors' Report To The Member Of Frontken Corporation Berhad

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Frontken Corporation Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 49 to 129.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Key Audit Matters

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

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

Goodwill impairment

Refer to Note 13 in the financial statements.

Key Audit Matter

The Group has goodwill of approximately RM33.8 million comprised within the 3 cash-generating units ("CGU").

For the CGUs which comprised goodwill, the determination of recoverable amount, being the higher of fair value less costs to sell and value-in-use, requires judgement on the part of management in identifying and then valuing the relevant CGUs.

The value-in-use models used to assess the risk of impairment are based on assumptions including revenue forecasts, gross and operating margins and discount rates, all of which are country-specific.

We focused on this area because of the inherent judgement involved in determining key assumptions such as future sales growth, profit margins and discount rates.

How our audit address the key audit matter

Our procedures in relation to management's impairment assessment included:-

- (a) Making enquiries of and challenging the management on the key assumptions made, including:
 - i. The achievement of the business plan; and
 - ii. Sales growth, operating margin, discount rates and long-term growth rates;
- (b) We also performed sensitivity analysis on key assumptions and agreed with management's conclusion that reasonable possible changes to the assumptions would result in a material difference to the changes already recognised; and
- (c) Assessed the adequacy of disclosure of goodwill in the financial statements.

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

Key Audit Matters (Cont'd)

Recoverable of trade receivables

Refer to Note 17 in the financial statements.

Key Audit Matter

The trade receivables of the Group amounted to approximately RM96.1 million and it constituted 44% of the total current assets of the Group.

We focused on this area due to the long outstanding receivable balances which exceeded the credit term of 90 days granted by the Group. The total long outstanding balance which exceeded the credit term amounted to approximately RM12.3 million is considered to be of a major credit risk. The assessment of recoverability of these long outstanding receivables involved judgement and estimation of uncertainty by Management.

How our audit address the key audit matter

Our procedures included, amongst others:-

- (a) Testing the adequacy of the Group's allowance for impairment losses on trade receivables by assessing the Group's policy and historical data from the Group's previous collection experience;
- (b) Testing the Group's subsequent collection after the financial year for major receivables; and
- (c) Assessed the adequacy of disclosure in the financial statements.

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

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

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

Responsibilities of Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 11 to the financial statements, being financial statements that have been included in the consolidated financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Reporting Responsibilities

The supplementary information set out in Note 32 on page 130 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other Matters

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

Crowe Horwath
Firm No : AF 1018
Chartered Accountants

27 March 2017

Kuala Lumpur

Cheong Tze Yuan
Approval No: 3034/04/18 (J)
Chartered Accountant

Statements Of Profit Or Loss And Other Comprehensive Income For The Financial Year Ended 31 December 2016

	Note	The Group		The Company	
		2016 RM	2015 RM	2016 RM	2015 RM
Revenue	5	261,844,249	280,573,014	10,356,895	5,126,439
Cost of sales		(183,366,491)	(223,527,255)	-	-
Gross profit		78,477,758	57,045,759	10,356,895	5,126,439
Other income		7,508,198	12,644,701	608,369	879,365
Administrative expenses		(39,883,190)	(41,990,556)	(4,308,240)	(5,134,839)
Other expenses		(11,502,552)	(10,232,651)	(161,846)	(136,598)
Finance costs	6	(1,146,951)	(1,494,353)	(340,916)	(555,514)
Share of results in associates, net of tax		(108,525)	25,186	-	-
Profit before tax	7	33,344,738	15,998,086	6,154,262	178,853
Income tax expense	8	(6,059,024)	(6,489,963)	-	-
Profit after tax		27,285,714	9,508,123	6,154,262	178,853
Other comprehensive expenses, net of tax					
Items that will not be reclassified subsequently to profit or loss					
Actuarial losses		(416,527)	(487,169)	-	-
Items that are or may be reclassified subsequently to profit or loss					
Foreign currency translation		6,723,976	23,599,052	-	-
Total comprehensive income		33,593,163	32,620,006	6,154,262	178,853
Profit after tax attributable to:					
Owners of the Company		20,040,231	4,007,044	6,154,262	178,853
Non-controlling interests		7,245,483	5,501,079	-	-
		27,285,714	9,508,123	6,154,262	178,853
Total comprehensive income attributable to:					
Owners of the Company		24,824,159	21,292,432	6,154,262	178,853
Non-controlling interests		8,769,004	11,327,574	-	-
		33,593,163	32,620,006	6,154,262	178,853
Earnings per ordinary share attributable to owners of the Company					
Basic (sen)	9	1.91	0.39		
Diluted (sen)	9	1.91	0.39		

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

Statements Of Financial Position

As Of 31 December 2016

	Note	The Group		The Company	
		2016 RM	2015 RM	2016 RM	2015 RM
ASSETS					
Non-Current Assets					
Property, plant and equipment	10	152,066,439	135,666,676	53,861	74,979
Investments in subsidiaries	11	-	-	120,512,699	87,675,923
Investment in an associate	12	1,998,506	2,009,434	-	-
Goodwill on consolidation	13	33,760,856	33,760,856	-	-
Deferred tax assets	14	1,602,804	1,405,844	-	-
Fixed deposits with licensed banks	15	1,146,156	-	-	-
Total Non-Current Assets		190,574,761	172,842,810	120,566,560	87,750,902
Current Assets					
Inventories	16	10,976,127	11,793,447	-	-
Trade receivables	17	96,146,591	87,029,619	-	-
Other receivables, deposits and prepaid expenses	17	5,052,186	6,124,000	62,218	38,662
Amount owing by subsidiaries	18	-	-	9,921,898	39,334,680
Amount owing by an associate	12	1,362,971	1,330,140	-	-
Current tax assets		1,182,201	965,150	-	-
Short-term investments	19	8,996,233	-	5,390,526	-
Fixed deposits with licensed banks	15	4,725,879	15,310,588	1,072,697	3,040,444
Cash and bank balances		88,745,512	94,486,988	9,993,581	14,460,511
Total Current Assets		217,187,700	217,039,932	26,440,920	56,874,297
Total Assets		407,762,461	389,882,742	147,007,480	144,625,199

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

Statements Of Financial Position As Of 31 December 2016 (cont'd)

	Note	2016 RM	The Group 2015 RM	2016 RM	The Company 2015 RM
EQUITY AND LIABILITIES					
Equity					
Share capital	20	105,343,513	105,343,513	105,343,513	105,343,513
Reserves	21	156,266,534	131,211,160	22,732,671	16,642,900
Equity attributable to owners of the company		261,610,047	236,554,673	128,076,184	121,986,413
Non-controlling interests		33,799,139	34,683,856	-	-
Total Equity		295,409,186	271,238,529	128,076,184	121,986,413
Non-Current Liabilities					
Term loans	22	20,260,384	26,012,964	2,037,776	4,131,986
Hire purchase payables	23	354,271	438,908	-	-
Other payables	24	3,134,277	2,433,422	-	-
Deferred tax liabilities	14	1,671,539	3,446,164	-	-
Total Non-Current Liabilities		25,420,471	32,331,458	2,037,776	4,131,986
Current Liabilities					
Trade payables	24	20,826,737	31,124,756	-	-
Other payables and accrued expenses	24	52,426,665	35,017,514	1,238,091	1,376,615
Amount owing to subsidiaries	18	-	-	13,564,695	15,196,818
Bank borrowings	25	8,466,271	16,177,473	2,090,734	1,933,367
Hire purchase payables	23	249,222	686,532	-	-
Current tax liabilities		4,963,909	3,306,480	-	-
Total Current Liabilities		86,932,804	86,312,755	16,893,520	18,506,800
Total Liabilities		112,353,275	118,644,213	18,931,296	22,638,786
Total Equity and Liabilities		407,762,461	389,882,742	147,007,480	144,625,199

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

Statements Of Changes In Equity

For The Financial Year Ended 31 December 2016

The Group	Non-distributable					Distributable		Attributable to owners of the Company	Non-controlling interests	Total
	Share capital	Treasury shares	Share premium	Foreign currency translation reserve	Warrant reserve	Statutory reserve	Retained earnings			
Balance as of 1 January 2015	101,140,816	(564,995)	9,336,705	12,034,681	882,976	1,290,656	82,683,045	206,803,884	32,913,068	239,716,952
Other comprehensive income recognised for the financial year:										
- defined benefit plan actuarial loss	-	-	-	-	-	-	(306,111)	(306,111)	(181,058)	(487,169)
- foreign currency translation differences	-	-	-	17,591,499	-	-	-	17,591,499	6,007,553	23,599,052
Profit after tax for the financial year	-	-	-	-	-	-	4,007,044	4,007,044	5,501,079	9,508,123
Total comprehensive income for the financial year	-	-	-	17,591,499	-	-	3,700,933	21,292,432	11,327,574	32,620,006
Contributions by and distributions to owners of the Company:										
- Warrants										
- exercise of warrants	4,202,697	-	3,490,574	-	(128,416)	-	-	7,564,855	-	7,564,855
- lapse of unexercised warrants	-	-	754,560	-	(754,560)	-	-	-	-	-
- Dividends:										
- by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	(2,356,882)	(2,356,882)
- Disposal of a subsidiary	-	-	-	-	-	-	-	-	589,373	589,373
- Transfer to statutory reserve	-	-	-	-	-	1,175,921	(1,175,921)	-	-	-
- Purchase of treasury shares	-	(33,751)	-	-	-	-	-	(33,751)	-	(33,751)
- Changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	-	-	-	-	927,253	927,253	(7,789,277)	(6,862,024)
Balance as of 31 December 2015	105,343,513	(598,746)	13,581,839	29,626,180	-	2,466,577	86,135,310	236,554,673	34,683,856	271,238,529

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

Statements Of Changes In Equity

For The Financial Year Ended 31 December 2016 (cont'd)

The Group	Non-distributable				Distributable		Attributable to owners of the Company		Non-controlling interests	Total
	Share capital	Treasury shares	Share premium	Foreign currency translation reserve	Statutory reserve	Retained earnings	Company	RM		
	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
Balance as of 1 January 2016	105,343,513	(598,746)	13,581,839	29,626,180	2,466,577	86,135,310	236,554,673	34,683,856	271,238,529	
Other comprehensive income recognised for the financial year:										
- defined benefit plan actuarial loss	-	-	-	-	-	(293,880)	(293,880)	(122,647)	(416,527)	
- foreign currency translation differences	-	-	-	5,077,808	-	-	5,077,808	1,646,168	6,723,976	
Profit after tax for the financial year	-	-	-	-	-	20,040,231	20,040,231	7,245,483	27,285,714	
Total comprehensive income for the financial year	-	-	-	5,077,808	-	19,746,351	24,824,159	8,769,004	33,593,163	
Contributions by and distributions to owners of the Company:										
- Dividends:										
- by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	(1,958,871)	(1,958,871)	
- Transfer to statutory reserve	-	-	-	-	1,441,531	(1,441,531)	-	-	-	
- Purchase of treasury shares	-	(64,491)	-	-	-	-	(64,491)	-	(64,491)	
- Changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	-	-	-	295,706	295,706	(7,694,850)	(7,399,144)	
Balance as of 31 December 2016	105,343,513	(663,237)	13,581,839	34,703,988	3,908,108	104,735,836	261,610,047	33,799,139	295,409,186	

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

Statements Of Changes In Equity

For The Financial Year Ended 31 December 2016 (cont'd)

The Company	Share capital RM	Treasury shares RM	Non-distributable		Distributable	Total RM
			Share premium RM	Warrant reserve RM	Retained earnings RM	
Balance as of 1 January 2015	101,140,816	(564,995)	9,336,705	882,976	3,480,954	114,276,456
Profit after taxation/ Total comprehensive income for the financial year	-	-	-	-	178,853	178,853
Contribution by and distributions to owners of the Company:						
- Warrants						
- exercise of warrants	4,202,697	-	3,490,574	(128,416)	-	7,564,855
- lapse of unexercised warrants	-	-	754,560	(754,560)	-	-
- Purchase of treasury shares	-	(33,751)	-	-	-	(33,751)
Balance as of 31 December 2015	105,343,513	(598,746)	13,581,839	-	3,659,807	121,986,413
Balance as of 1 January 2016	105,343,513	(598,746)	13,581,839	-	3,659,807	121,986,413
Profit after taxation/ Total comprehensive income for the financial year	-	-	-	-	6,154,262	6,154,262
Contribution by and distributions to owners of the Company:						
- Purchase of treasury shares	-	(64,491)	-	-	-	(64,491)
Balance as of 31 December 2016	105,343,513	(663,237)	13,581,839	-	9,814,069	128,076,184

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

Statements Of Cash Flows

For The Year Ended 31 December 2016

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
CASH FLOWS FROM/ (FOR) OPERATING ACTIVITIES				
Profit before tax	33,344,738	15,998,086	6,154,262	178,853
Adjustments for:				
Depreciation of property, plant and equipment	17,193,402	18,132,726	24,047	23,816
Interest expense	1,146,951	1,494,353	340,916	555,514
Allowance for impairment loss on plant and equipment	51,841	1,713,303	-	-
Unrealised (gain)/loss on foreign exchange	(1,428,927)	(2,918,303)	(14,377)	2,217,362
Allowance for impairment losses on amount owing by a subsidiary	-	-	1,476,080	-
Allowance for impairment losses on receivables	133,461	294,518	-	-
Impairment loss on investment in subsidiaries	-	-	-	441,468
Inventories written down to net realisable value	-	52,272	-	-
Inventories written off	492,724	146,823	-	-
(Gain)/Loss on dissolution of a subsidiary	(719,412)	-	107,770	-
Property, plant and equipment written off	411,330	2,919,978	-	-
Share of results in associates	108,525	(25,186)	-	-
Loss on disposal of investment in a subsidiary	-	1,870,011	-	323,468
Interest income	(769,559)	(780,339)	(593,490)	(879,365)
Loss/(Gain) on disposal of property, plant and equipment	68,214	(6,669)	-	-
Writeback of allowance for impairment losses on trade receivables	(1,196)	(717,433)	-	-
Dividend income from subsidiaries	-	-	(10,313,095)	(5,084,439)
Operating Profit/(Loss) Before Working Capital Changes	50,032,092	38,174,140	(2,817,887)	(2,223,323)

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

Statements Of Cash Flows

For The Year Ended 31 December 2016 (cont'd)

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Decrease/(Increase) in:				
Inventories	752,679	(968,022)	-	-
Amount owing by a contract customer	-	1,837,000	-	-
Trade receivables	(5,097,661)	27,182,094	-	-
Other receivables and prepaid expenses	1,172,632	(733,496)	(23,556)	25,634
Amount owing by associates	(3,771)	28,485	-	-
Increase/(Decrease) in:				
Trade payables	(11,074,834)	(8,029,512)	-	-
Other payables and accrued expenses	15,324,322	(4,748,405)	(138,524)	(455,447)
Cash Generated From/ (For) Operations	51,105,459	52,742,284	(2,979,967)	(2,653,136)
Taxes paid	(6,681,818)	(8,242,591)	-	-
Net Cash From/(For) Operating Activities	44,423,641	44,499,693	(2,979,967)	(2,653,136)
CASH FLOWS (FOR)/FROM INVESTING ACTIVITIES				
Repayment from subsidiaries	-	-	8,435,398	5,252,690
Purchase of property, plant and equipment	(27,730,908)	(7,196,780)	(2,929)	(2,849)
Dividend received from subsidiaries	-	-	4,268,995	4,634,439
Additional investment/acquisition of subsidiaries (Note 11)	(7,399,144)	(6,862,024)	(7,399,142)	(5,103,100)
Net cash outflow on disposal of a subsidiary (Note 11)	-	(785,413)	-	-
Proceeds from disposal of property, plant and equipment	188,769	77,955	-	-
Proceeds from disposal of a subsidiary	-	-	-	85,304
Short-term investment	(2,243,001)	-	-	-
Net withdrawal/(placement) of fixed deposits with licensed banks	1,377,357	6,600,196	(32,254)	6,967,605
Interest received	769,559	780,339	593,490	879,365
Net Cash (For)/From Investing Activities	(35,037,368)	(7,385,727)	5,863,558	12,713,454

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

Statements Of Cash Flows

For The Year Ended 31 December 2016 (cont'd)

	Note	The Group		The Company	
		2016 RM	2015 RM	2016 RM	2015 RM
CASH FLOWS (FOR)/FROM FINANCING ACTIVITIES					
Decrease in amount owing to subsidiaries		-	-	(1,680,840)	(2,275,689)
Treasury shares acquired		(64,491)	(33,751)	(64,491)	(33,751)
Proceeds from issuance of shares		-	7,564,855	-	7,564,855
Repayment of term loans		(30,567,224)	(878,769)	(1,936,843)	(1,810,825)
Interest paid		(1,146,951)	(1,494,353)	(340,916)	(555,514)
Dividend paid by a subsidiary to non-controlling interests		(2,151,371)	(1,806,882)	-	-
Drawdown of term loans		16,146,540	4,401,620	-	-
Payment of hire purchase payables		(689,599)	(1,506,234)	-	-
Net Cash (For)/From Financing Activities		(18,473,096)	6,246,486	(4,023,090)	2,889,076
Net (Decrease)/Increase In Cash And Cash Equivalents					
		(9,086,823)	43,360,452	(1,139,499)	12,949,394
Effect of exchange rate changes		2,037,383	9,181,739	63,094	116,833
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		105,117,339	52,575,148	16,460,512	3,394,285
CASH AND CASH EQUIVALENTS AT END OF YEAR	*	98,067,899	105,117,339	15,384,107	16,460,512

Note : During the financial year, the Group and the Company acquired property, plant and equipment at an aggregate cost of RM27,900,908 and RM2,929 (2015 : RM7,196,780 and RM2,849), respectively, of which RM170,000 and NIL (2015 : NIL and NIL), respectively, was acquired under hire-purchase arrangements.

	*	The Group		The Company	
		2016 RM	2015 RM	2016 RM	2015 RM
CASH AND CASH EQUIVALENTS					
Cash and bank balances		88,745,512	94,486,988	9,993,581	14,460,511
Fixed deposits with licensed banks		5,872,035	15,310,588	1,072,697	3,040,444
Short-term investments - unit trust		6,753,232	-	5,390,526	-
		101,370,779	109,797,576	16,456,804	17,500,955
Less: Fixed deposits pledged with banks		(3,205,263)	(4,680,237)	(1,072,697)	(1,040,443)
Less: Fixed deposits with maturity period more than 3 months		(97,617)	-	-	-
Cash and cash equivalents		98,067,899	105,117,339	15,384,107	16,460,512

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

Notes To The Financial Statements

1. GENERAL INFORMATION

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

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

The principal activities of the subsidiaries are disclosed in Note 11 to the financial statements.

There have been no significant changes in the nature of the activities of the Company and of its subsidiaries during the financial year.

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

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

The financial statements of the Group and of the Company have been authorised by the Board of Directors for issuance on 27 March 2017.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

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

MFRSs and IC Interpretations (Including The Consequential Amendments)

MFRS 14 Regulatory Deferral Accounts

Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities – Applying the Consolidation Exception

Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations

Amendments to MFRS 101: Disclosure Initiative

Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to MFRS 116 and MFRS 141: Agriculture – Bearer Plants

Amendments to MFRS 127: Equity Method in Separate Financial Statements

Annual Improvements to MFRSs 2012 – 2014 Cycle

The adoption of the above accounting standards and interpretations (including the consequential amendments, if any) did not have any material impact on the Group's financial statements.

Notes To The Financial Statements (cont'd)

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

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

MFRSs and/or IC Interpretations (Including The Consequential Amendments)	Effective Date
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in July 2014)	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 16 Leases	1 January 2019
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts	1 January 2018
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred until further notice
Amendments to MFRS 15: Effective Date of MFRS 15	1 January 2018
Amendments to MFRS 15: Clarifications to MFRS 15 'Revenue from Contracts with Customers'	1 January 2018
Amendments to MFRS 107: Disclosure Initiative	1 January 2017
Amendments to MFRS 112: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to MFRS 140 – Transfers of Investment Property	1 January 2018
Annual Improvements to MFRS Standards 2014 – 2016 Cycles:	
• Amendments to MFRS 12: Clarification of the Scope of Standard	1 January 2017
Annual Improvements to MFRS Standards 2014 – 2016 Cycles:	
• Amendments to MFRS 1: Deletion of Short-term Exemptions for First-time Adopters	
• Amendments to MFRS 128: Measuring an Associate or Joint Venture at Fair Value	1 January 2018

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

- (i) MFRS 9 (IFRS 9 issued by IASB in July 2014) replaces the existing guidance in MFRS 139 and introduces a revised guidance on the classification and measurement of financial instruments, including a single forward-looking 'expected loss' impairment model for calculating impairment on financial assets, and a new approach to hedge accounting. Under this MFRS 9, the classification of financial assets is driven by cash flow characteristics and the business model in which a financial asset is held. Therefore, it is expected that the Group's investments in unquoted shares that are currently stated at cost less accumulated impairment losses will be measured at fair value through other comprehensive income upon the adoption of MFRS 9. The Group is currently assessing the financial impact of adopting MFRS 9.
- (ii) MFRS 15 establishes a single comprehensive model for revenue recognition and will supersede the current revenue recognition guidance and other related interpretations when it becomes effective. Under MFRS 15, an entity shall recognise revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the distinct promised goods or services underlying the particular performance obligation is transferred to the customers. The amendments to MFRS 15 further clarify the concept of 'distinct' for the purposes of this accounting standard. In addition, extensive disclosures are also required by MFRS 15. The Group anticipates that the application of MFRS 15 in the future may have an impact on the amounts reported and disclosures made in the financial statements. However, it is not practicable to provide a reasonable estimate of the financial impacts of MFRS 15 until the Group performs a detailed review.

Notes To The Financial Statements (cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES

Critical Accounting Estimates And Judgements

Estimates and judgements are continually evaluated by the directors and management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that affect the application of the Group's accounting policies and disclosures, and have a significant risk of causing a material adjustment to the carrying amounts of assets, liabilities, income and expenses are discussed below:

(i) Impairment of Goodwill

Goodwill is tested for impairment annually and at other times when such indicators exist. This requires management to estimate the expected future cash flows of the cash-generating unit to which goodwill is allocated and to apply a suitable discount rate in order to determine the present value of those cash flows. The future cash flows are most sensitive to budgeted gross margins, growth rates estimated and discount rate used. If the expectation is different from the estimation, such difference will impact the carrying value of goodwill.

(ii) Contract Customers

The Group recognises contract customers in the profit or loss by using the stage of percentage-of-completion method, which is the standard for similar industries.

The stage of completion is determined by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Estimated losses are recognised in full when determined. Contract costs estimates are reviewed and revised periodically as work progresses and as variation orders are approved.

Significant judgement is required in determining the stage of completion, the extent of the contract costs incurred, the estimated total contract revenue and costs as well as the recoverability of the project undertaken. In making the judgement, the Group evaluates based on past experience and by relying on the work of specialists. If the Group is unable to make reasonably dependable estimates, the Group would not recognise any profit before a contract is completed, but would recognise a loss as soon as the loss becomes evident.

Adjustments based on the percentage-of-completion method are reflected in contract revenue in the reporting period. To the extent that these adjustments result in a reduction or elimination of previously reported amount due from contract customers and contract revenue and costs, the Group recognises a charge or credit against current earnings and amounts in prior periods, if any, are not restated.

(iii) Depreciation of Property, Plant and Equipment

The estimates for the residual values, useful lives and related depreciation charges for the property, plant and equipment are based on commercial factors which could change significantly as a result of technical innovations and competitors' actions in response to the market conditions.

The Group anticipates that the residual values of its property, plant and equipment will be insignificant. As a result, residual values are not being taken into consideration for the computation of the depreciable amount.

Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

Notes To The Financial Statements (cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Critical Accounting Estimates And Judgements (Cont'd)

(iv) Income Taxes

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. The Group recognises tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax expenses and deferred tax balances in the year in which such determination is made.

(v) Impairment of Non-Financial Assets

When the recoverable amount of an asset is determined based on the estimate of the value in use of the cash-generating unit to which the asset is allocated, the management is required to make an estimate of the expected future cash flows from the cash-generating unit and also to apply a suitable discount rate in order to determine the present value of those cash flows.

(vi) Impairment of Trade and Other Receivables

An impairment loss is recognised when there is objective evidence that a financial asset is impaired. Management specifically reviews its loans and receivables financial assets and analyses historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in the customer payment terms when making a judgement to evaluate the adequacy of the allowance for impairment losses. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. If the expectation is different from the estimation, such difference will impact the carrying value of receivables.

(vii) Classification of Leasehold Land

The classification of leasehold land as a finance lease or an operating lease requires the use of judgement in determining the extent to which risks and rewards incidental to its ownership lie. Despite the fact that there will be no transfer of ownership by the end of the lease term and that the lease term does not constitute the major part of the indefinite economic life of the land, management considered that the present value of the minimum lease payments approximated to the fair value of the land at the inception of the lease. Accordingly, management judged that the Group has acquired substantially all the risks and rewards incidental to the ownership of the land through a finance lease.

(viii) Fair Value Estimates for Certain Financial Assets and Financial Liabilities

The Group carries certain financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgement. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group uses different valuation methodologies. Any changes in fair value of these assets and liabilities would affect profit and/or equity.

(ix) Write-down of Inventories

Reviews are made periodically by management on damaged, obsolete and slow-moving inventories. These reviews require judgement and estimates. Possible changes in these estimates could result in revisions to the valuation of inventories.

Operating Segments

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

Notes To The Financial Statements (cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Revenue Recognition

(i) Services

Revenue is recognised upon the rendering of services and when the outcome of the transaction can be estimated reliably. In the event the outcome of the transaction could not be estimated reliably, revenue is recognised to the extent of the expenses incurred that are recoverable.

(ii) Sale of goods

Revenue is recognised upon delivery of goods and customers' acceptance and where applicable, net of goods and services tax, returns, cash and trade discounts.

(iii) Contracts

Revenue relating to contracts are accounted for under the percentage-of- completion method.

(iv) Management fee

Management fee is recognised on an accrual basis.

(v) Interest income

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

(vi) Dividend income

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

Income Taxes

(i) Current Tax

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

Current taxes are measured using tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period and are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss (either in other comprehensive income or directly in equity).

(ii) Deferred Tax

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise from goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination costs or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

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

Notes To The Financial Statements (cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Income Taxes (Cont'd)

(ii) Deferred Tax (Cont'd)

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transactions either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination costs.

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

Revenues, expenses and assets are recognised net of GST. However, when the GST incurred are related to purchases of assets or services which are not recoverable from the taxation authorities, the GST are included as part of the costs of the assets acquired or as part of the expense item whichever is applicable.

Receivables and payables are stated with the amount of GST included (where applicable).

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

Government Grants

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

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

Borrowing Costs

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

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

Contract Customers

When the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Notes To The Financial Statements (cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Contract Customers (Cont'd)

When the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Employee Benefits

(i) Short-term employee benefits

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

(ii) Defined contribution plans

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

(iii) Defined benefit plans

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary using the projected unit credit with service increment method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to the past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in profit or loss.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains and losses and past service cost that had not previously been recognised.

Notes To The Financial Statements (cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Consolidation

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

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

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

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

(a) Business Combinations

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

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

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

(b) Non-Controlling Interests

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

(c) Changes In Ownership Interests In Subsidiaries Without Change of Control

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

(d) Loss of Control

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

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

Notes To The Financial Statements (cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Consolidation (Cont'd)

(d) Loss of Control (Cont'd)

Amounts previously recognised in other comprehensive income in relation to the former subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of (i.e. reclassified to profit or loss or transferred directly to retained profits). The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 139 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Intangible Assets

Intangible assets, other than goodwill, that are acquired by the Group, which have finite useful lives, are measured at cost less any accumulated amortisation and any impairment losses.

Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

Goodwill

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

Under the acquisition method, any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interests recognised and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities at the date of acquisition is recorded as goodwill.

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

Functional and Foreign Currencies

(i) Functional and presentation currency

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

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

(ii) Transactions and balances

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

Notes To The Financial Statements (cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Functional and Foreign Currencies (Cont'd)

(iii) Foreign operations

Assets and liabilities of foreign operations are translated to RM at the rates of exchange ruling at the end of the reporting period. Income, expenses and other comprehensive income of foreign operations are translated at exchange rates ruling at the dates of the transactions. All exchange differences arising on translation are taken directly to other comprehensive income and accumulated in equity, attributed to the owners of the Company and non-controlling interests, as appropriate.

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

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

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

Financial Instruments

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

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

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

A financial instrument is recognised initially at its fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial instrument (other than a financial instrument at fair value through profit or loss) are added to/deducted from the fair value on initial recognition, as appropriate. Transaction costs on the financial instrument at fair value through profit or loss are recognised immediately in profit or loss.

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

(i) Financial assets

On initial recognition, financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables financial assets, or available-for-sale financial assets, as appropriate.

Notes To The Financial Statements (cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial Instruments (Cont'd)

(i) Financial assets (Cont'd)

- Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss when the financial asset is either held for trading or is designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Dividend income from this category of financial assets is recognised in profit or loss when the Group's right to receive payment is established.

Financial assets at fair value through profit or loss could be presented as current assets or non-current assets. Financial assets that are held primarily for trading purposes are presented as current assets whereas financial assets that are not held primarily for trading purposes are presented as current assets or non-current assets based on the settlement date.

- Held-to-maturity investments

As at the end of the reporting period, there were no financial assets classified under this category.

- Loans and receivables financial assets

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables financial assets. Loans and receivables financial assets are measured at amortised cost using the effective interest method, less any impairment loss. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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

Loans and receivables financial assets are classified as current assets, except for those having settlement dates later than 12 months after the reporting date which are classified as non-current assets.

- Available-for-sale financial assets

As at the end of the reporting period, there were no financial assets classified under this category.

(ii) Financial liabilities

- Financial liabilities at fair value through profit or loss

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges.

Notes To The Financial Statements (cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial Instruments (Cont'd)

(ii) Financial liabilities (Cont'd)

- Other financial liabilities

Other financial liabilities are initially measured at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(iii) Equity instruments

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

- Ordinary shares

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from proceeds.

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

- Treasury Shares

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

Where treasury shares are sold, the difference between the sales consideration and the carrying amount of the treasury shares are shown as a movement in equity. When the consideration received is more than the carrying amount, the credit difference arising is taken to the share premium account. Where the consideration received is less than the carrying amount, the debit difference is offset against reserves.

(iv) Derecognition

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

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

Notes To The Financial Statements (cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial Instruments (Cont'd)

(v) Financial Guarantee Contracts

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

The Company designates corporate guarantees given to financial institutions for credit facilities granted to subsidiaries as insurance contracts as defined in MFRS 4 Insurance Contracts. The Company recognises these corporate guarantees as liabilities when there is a present obligation, legal or constructive, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Property, Plant and Equipment

Property, plant and equipment other than freehold land are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

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

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

Freehold buildings	25 - 50 years
Long-term leasehold buildings	50 years
Long-term leasehold land	47 - 60 years
Factory and office renovation	5% - 10%
Plant and machinery	10% - 20%
Workshop tools	10% - 20%
Office equipment	33.3% - 80%
Furniture and fittings	10% - 33.3%
Motor vehicles	10% - 20%
Computers	33.3% - 85.7%

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

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

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

Notes To The Financial Statements (cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Property, Plant and Equipment (Cont'd)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

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

Investments in Subsidiaries

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

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

Investments in Associates

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

The investment in an associate is accounted for in the consolidated financial statements using the equity method, based on the financial statements of the associate made up to 31 December 2016. The Group's share of the post-acquisition profits and other comprehensive income of the associate is included in the consolidated statement of comprehensive income after adjustment if any, to align the accounting policies with those of the Group, from the date that significant influence commences up to the effective date on which significant influence ceases or when the investment is classified as held for sale. The Group's interest in the associate is carried in the consolidated statement of financial position at cost plus the Group's share of the post acquisition retained profits and reserves. The cost of investment includes transaction costs.

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

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

When the Group ceases to have significant influence over an associate and the retained interest in the former associate is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as the initial carrying amount of the financial asset in accordance with MFRS 139. Furthermore, the Group also reclassifies its share of the gain or loss previously recognised in other comprehensive income of that associate into profit or loss when the equity method is discontinued.

Impairment

(i) Impairment of Financial Assets

All financial assets (other than those categorised at fair value through profit or loss) are assessed at the end of each reporting period whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. For an equity instrument, a significant or prolonged decline in the fair value below its cost is considered to be objective evidence of impairment.

Notes To The Financial Statements (cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment (Cont'd)

(i) Impairment of Financial Assets (Cont'd)

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

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the fair value reserve. In addition, the cumulative loss recognised in other comprehensive income and accumulated in equity under fair value reserve, is reclassified from equity to profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss made is recognised in other comprehensive income.

(ii) Impairment of Non-Financial assets

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

An impairment loss is recognised in profit or loss immediately.

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

Finance Leases

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

Each lease and hire purchase payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding outstanding obligations due under the finance lease and hire purchase after deducting finance charges are included as liabilities in the financial statements.

Notes To The Financial Statements (cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Finance Leases (Cont'd)

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

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

Inventories

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

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

Cash and Cash Equivalents

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

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

Provisions

Provisions are recognised when the Group and the Company have a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and when a reliable estimate of the amount can be made. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

At end of each reporting period, the provisions are reviewed by the directors and adjusted to reflect the current best estimate. The provisions are reversed if it is no longer probable that the Group and the Company will be required to settle the obligation. The unwinding of the discount is recognised as interest expense in profit or loss.

Contingent Liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using a valuation technique. The measurement assumes that the transaction takes place either in the principal market or in the absence of a principal market, in the most advantageous market. For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Notes To The Financial Statements (cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Fair Value Measurements (Cont'd)

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

- Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liability that the entity can access at the measurement date;
- Level 2: Inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Inputs are unobservable inputs for the asset or liability.

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

Related Parties

A party is related to an entity (referred to as the "reporting entity") if:-

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

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 reporting entity.

- (b) An entity is related to a reporting entity if any of the following conditions applies:-
 - (i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) both entities are joint ventures of the same third party.
 - (iv) one 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 reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a) above.
 - (vii) a person identified in (a)(i) above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the reporting entity either directly or indirectly, including its director (whether executive or otherwise) of that entity.

Earnings Per Ordinary Share

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

Notes To The Financial Statements (cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Earnings Per Ordinary Share (Cont'd)

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

4. OPERATING SEGMENTS

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

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

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

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

The Group is organised into the following geographical segments:

- Malaysia
- Singapore
- Philippines
- Taiwan
- China
- Indonesia

Notes To The Financial Statements (cont'd)

4. OPERATING SEGMENTS (CONT'D)

The Group 2016	Geographical segment					Elimination RM	Reportable segment Total RM
	Malaysia RM	Singapore RM	Philippines RM	Taiwan RM	Indonesia RM		
Revenue							
External sales	68,007,607	44,631,360	18,077,406	128,082,986	3,044,890	-	261,844,249
Inter-segment sales	525,098	2,336,693	310,493	172,411	-	(3,344,695)	-
Total revenue	68,532,705	46,968,053	18,387,899	128,255,397	3,044,890	(3,344,695)	261,844,249
Results							
Segment profit/(loss) before interest, tax and share of results in an associate	17,645,387	(187,338)	3,210,431	24,836,290	(92,238)	(12,301,289)	33,111,243
Share of results in an associate							(108,525)
Interest income							769,559
Gain on dissolution of a subsidiary							719,412
Finance costs							(1,146,951)
Profit before tax							33,344,738
Income tax expense							(6,059,024)
Profit after tax							27,285,714

Notes To The Financial Statements
(cont'd)

4. OPERATING SEGMENTS (CONT'D)

The Group 2016	Geographical segment					Reportable segment Total RM
	Malaysia RM	Singapore RM	Philippines RM	Taiwan RM	Indonesia RM	
Assets						
Non-current assets						
- Property, plant and equipment	23,912,422	37,159,415	3,889,844	83,552,888	3,551,870	152,066,439
- Investment in an associate	-	1,998,506	-	-	-	1,998,506
- Deferred tax assets	23,912,422	39,157,921	3,889,844	83,552,888	3,551,870	154,064,945
- Goodwill	-	-	-	1,602,804	-	1,602,804
- Others	33,760,856	-	-	-	-	33,760,856
Current assets	1,146,156	-	-	-	-	1,146,156
	30,468,472	83,747,713	16,109,400	101,719,788	1,521,125	217,187,700
Consolidated total assets						407,762,461
Liabilities						
Tax liabilities	451,701	1,946,941	122,658	4,114,148	-	6,635,448
Segment liabilities	47,824,104	24,905,845	7,958,997	70,503,189	9,804,693	105,717,827
Consolidated total liabilities						112,353,275
Other Information						
Capital expenditure	1,582,247	761,933	818,529	24,727,465	10,734	27,900,908
Depreciation	4,250,341	6,651,693	909,584	5,061,493	320,291	17,193,402
Other non-cash items						
- income	169,312	1,097,453	362,851	3,057	256,268	1,888,941
- expenses	969,059	390,503	-	168,513	88,313	1,616,388

Notes To The Financial Statements
(cont'd)

4. OPERATING SEGMENTS (CONT'D)

The Group 2015	Geographical segment					Reportable segment Total RM		
	Malaysia RM	Singapore RM	Philippines RM	Taiwan RM	China RM		Indonesia RM	Elimination RM
Assets								
Non-current assets								
- Property, plant and equipment	27,083,815	42,394,056	4,070,809	58,489,808	-	3,628,188	-	135,666,676
- Investment in an associate	-	2,009,434	-	-	-	-	-	2,009,434
	27,083,815	44,403,490	4,070,809	58,489,808	-	3,628,188	-	137,676,110
- Deferred tax assets	-	-	-	1,405,844	-	-	-	1,405,844
- Goodwill	33,760,856	-	-	-	-	-	-	33,760,856
Current assets	86,944,449	94,051,660	14,091,351	84,042,154	-	1,192,375	(63,282,057)	217,039,932
Consolidated total assets								389,882,742
Liabilities								
Tax liabilities	493,125	2,127,057	101,044	4,031,418	-	-	-	6,752,644
Segment liabilities	81,842,869	35,390,658	8,113,399	75,222,201	-	9,079,534	(97,757,092)	111,891,569
Consolidated total liabilities								118,644,213
Other Information								
Capital expenditure	364,648	790,945	369,677	5,561,036	-	110,474	-	7,196,780
Depreciation	5,276,945	7,271,393	828,497	4,439,159	-	316,732	-	18,132,726
Other non-cash items								
- income	679,391	1,945,084	362,875	4,233,292	-	-	-	7,220,642
- expenses	4,826,016	237,718	-	3,479,155	-	162,242	-	8,705,131

Notes To The Financial Statements (cont'd)

4. OPERATING SEGMENTS (CONT'D)

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

	The Group	
	2016 RM	2015 RM
Allowance for impairment losses on		
- Plant and equipment	51,841	1,713,303
- Receivables	133,461	294,518
Inventories written down to net realisable value	-	52,272
Inventories written off	492,724	146,823
Unrealised loss on foreign exchange	388,534	3,551,058
Property, plant and equipment written off	411,330	2,919,978
Loss on disposal of property, plant and equipment	138,498	27,179
	1,616,388	8,705,131
Writeback of allowance for impairment losses on trade receivables	(1,196)	(717,433)
Gain on disposal of property, plant and equipment	(70,284)	(33,848)
Unrealised gain on foreign exchange	(1,817,461)	(6,469,361)
	(1,888,941)	(7,220,642)

Major customers

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

	Revenue		Segment
	2016 RM	2015 RM	
Customer 1	51,402,459	37,948,375	Engineering services
Customer 2	-	30,029,619	Engineering services
Customer 3	27,703,939	23,251,306	Engineering services

5. REVENUE

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Provision of services	133,499,723	139,983,788	-	-
Contract customers	-	30,185,412	-	-
Sale of goods	128,344,526	110,403,814	-	-
Dividend income from subsidiaries	-	-	10,313,095	5,084,439
Management fee from subsidiaries	-	-	43,800	42,000
	261,844,249	280,573,014	10,356,895	5,126,439

Notes To The Financial Statements (cont'd)

6. FINANCE COSTS

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Interest expense on:				
Term loans	777,557	1,139,059	335,475	467,725
Hire purchase	56,958	120,305	-	-
Money market loan	271,259	228,507	-	-
Bank overdrafts	41,177	6,482	-	-
	1,146,951	1,494,353	335,475	467,725
Amount owing to subsidiaries	-	-	5,441	87,789
	1,146,951	1,494,353	340,916	555,514

7. PROFIT BEFORE TAX

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

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Interest income from:				
Subsidiaries	-	-	274,079	421,791
Third parties	769,559	780,339	319,411	457,574
Dividend income from subsidiaries	-	-	10,313,095	5,084,439
Writeback of allowance for impairment losses on trade receivables	1,196	717,433	-	-
Gain/(Loss) on foreign exchange - net:				
Unrealised	1,428,927	2,918,303	14,377	(2,217,362)
Realised	1,254,333	2,891,130	(103,942)	(517,803)
(Loss)/Gain on disposal of property, plant and equipment	(68,214)	6,669	-	-
Gain/(Loss) on dissolution of a subsidiary	719,412	-	(107,770)	-
Staff costs	(82,621,584)	(79,755,732)	(597,545)	(745,240)
Sub-contractor works	(16,629,940)	(52,937,582)	-	-
Depreciation of property, plant and equipment	(17,193,402)	(18,132,726)	(24,047)	(23,816)
Directors' remuneration:				
Fees:				
Executive Directors	(47,881)	(33,900)	(12,000)	-
Non-executive Directors	(136,920)	(136,919)	(136,920)	(136,919)
Salaries and other emoluments:				
Executive Directors	(5,262,379)	(3,195,381)	(982,531)	(103,646)

Notes To The Financial Statements (cont'd)

7. PROFIT BEFORE TAX (CONT'D)

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

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Auditors' remuneration				
- audit fee				
- current financial year				
- Crowe Horwath in Malaysia	(210,500)	(196,500)	(102,000)	(87,000)
- other auditors	(327,130)	(408,482)	-	-
- overprovision in prior year				
- Crowe Horwath in Malaysia	-	7,500	-	-
- other auditors	10,330	-	-	-
- non-audit fee				
- Crowe Horwath in Malaysia	(81,000)	(10,000)	(11,000)	(5,000)
- other auditors	(159,427)	(128,410)	(28,800)	(64,000)
Property, plant and equipment written off	(411,330)	(2,919,978)	-	-
Allowance for impairment loss on plant and equipment	(51,841)	(1,713,303)	-	-
Allowance for impairment losses on amount owing by a subsidiary	-	-	(1,476,080)	-
Allowance for impairment losses on receivables	(133,461)	(294,518)	-	-
Impairment loss on investment in subsidiaries	-	-	-	(441,468)
Inventories written down to net realisable value	-	(52,272)	-	-
Inventories written off	(492,724)	(146,823)	-	-
Loss on disposal of investment in a subsidiary	-	(1,870,011)	-	(323,468)

(a) Staff costs

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

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Defined contribution plan	4,285,546	4,279,039	73,544	89,120
Defined benefits plan	190,912	1,436,631	-	-

Notes To The Financial Statements (cont'd)

7. PROFIT BEFORE TAX (CONT'D)

(b) Key management personnel compensation

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

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Short-term employee benefits	10,273,277	8,930,849	1,323,365	361,302

(c) Directors' remuneration

Contributions to provident fund, included in directors' remuneration, made by the Group and Company during the current financial year amounted to RM202,283 (2015: RM48,564) and RM156,789 (2015: RM16,401) respectively.

8. INCOME TAX EXPENSE

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Estimated current tax payable:				
Malaysian:				
- Current year	1,533,294	1,447,126	-	-
- (Over)/Underprovision in prior years	(23,312)	134,161	-	-
	1,509,982	1,581,287	-	-
Foreign:				
- Current year	4,683,087	3,040,544	-	-
- Underprovision in prior years	1,641,877	1,419,230	-	-
	6,324,964	4,459,774	-	-
	7,834,946	6,041,061	-	-
Deferred tax (Note 14):				
- Current year	(493,616)	448,902	-	-
- Overprovision in prior years	(1,282,306)	-	-	-
	(1,775,922)	448,902	-	-
	6,059,024	6,489,963	-	-

Notes To The Financial Statements (cont'd)

8. INCOME TAX EXPENSE (CONT'D)

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

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

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Profit before tax	33,344,738	15,998,086	6,154,262	178,853
Tax at the applicable tax rate of 24% (2015 : 25%)	8,002,737	3,999,522	1,477,023	44,713
Effect of different tax rates of other tax jurisdictions	(2,031,679)	(2,442,613)	-	-
Tax effects of:				
Non-deductible expenses	1,290,307	2,764,384	988,712	1,226,397
Income not subject to tax	(44,140)	(46,020)	(2,465,735)	(1,271,110)
Utilisation of deferred tax assets previously not recognised	(1,255,950)	(480,971)	-	-
Utilisation of unabsorbed reinvestment allowances	-	(407,000)	-	-
Tax incentives	(54,632)	(223,082)	-	-
Income tax exemption	(271,901)	(353,983)	-	-
Deferred tax assets not recognised for the year	61,977	2,132,632	-	-
Under/(Over)provision in prior years				
- Current tax	1,618,565	1,553,391	-	-
- Deferred tax	(1,282,306)	-	-	-
Effect of share of results in associates	26,046	(6,297)	-	-
Income tax expense	6,059,024	6,489,963	-	-

9. EARNINGS PER SHARE

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

	(RM)	The Group	
		2016	2015
Profit for the year attributable to owners of the Company	(RM)	20,040,231	4,007,044
Number of shares in issue as of January 1		1,053,435,130	1,011,408,160
Effects of:			
Treasury shares acquired		(5,301,026)	(4,984,134)
Conversion of warrants		-	34,287,141
Weighted average number of ordinary shares for basic earnings per share computation		1,048,134,104	1,040,711,167
Basic earnings per ordinary share attributable to equity holders of the Company (sen)		1.91	0.39

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

Notes To The Financial Statements
(cont'd)

10. PROPERTY, PLANT AND EQUIPMENT

The Group	COST						As at 31 December 2015 RM
	As at 1 January 2015 RM	Foreign currency translation differences RM	Reclassifications RM	Additions RM	Write-offs RM	Disposals RM	
Freehold land	17,253,376	2,549,706	-	-	-	-	19,803,082
Freehold buildings	39,310,282	6,849,818	234,085	67,889	(656,953)	-	45,805,121
Long-term leasehold land	4,705,068	79,386	-	-	-	-	4,784,454
Long-term leasehold buildings	36,776,434	4,519,762	-	-	-	-	41,296,196
Factory and office renovation	23,736,961	2,126,552	-	87,874	(62,979)	-	25,888,408
Plant and machinery	152,685,619	17,337,732	4,503,756	1,312,680	(6,640,079)	(597,036)	168,602,672
Workshop tools	2,515,722	18,904	-	38,941	(178,267)	-	2,395,300
Office equipment	7,079,531	837,951	(42,691)	189,948	(671,903)	(4,360)	7,388,476
Furniture and fittings	948,518	26,352	-	11,531	-	-	986,401
Motor vehicles	6,653,525	706,114	-	155,262	-	(302,678)	7,212,223
Computers	3,371,311	414,808	-	130,480	(2,629,396)	-	1,287,203
Capital work-in-progress	2,907,318	508,630	(4,695,150)	5,202,175	-	-	3,922,973
Total	297,943,665	35,975,715	-	7,196,780	(10,839,577)	(904,074)	329,372,509

Notes To The Financial Statements (cont'd)

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

The Group	COST						
	As at 1 January 2016 RM	Foreign currency translation differences RM	Transfer to inventories and reclassifications RM	Additions RM	Write-offs RM	Disposals RM	As at 31 December 2016 RM
Freehold land	19,803,082	1,102,738	-	-	-	-	20,905,820
Freehold buildings	45,805,121	3,240,490	2,728,807	697,071	-	-	52,471,489
Long-term leasehold land	4,784,454	60,862	-	-	-	-	4,845,316
Long-term leasehold buildings	41,296,196	805,919	-	-	-	-	42,102,115
Factory and office renovation	25,888,408	327,146	39,624	574,533	-	-	26,829,711
Plant and machinery	168,602,672	4,873,723	8,029,612	5,652,986	(7,051,685)	(1,230,351)	178,876,957
Workshop tools	2,395,300	-	-	63,320	(126,746)	-	2,331,874
Office equipment	7,388,476	202,770	6,102	387,858	(147,533)	(645)	7,837,028
Furniture and fittings	986,401	(599)	-	4,590	(7,378)	-	983,014
Motor vehicles	7,212,223	277,123	460,834	465,280	-	(68,805)	8,346,655
Computers	1,287,203	21,780	-	100,852	(48,669)	(2,899)	1,358,267
Capital work-in-progress	3,922,973	1,017,599	(11,302,990)	19,954,418	(13,222)	-	13,578,778
Total	329,372,509	11,929,551	(38,011)	27,900,908	(7,395,233)	(1,302,700)	360,467,024

Notes To The Financial Statements
(cont'd)

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

The Group	ACCUMULATED DEPRECIATION						As at 31 December 2015 RM
	As at 1 January 2015 RM	Foreign currency translation differences RM	Reclassifications RM	Charge for the year RM	Write-offs RM	Disposals RM	
Freehold land	-	-	-	-	-	-	-
Freehold buildings	13,849,211	2,517,555	(39,276)	1,198,724	(165,401)	-	17,360,813
Long-term leasehold land	514,954	-	-	68,291	-	-	583,245
Long-term leasehold buildings	10,452,380	1,519,033	-	1,360,617	-	-	13,332,030
Factory and office renovation	12,467,008	1,237,306	-	1,888,923	(44,085)	-	15,549,152
Plant and machinery	107,899,301	13,214,895	59,251	11,584,105	(4,358,976)	(526,036)	127,872,540
Workshop tools	2,121,420	16,534	-	236,382	(162,832)	-	2,211,504
Office equipment	5,574,868	711,096	(19,975)	1,076,421	(665,943)	(4,075)	6,672,392
Furniture and fittings	832,960	22,872	-	69,463	-	-	925,295
Motor vehicles	4,628,583	562,552	-	502,771	-	(302,677)	5,391,229
Computers	3,088,117	386,015	-	147,029	(2,522,362)	-	1,098,799
Capital work-in-progress	-	-	-	-	-	-	-
Total	161,428,802	20,187,858	-	18,132,726	(7,919,599)	(832,788)	190,996,999

Notes To The Financial Statements (cont'd)

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

The Group	ACCUMULATED DEPRECIATION					
	As at 1 January 2016 RM	Foreign currency translation differences RM	Charge for the year RM	Write-offs RM	Disposals RM	As at 31 December 2016 RM
Freehold land	-	-	-	-	-	-
Freehold buildings	17,360,813	1,239,573	1,345,345	-	-	19,945,731
Long-term leasehold land	583,245	-	68,290	-	-	651,535
Long-term leasehold buildings	13,332,030	326,051	1,432,769	-	-	15,090,850
Factory and office renovation	15,549,152	231,972	1,930,446	-	-	17,711,570
Plant and machinery	127,872,540	3,283,765	11,184,385	(6,261,771)	(1,018,907)	135,060,012
Workshop tools	2,211,504	-	103,610	(126,746)	-	2,188,368
Office equipment	6,672,392	170,646	466,264	(146,978)	(322)	7,162,002
Furniture and fittings	925,295	(292)	39,320	(7,378)	-	956,945
Motor vehicles	5,391,229	211,964	544,118	-	(23,509)	6,123,802
Computers	1,098,799	12,818	78,855	(48,669)	(2,979)	1,138,824
Capital work-in-progress	-	-	-	-	-	-
Total	190,996,999	5,476,497	17,193,402	(6,591,542)	(1,045,717)	206,029,639

Notes To The Financial Statements
(cont'd)

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

	As at 1 January 2015		Recognised for the year		As at 31 December 2015/1 January 2016		Foreign currency translation differences		Recognised for the year		Write-off		As at 31 December 2016		As at 31 December 2015	
	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
The Group																
Freehold land	-	-	-	-	-	-	-	-	-	-	-	-	-	20,905,820	19,803,082	
Freehold buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	32,525,758	28,444,308	
Long-term leasehold land	-	-	-	-	-	-	-	-	-	-	-	-	-	4,193,781	4,201,209	
Long-term leasehold buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	27,011,265	27,964,166	
Factory and office renovation	-	-	-	-	-	-	-	-	-	-	-	-	-	9,118,141	10,339,256	
Plant and machinery	963,857	31,674	1,713,303	2,708,834	2,708,834	2,632	2,632	51,841	(392,361)	2,370,946	41,445,999	38,021,298	143,506	183,796		
Workshop tools	-	-	-	-	-	-	-	-	-	-	-	-	-	675,026	716,084	
Office equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	26,069	61,106	
Furniture and fittings	-	-	-	-	-	-	-	-	-	-	-	-	-	2,222,853	1,820,994	
Motor vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	219,443	188,404	
Computers	-	-	-	-	-	-	-	-	-	-	-	-	-	13,578,778	3,922,973	
Capital work-in-progress	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total	963,857	31,674	1,713,303	2,708,834	2,708,834	2,632	2,632	51,841	(392,361)	2,370,946	152,066,439	135,666,676				

Notes To The Financial Statements (cont'd)

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

The Company	COST				ACCUMULATED DEPRECIATION				NET BOOK VALUE			
	As at 1 January 2015 RM	As at 31 December 2015/ January 2016 RM	Additions RM	Write-off RM	As at 31 December 2015/ January 2016 RM	Charge for the year RM	Charge for the year RM	Write-off RM	As at 31 December 2015 RM	As at 31 December 2016 RM	As at 31 December 2015 RM	As at 31 December 2016 RM
Office renovation	151,775	151,775	-	-	151,775	-	15,178	-	91,113	106,291	45,484	60,662
Office equipment	36,667	36,667	-	-	36,667	-	5,466	-	27,551	33,017	3,650	9,116
Furniture and fittings	73,032	73,032	-	-	73,032	-	987	-	71,302	72,289	743	1,730
Computers	55,695	53,425	2,849	(5,119)	53,425	2,416	1,851	(5,119)	49,954	35,764	3,984	3,471
Total	317,169	314,899	2,849	(5,119)	314,899	24,047	23,816	(5,119)	239,920	247,361	53,861	74,979

Notes To The Financial Statements (cont'd)

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

As of 31 December 2016, freehold land and buildings, long-term leasehold land and buildings and plant and machinery of the Group with a total net book value of RM72,364,307 (2015: RM76,256,680) have been charged as collateral to certain banks for term loans and bank borrowings granted to the Group as mentioned in Note 22 to the financial statements.

Included in property, plant and equipment of the Group are plant and equipment acquired under hire purchase arrangements with net book value totalling RM652,076 (2015: RM3,219,816).

11. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2016 RM	2015 RM
Unquoted shares - at cost:		
- In Malaysia	21,166,738	21,166,738
- Outside Malaysia	100,333,202	67,496,426
	121,499,940	88,663,164
Impairment of investments in subsidiaries	(987,241)	(987,241)
	120,512,699	87,675,923
Unquoted shares - at cost:-		
At beginning of the year	88,663,164	52,445,878
Reclassification from quoted shares	-	32,175,037
Transferred from a subsidiary	25,545,404	-
Addition during the year	7,399,142	5,103,100
Disposal during the year	-	(1,060,851)
Dissolution of a subsidiary	(107,770)	-
At end of the year	121,499,940	88,663,164
Impairment of investments in subsidiaries:-		
At beginning of the year	(987,241)	(1,197,852)
Addition during the year	-	(441,468)
Disposal during the year	-	652,079
At end of the year	(987,241)	(987,241)

In the previous financial year, the Company has carried out a review of the recoverable amount of its investment in subsidiaries that had been persistently making losses. A total impairment losses of RM441,468 representing the write-down of the investments, was recognised in "Administrative Expenses" line item of the statement of profit or loss and other comprehensive income. The carrying amount of the investments is determined based on estimated fair value of the subsidiaries as at end of the reporting period.

Notes To The Financial Statements (cont'd)

11. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Details of the subsidiaries are as follows:

Name of Subsidiaries	Principal Place of Business	Percentage of Issued Share Capital Held by Parent		Principal Activities
		2016 %	2015 %	
Subsidiaries of the Company				
Frontken Malaysia Sdn. Bhd. ("FMSB") ²	Malaysia	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Frontken (Singapore) Pte. Ltd. ("FSPL") ¹	Singapore	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
PT Frontken Indonesia ¹	Indonesia	95	95	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
TTES Frontken Integrated Services Sdn. Bhd. ("TTES") ^{2,3}	Malaysia	45	45	Engaged in the business of turbo machinery technical engineering services.
Frontken Technology Corporation ("FTC") ¹	Taiwan	-	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Ares Green Technology Corporation ("AGTC") ¹	Taiwan	73.22	41.27	Provision of surface treatment and advanced precision cleaning for the TFT - LCD (Thin Film Transistor - Liquid Crystal display) and semi-conductor industries.
Subsidiaries of FMSB				
Frontken (East Malaysia) Sdn. Bhd. ²	Malaysia	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Frontken (Johor) Sdn. Bhd. ²	Malaysia	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering services.
Frontken Projects Sdn. Bhd. ("FPSB") ²	Malaysia	100	60.07	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering services.
Subsidiaries of FSPL				
Frontship Pte. Ltd. ¹	Singapore	100	100	Procurement of materials, equipment consumable parts and engineering services.

Notes To The Financial Statements (cont'd)

11. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Details of the subsidiaries are as follows: (Cont'd)

Name of Subsidiaries	Principal Place of Business	Percentage of Issued Share Capital Held by Parent		Principal Activities
		2016 %	2015 %	
Subsidiaries of FSPL (cont'd)				
Frontken Projects Pte. Ltd. ("FPPL") ¹	Singapore	100	100	General contractors and process and individual plant engineering services.
Frontken Philippines Inc ¹	Philippines	99.99	99.99	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Subsidiary of FTC				
Ares Green Technology Corporation ("AGTC") ¹	Taiwan	-	23.11	Provision of surface treatment and advanced precision cleaning for the TFT - LCD (Thin Film Transistor - Liquid Crystal display) and semi-conductor industries.
Subsidiary of AGTC				
Ares Green International Corporation ("AGIC") ¹	Samoa	100	100	Investment holding.

¹ The financial statements of the subsidiaries are audited by auditors other than the auditors of the Company.

² The financial statements of the subsidiaries are audited by Messrs. Crowe Horwath.

³ TTES is considered a subsidiary of the Group as the Group has control over the operating and management policies of this subsidiary via the board of directors appointed by the Group.

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

	Effective Equity Interest		The Group	
	2016 %	2015 %	2016 RM	2015 RM
AGTC	26.78	35.62	31,438,211	33,395,587
TTES	55	55	4,298,315	3,641,135
Other individually immaterial subsidiaries			(1,937,387)	(2,352,866)
			33,799,139	34,683,856

Notes To The Financial Statements (cont'd)

11. INVESTMENTS IN SUBSIDIARIES (CONT'D)

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

	AGTC	
	2016 RM	2015 RM
<u>At 31 December</u>		
Non-current assets	89,649,704	64,112,078
Current assets	101,324,020	83,416,322
Non-current liabilities	(16,503,324)	(15,045,045)
Current liabilities	(58,046,598)	(38,518,824)
Net assets	116,423,802	93,964,531
<u>Financial year ended 31 December</u>		
Revenue	128,255,397	109,050,601
Profit for the financial year	19,347,549	12,845,802
Total comprehensive income	26,380,753	25,586,789
Total comprehensive income attributable to non-controlling interests	7,287,193	10,568,941
Dividends paid to non-controlling interests	(1,051,371)	(431,882)
Net cash from operating activities	34,930,769	19,200,606
Net cash for investing activities	(21,360,451)	(6,675,324)
Net cash (for)/from financing activities	(3,921,542)	2,453,471

	TTES	
	2016 RM	2015 RM
<u>At 31 December</u>		
Non-current assets	3,028,333	1,555,178
Current assets	10,615,226	9,745,143
Non-current liabilities	(319,732)	(273,811)
Current liabilities	(5,508,708)	(4,406,265)
Net assets	7,815,119	6,620,245
<u>Financial year ended 31 December</u>		
Revenue	28,366,528	38,017,899
Profit for the financial year	2,844,874	4,159,233
Total comprehensive income	2,844,874	4,159,233
Total comprehensive income attributable to non-controlling interests	1,564,681	2,287,578
Dividends paid to non-controlling interests	(907,500)	(1,925,000)
Net cash from operating activities	4,307,661	4,475,854
Net cash for investing activities	(703,752)	(293,768)
Net cash for financing activities	(2,087,527)	(3,577,525)

Notes To The Financial Statements (cont'd)

11. INVESTMENTS IN SUBSIDIARIES (CONT'D)

During the financial year:-

- (i) In the month of February 2016, the Company acquired 1,135,575 ordinary shares of NT\$10 each representing 3.33% of the issued and paid-up share capital of AGTC for a total cash consideration of NT\$19,514,250 (including incidental costs) (equivalent to RM2,438,473). Following the acquisition, the Group's interest in AGTC increased from 64.38% to 67.71%. The carrying amount of AGTC's net assets shared by the Group on the date of the acquisition was RM56,664,383. The Group recognised a decrease in non-controlling interests of RM2,953,962 and an increase in retained earnings of RM515,489.
- (ii) In the month of February 2016, the Company's wholly-owned subsidiary, FMSB, acquired the remaining 39.93% of the entire issued and paid-up share capital in FPSB for a cash consideration of RM2. Following the acquisition, FPSB became a wholly-owned subsidiary of FMSB. The carrying amount of FPSB's net liabilities shared by the Group on the date of the acquisition was RM2,220,473. The Group recognised an increase in non-controlling interests of RM498,348 and a decrease in retained earnings of RM498,350.
- (iii) In the month of June 2016, the Company acquired 1,250,267 ordinary shares of NT\$10 each representing 3.67% of the issued and paid-up share capital of AGTC for a total cash consideration of NT\$26,880,741 (equivalent to RM3,434,183). Following the acquisition, the Group's interest in AGTC increased from 67.71% to 71.38%. The carrying amount of AGTC's net assets shared by the Group on the date of the acquisition was RM65,984,121. The Group recognised a decrease in non-controlling interests of RM3,442,215 and an increase in retained earnings of RM8,033.
- (iv) In the month of July 2016, the Company acquired 615,314 ordinary shares of NT\$10 each representing 1.81% of the issued and paid-up share capital of AGTC for a total cash consideration of NT\$11,937,092 (equivalent to RM1,493,567). Following the acquisition, the Group's interest in AGTC increased from 71.38% to 73.19%. The carrying amount of AGTC's net assets shared the Group on the date of the acquisition was RM72,165,814. The Group recognised a decrease in non-controlling interests of RM1,765,748 and an increase in retained earnings of RM272,180.
- (v) In the month of October 2016, the Company acquired 11,659 ordinary shares of NT\$10 each representing 0.03% of the issued and paid-up share capital of AGTC for a total cash consideration of NT\$254,166 (equivalent to RM32,919). Following the acquisition, the Group's interest in AGTC increased from 73.19% to 73.22%. The carrying amount of AGTC's net assets shared the Group on the date of the acquisition was RM78,959,707. The Group recognised a decrease in non-controlling interests of RM31,273 and a decrease in retained earnings of RM1,646.

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

	AGTC 2016 RM	FPSB 2016 RM	Total 2016 RM
Equity interest at 1 January 2016	60,568,943	(2,219,163)	58,349,780
Effect of increase in Company's ownership interest	8,193,198	(498,348)	7,694,850
Share of comprehensive income	16,223,450	12,552	16,236,002
Equity interest at 31 December 2016	84,985,591	(2,704,959)	82,280,632

- (vi) On 27 December 2016, the Company received the approval from Taiwan Authority for dissolution of its wholly-owned subsidiary, FTC. FTC was incorporated for the purpose of acquiring and holding the Group's 23.11% share investment in AGTC. On 30 December 2016, FTC has transferred all its AGTC shares to the Company and all FTC's assets and liabilities were assigned to the Company.

Notes To The Financial Statements (cont'd)

11. INVESTMENTS IN SUBSIDIARIES (CONT'D)

In the previous financial year:-

- (i) The Company acquired 2,135,610 ordinary shares of NT\$10 each representing 6.46% of the issued and paid-up share capital of AGTC for a total cash consideration of NT\$42,192,117 (including incidental costs) (equivalent to RM5,103,100). Following the acquisition, the Group's interest in AGTC increased from 57.92% to 64.38%. The carrying amount of AGTC's net assets shared by the Group on the date of the acquisition was RM55,380,737. The Group recognised a decrease in non-controlling interests of RM5,909,957 and an increase in retained earnings of RM806,858.
- (ii) The Company's wholly-owned subsidiary, FSPL, had on 25 August 2015 entered into a Sale and Purchase Agreement with Giga Group Pte. Ltd., to acquire the remaining 49% of the entire issued and paid-up share capital in FPPL for a cash consideration of S\$585,060 (equivalent to RM1,758,924). Following the completion of the acquisition on 28 August 2015, FPPL became a wholly-owned subsidiary of FSPL. The carrying amount of FPPL's net assets shared by the Group on the date of the acquisition was RM1,956,027. The Group recognised a decrease in non-controlling interests of RM1,879,320 and an increase in retained earnings of RM120,395.

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

	AGTC 2015 RM	FPPL 2015 RM	Total 2015 RM
Equity interest at 1 January 2015	40,475,049	2,117,339	42,592,388
Effect of increase in Company's ownership interest	5,909,957	1,879,320	7,789,277
Share of comprehensive income	14,183,937	(317,151)	13,866,786
Equity interest at 31 December 2015	60,568,943	3,679,508	64,248,451

- (iii) The Company and its subsidiary, AGIC had on 19 August 2015 entered into a Sale and Purchase Agreement with MIC-Tech Ventures Asia Pacific Inc. to dispose of 60% of the issued and paid-up share capital of FMIC comprising 10,903,805 ordinary shares of HKD1.00 each for a cash consideration of USD90,000. The disposal was completed on 30 September 2015, whereupon FMIC ceased to be a subsidiary of the Group.

The details of the assets, liabilities and cash flows arising from the disposal of FMIC were as follows:

	The Group 2015 RM
Other receivables	515,491
Cash and cash equivalents	1,145,245
Trade and other payables	(20,266)
Less: Non-controlling interests	589,373
Group's interest in fair value of net identifiable assets	2,229,843
Loss on disposal of subsidiary	(1,870,011)
	359,832
Less: Cash and cash equivalents in subsidiary disposed	(1,145,245)
Net cash outflow on disposal	(785,413)

Notes To The Financial Statements (cont'd)

12. INVESTMENT IN AN ASSOCIATE

	The Group	
	2016 RM	2015 RM
Unquoted shares		
- at cost	1,193,279	1,193,279
Share of post-acquisition results	282,302	390,827
Foreign currency translation differences	522,925	425,328
	1,998,506	2,009,434

The summarised financial information of the associate that is material to the Group is as follows:-

	The Group	
	2016 RM	2015 RM
Current assets	2,064,278	1,939,627
Non-current assets	4,313,104	4,265,548
Current liabilities	(2,568,802)	(1,968,187)
Non-current liabilities	(54,807)	(435,820)
Net assets	3,753,773	3,801,168
Revenue	2,288,827	2,678,167
(Loss)/Profit for the year	(221,479)	51,400
Group's share of results for the year	(108,525)	25,186

Details of the associate are as follows:

Name of Associate	Principal Place of Business	Effective Equity Interest		Principal Activities
		2016 %	2015 %	
Indirect Associate				
Frontken (Thailand) Co., Ltd.	Thailand	49	49	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.

Notes To The Financial Statements (cont'd)

12. INVESTMENTS IN AN ASSOCIATE (CONT'D)

Amount owing by an associate

	The Group	
	2016 RM	2015 RM
Amount owing by an associate		
- Trade	943,845	920,573
- Non-trade	419,126	409,567
	1,362,971	1,330,140

The normal trade credit terms granted to associate range from 30 to 90 days (2015: 30 to 90 days).

The non-trade balance is unsecured, interest-free and repayable on demand. The amount owing is to be settled in cash.

Transactions undertaken with associate during the financial year are as follows:

	The Group	
	2016 RM	2015 RM
Frontken (Thailand) Co., Ltd.		
Purchases	-	27,554

13. GOODWILL ON CONSOLIDATION

	The Group	
	2016 RM	2015 RM
At beginning/end of year	33,760,856	33,760,856

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating unit ("CGU") that is expected to benefit from that business combination. The carrying amount of the goodwill had been allocated as follows:

	The Group	
	2016 RM	2015 RM
Frontken (East Malaysia) Sdn. Bhd.	805,812	805,812
Ares Green Technology Corporation	24,588,453	24,588,453
TTES Frontken Integrated Services Sdn. Bhd.	8,366,591	8,366,591
	33,760,856	33,760,856

Notes To The Financial Statements (cont'd)

13. GOODWILL ON CONSOLIDATION (CONT'D)

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

The recoverable amount of the CGU is determined from value in use calculation. The key assumptions for the value in use calculation are those regarding the expected changes to pricing and direct costs, growth rates and discount rates during the period.

	2016 %	2015 %
Budgeted gross margin	18 to 39	20 to 36
Growth rates		
- Year 1	-25 to 3	2 to 5
- Year 2 to 5	1 to 5	2 to 5
Pre-tax discount rates	12 to 14	10 to 13

The calculation of value-in-use for CGU are most sensitive to the following assumptions:

- (i) Budgeted gross margin Management determines budgeted gross margin based on past performance and its expectations of market development.
- (ii) Growth rates The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. These calculations use pre-tax cash flow projections based on financial budgets approved by management and extrapolated cash flows for a five-year period based on growth rates consistent with the long-term average growth rate for the industry.
- (iii) Discount rates Management estimates discount rate using pre-tax rate that reflect current market assessments of the time value of money and the risk specific to the CGU. The rate used to discount the forecasted cash flows reflects specific risks and expected returns relating to the industry.
- (iv) Terminal value Terminal value is based on zero growth of projected present value of particular subsidiaries from year 2021 until infinity.

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

14. DEFERRED TAX ASSETS/LIABILITIES

	2016 RM	The Group 2015 RM
<u>Deferred tax assets</u>		
At beginning of year	1,405,844	1,062,816
Transfer from profit or loss (Note 8)	-	37,141
Transfer to other comprehensive expenses	95,966	105,318
Foreign currency translation differences	100,994	200,569
At end of year	1,602,804	1,405,844
<u>Deferred tax liabilities</u>		
At beginning of year	3,446,164	2,571,891
Transfer (to)/from profit or loss (Note 8)	(1,775,922)	486,043
Foreign currency translation differences	1,297	388,230
At end of year	1,671,539	3,446,164

Notes To The Financial Statements (cont'd)

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

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

	The Group Deferred Tax (Assets)/Liabilities	
	2016 RM	2015 RM
Temporary differences arising from property, plant and equipment	1,477,470	2,091,901
Others	(1,408,735)	(51,581)
	<hr/> 68,735	<hr/> 2,040,320

As mentioned in Note 3, the tax effects of deductible temporary differences, unused tax losses and unused tax credits which would give rise to deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. As of 31 December 2016, the estimated amount of net deferred tax assets, calculated at the current tax rate which has not been recognised in the financial statements of the Group due to uncertainty of its realisation, is as follows:

	The Group Deferred Tax (Assets)/Liabilities	
	2016 RM	2015 RM
Unutilised tax losses	1,431,749	2,737,961
Unabsorbed capital allowances	173,851	184,850
Temporary differences arising from property, plant and equipment	(283,821)	(533,551)
Others	(10,460)	(213,513)
	<hr/> 1,311,319	<hr/> 2,175,747

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

15. FIXED DEPOSITS WITH LICENSED BANKS

Fixed deposits with licensed banks of the Group earn effective interests ranging from 0.25% to 3.45% (2015: 0.25% to 4.15%) per annum. The fixed deposits of the Group have average maturity periods ranging from 10 to 365 days (2015: 14 to 365 days).

Fixed deposits with licensed banks of the Company earn an effective interest of 2.95% (2015: ranging from 3.05% to 4.15%) per annum. The fixed deposits of the Company have a maturity period of 30 days (2015: ranging from 14 to 91 days).

The fixed deposits of the Group and of the Company amounting to RM3,205,263 (2015: RM4,680,237) and RM1,072,697 (2015: RM1,040,444) are pledged to licensed banks as security for banking facilities granted to the Group and the Company.

Pursuant to the Service Agreements entered between TTES and its customer, TTES is required to pledge the fixed deposits with licensed bank amounted to RM1,146,156 (2015: NIL) as security for the bank guarantee which are provided for projects that are secured by TTES. As the availability period of the bank guarantee facility for these projects are more than a year, hence, the fixed deposits with licensed banks are classified as non-current assets.

Notes To The Financial Statements (cont'd)

16. INVENTORIES

	The Group	
	2016 RM	2015 RM
Raw materials	4,486,336	5,198,968
Work-in-progress	3,275,442	5,128,338
Finished goods	3,214,349	1,466,141
	10,976,127	11,793,447
Recognised in profit or loss:		
Inventories recognised as cost of sales	26,556,170	29,167,279
Amount written down to net realisable value	-	52,272
Inventories written off	492,724	146,823

17. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAID EXPENSES

Trade receivables of the Group comprise amounts outstanding for the provision of services and sale of goods. The credit periods granted to the customers range from 30 to 90 days (2015: 30 to 90 days).

	The Group	
	2016 RM	2015 RM
Trade receivables	98,070,241	88,919,276
Allowance for impairment losses	(1,923,650)	(1,889,657)
	96,146,591	87,029,619

Movement in allowance for impairment losses on trade receivables is as follows:

	The Group	
	2016 RM	2015 RM
At 1 January	1,889,657	2,656,253
Allowance for impairment losses	133,461	294,518
Write-back of allowance for impairment losses	(1,196)	(717,433)
Written off as bad debts	(153,974)	(456,765)
Exchange difference	55,702	113,084
	1,923,650	1,889,657
At 31 December	1,923,650	1,889,657

Notes To The Financial Statements (cont'd)

17. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAID EXPENSES (CONT'D)

Included in trade receivables of the Group are the following amounts owing by the related parties:

	The Group	
	2016 RM	2015 RM
A & I Engine Rebuilders Sdn. Bhd.	541	721
AMT Engineering Sdn. Bhd.	5,954	9,148
Tenaga-Tech (M) Sdn. Bhd.	11,793	-
	18,288	9,869

The said amount, which arose mainly from trade transactions, is unsecured, interest-free and repayable on demand. The amount owing is to be settled in cash.

The related parties and their relationships with the Group are as follows:

Name of related parties	Relationship
A & I Engine Rebuilders Sdn. Bhd.	A company in which Sia Chiok Meng, a director of a subsidiary, is also a director and has a financial interest.
AMT Engineering Sdn. Bhd.	A company in which Sia Chiok Meng, a director of a subsidiary, is also a director and has a financial interest.
Tenaga-Tech (M) Sdn. Bhd.	A company in which Mohd Shukri Bin Hitam and Fauziah Binti Hamlawi, directors of a subsidiary, are also directors and have financial interest.
Frontken (Thailand) Co., Ltd.	An associated company.

Transactions undertaken with related parties during the financial year are as follows:

	The Group	
	2016 RM	2015 RM
A & I Engine Rebuilders Sdn. Bhd.		
Sales	1,625	1,340
AMT Engineering Sdn. Bhd.		
Sales	18,527	43,840
Purchases	1,175	1,089
Rental expense	144,000	144,000
Tenaga-Tech (M) Sdn. Bhd.		
Sales	27,400	-
Purchases	202,342	609,010
Rental expense	-	107,870
Cleanpart Dresden GmbH & Co. Kg		
Sales	-	118,077
Frontken (Thailand) Co., Ltd.		
Purchases	-	27,554

Notes To The Financial Statements (cont'd)

17. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAID EXPENSES (CONT'D)

Other receivables, deposits and prepaid expenses consist of:

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Other receivables	3,005,790	3,061,911	32,137	14,482
Deposits	1,604,796	1,994,243	4,850	4,830
Prepayments	441,600	1,067,846	25,231	19,350
	5,052,186	6,124,000	62,218	38,662

18. AMOUNTS OWING BY/TO SUBSIDIARIES

	The Company	
	2016 RM	2015 RM
Amount owing by:-		
Advances	4,690,761	36,741,235
Non-trade balances	8,205,588	4,091,816
	12,896,349	40,833,051
Allowance for impairment losses	(2,974,451)	(1,498,371)
	9,921,898	39,334,680
Amount owing to:-		
Advances	-	81,385
Non-trade balances	13,564,695	15,115,433
	13,564,695	15,196,818

	The Company	
	2016 RM	2015 RM
Allowance for impairment losses:-		
At beginning of the year	(1,498,371)	(1,498,371)
Allowance for impairment losses	(1,476,080)	-
	(2,974,451)	(1,498,371)

The amounts owing by/to the subsidiaries arose mainly from unsecured advances and payments made on behalf. The amount arising from unsecured advances bear interest at 3% (2015: 3%) per annum and is repayable on demand whilst the amount arising from payments made on behalf is interest-free.

Notes To The Financial Statements (cont'd)

19. SHORT-TERM INVESTMENTS

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Unit trust	6,753,232	-	5,390,526	-
Money market fund	2,243,001	-	-	-
	8,996,233	-	5,390,526	-
Fair value	8,996,233	-	5,390,526	-

20. SHARE CAPITAL

	The Group/The Company			
	2016 Number of shares	2015 Number of shares	2016 RM	2015 RM
Ordinary shares of RM0.10 each :				
Authorised				
At beginning/end of year	5,000,000,000	5,000,000,000	500,000,000	500,000,000
Issued and fully paid-up				
At beginning of year	1,053,435,130	1,011,408,160	105,343,513	101,140,816
Issued during the year	-	42,026,970	-	4,202,697
At end of year	1,053,435,130	1,053,435,130	105,343,513	105,343,513

In the previous financial year, the Company increased its issued and paid-up share capital from RM101,140,816 to RM105,343,513 by the issuance of 42,026,970 new ordinary shares of RM0.10 each pursuant to the exercise of 42,026,970 warrants at an exercise price of RM0.18 per warrant.

The new shares issued rank pari passu in all material respects with the existing shares of the Company.

21. RESERVES

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Non-distributable:				
Share premium	13,581,839	13,581,839	13,581,839	13,581,839
Treasury shares	(663,237)	(598,746)	(663,237)	(598,746)
Foreign currency translation reserve	34,703,988	29,626,180	-	-
Statutory reserve	3,908,108	2,466,577	-	-
Distributable:				
Retained earnings	104,735,836	86,135,310	9,814,069	3,659,807
	156,266,534	131,211,160	22,732,671	16,642,900

Notes To The Financial Statements (cont'd)

21. RESERVES (CONT'D)

Share premium

	The Group and The Company	
	2016 RM	2015 RM
At beginning of year	13,581,839	9,336,705
Issue of 42,026,970 ordinary shares at a premium of RM0.08 per ordinary share from exercise of 42,026,970 warrants	-	3,362,158
Transfer from warrant reserve upon exercise and expiry of the warrant	-	882,976
At end of year	13,581,839	13,581,839

The share premium reserve represents the premium paid on subscription of ordinary shares in the Company over and above the par value of the shares issued, net of transaction costs (if any). The share premium reserve is not distributable by way of dividends and may be utilised in the manner set out in Section 60(3) of the Companies Act 1965.

Treasury shares

During the financial year, the Company repurchased 400,000 (2015: 200,000) of its issued ordinary shares from the open market at an average price of RM0.16 (2015: RM0.168) per share. The total consideration paid for the repurchase including transaction costs amounted to RM64,491 (2015: RM33,751). The total consideration paid for the repurchase was financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act 1965 and are presented as a deduction from total equity.

As at 31 December 2016, the Company held 5,466,600 (2015: 5,066,600) treasury shares at a carrying amount of RM663,237 (2015: RM598,746).

As at 31 December 2016, the number of outstanding ordinary shares in issue after the set-off of 5,466,600 (2015: 5,066,600) treasury shares held by the Company is 1,047,968,530 (2015: 1,048,368,530) ordinary shares of RM0.10 each.

Foreign currency translation reserve

Foreign currency translation differences arose from the translation of the financial statements of foreign subsidiaries and the Group's share of an associate's foreign currency translation differences are taken to the foreign currency translation reserve as described in the significant accounting policies.

Warrant reserve

The warrant reserve arose from 288,973,760 free new detachable warrants ("Warrants") which were listed on Bursa Malaysia Securities Berhad on 16 March 2010 pursuant to the rights issue.

In the previous financial year, the Company issued 42,026,970 new ordinary shares of RM0.10 each pursuant to the exercise of 42,026,970 warrants at an exercise price of RM0.18 per warrant. The subscription rights of the Warrants expired on 10 March 2015 and the said warrants were removed from the official list of Bursa Malaysia Securities Berhad on 11 March 2015.

Statutory reserve

The statutory reserve is maintained by the Group's subsidiary in Taiwan in accordance with the regulations in that country.

Notes To The Financial Statements (cont'd)

21. RESERVES (CONT'D)

Retained earnings

Under the single tier tax system, tax on the Company's profits is the final tax and accordingly, any dividends to the shareholders are not subject to tax.

22. TERM LOANS

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Principal outstanding	24,074,255	30,655,157	4,128,510	6,065,353
Less: Portion due within one year (Note 25)	(3,813,871)	(4,642,193)	(2,090,734)	(1,933,367)
Non-current portion	20,260,384	26,012,964	2,037,776	4,131,986

The non-current portion is repayable as follows:

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Later than one year but not later than five years	16,986,266	22,941,082	2,037,776	4,131,986
Later than five years	3,274,118	3,071,882	-	-
	20,260,384	26,012,964	2,037,776	4,131,986

(a) The term loans are secured by:

- (i) legal charges over certain freehold land and buildings of the Group as disclosed in Note 10 to the financial statements;
- (ii) legal charges over the long-term leasehold land and buildings of the Group as disclosed in Note 10 to the financial statements;
- (iii) corporate guarantees of the Company; and
- (iv) fixed deposits as disclosed in Note 15 to the financial statements.

(b) The interest rate profile of the term loans is summarised below:

	Effective Interest Rate		The Group	
	2016 %	2015 %	2016 RM	2015 RM
Floating rate term loans	1.40 - 6.46	1.68 - 6.72	24,074,255	30,655,157

Notes To The Financial Statements (cont'd)

22. TERM LOANS (CONT'D)

(b) The interest rate profile of the term loans is summarised below: (Cont'd)

	Effective Interest Rate		The Company	
	2016 %	2015 %	2016 RM	2015 RM
Floating rate term loans	6.46	6.72	4,128,510	6,065,353

23. HIRE PURCHASE PAYABLES

	The Group	
	2016 RM	2015 RM
Total outstanding	659,725	1,214,506
Less: Interest-in-suspense	(56,232)	(89,066)
Present value of payments	603,493	1,125,440
Less: Amount due within 12 months (included under current liabilities)	(249,222)	(686,532)
Non-current portion	354,271	438,908

The non-current portion is payable as follows:

	The Group	
	2016 RM	2015 RM
Later than one year but not later than five years	354,271	429,936
After five years	-	8,972
	354,271	438,908

It is the Group's policy to acquire certain of its plant and equipment under hire purchase arrangements. The average term of the hire purchase is about 1 to 6 years (2015: 1 to 6 years). The interest rates implicit in the hire purchase obligations range from 1.70% to 5.64% (2015: 1.51% to 5.64%) per annum.

The Group's hire purchase payables are secured by the financial institutions' charge over the assets under hire purchase as disclosed in Note 10 to the financial statements.

24. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES

Trade payables of the Group comprise amounts outstanding for trade purchases. The credit periods granted to the Group for trade purchases range from 30 to 90 days (2015: 30 to 90 days). Included in trade payables is RM5,582 (2015: RM87,800) owing to related parties.

Notes To The Financial Statements (cont'd)

24. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES (CONT'D)

Other payables and accrued expenses consist of:

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Other payables	31,397,358	19,101,230	9,079	1,032,295
Accrued expenses	24,163,584	18,349,706	1,229,012	344,320
	55,560,942	37,450,936	1,238,091	1,376,615
Less: Other payables (included under non-current liabilities)	(3,134,277)	(2,433,422)	-	-
Current liabilities	52,426,665	35,017,514	1,238,091	1,376,615

Included in other payables are defined benefit plan as detailed below:

	The Group	
	2016 RM	2015 RM
Defined benefit plan (Overseas subsidiaries)		
- Taiwan	2,450,404	1,860,145
- Philippines	269,068	227,743
- Indonesia	414,805	345,534
	3,134,277	2,433,422

(a) Defined benefit plan – Taiwan

	The Group	
	2016 RM	2015 RM
Fair value of plan assets	(5,835,050)	(5,258,185)
Present value of plan obligations	8,285,454	7,118,330
	2,450,404	1,860,145

The Group contributes to a defined benefit plan that provides retirement benefits for employees upon retirement based on the following:-

- i) 2 months average salary for each year for the first 15 years of working; and
- ii) 1 month average salary for each year subsequent to 15 years of working.

A maximum entitlement for a retired employee is 45 months average salary. The average salary of a retired employee is calculated based on the average 6 months' salary prior to his retirement date.

Notes To The Financial Statements (cont'd)

24. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES (CONT'D)

Included in other payables are defined benefit plan as detailed below: (Cont'd)

(a) Defined benefit plan – Taiwan (Cont'd)

Plan assets comprise:

	The Group	
	2016 RM	2015 RM
Cash at bank	1,052,643	936,483
Short-term investments	159,880	79,924
Debentures	700,206	648,860
Fixed income investments	864,171	812,916
Equity securities	2,636,276	2,575,459
Others	421,874	204,543
	5,835,050	5,258,185

Movement in the present value of defined benefit obligations:

	The Group	
	2016 RM	2015 RM
At 1 January	7,118,330	5,349,093
Current service costs and interest	130,378	117,565
Actuarial losses in other comprehensive income	511,644	652,811
Defined plan payable	-	(13,331)
Exchange difference	525,102	1,012,192
	8,285,454	7,118,330

Movement in the fair value of plan assets:

	The Group	
	2016 RM	2015 RM
At 1 January	5,258,185	4,210,596
Expected return on plan assets	91,644	88,677
Actuarial (losses)/gains in other comprehensive income	(52,864)	33,290
Contribution paid into the plan	173,265	164,279
Defined plan payable	-	(13,331)
Exchange difference	364,820	774,674
	5,835,050	5,258,185

Notes To The Financial Statements (cont'd)

24. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES (CONT'D)

Included in other payables are defined benefit plan as detailed below: (Cont'd)

(a) Defined benefit plan – Taiwan (Cont'd)

Expenses recognised in profit or loss:

	The Group	
	2016	2015
	RM	RM
Current service costs and interests	130,378	1,118,812
Expected return on plan assets	(91,644)	(88,677)
Net benefit expense	38,734	1,030,135

Actuarial gains and losses recognised directly in other comprehensive income:

	The Group	
	2016	2015
	RM	RM
Actuarial losses recognised during the year	(468,542)	(514,203)

The Group defined benefit plan based on the actuarial valuation performed by an independent actuary adopting the Projected Unit Credit With Service Increment method, with the following principal actuarial assumptions:

	The Group	
	2016	2015
i) Retirement age	65	65
ii) Disability rate (per annum)	10% of mortality rate	10% of mortality rate
iii) Discount rate (per annum)	1.50%	1.75%
iv) Expected rate of salary increases (per annum)	3.00%	3.00%

Notes To The Financial Statements (cont'd)

24. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES (CONT'D)

(a) Defined benefit plan – Taiwan (Cont'd)

	The Group	
	2016 (Decrease)/ Increase	2015 (Decrease)/ Increase
Effect on defined benefit obligations		
Discount rate (per annum)		
- strengthened by 0.25%	(311,974)	(250,007)
- weakened by 0.25%	328,951	263,346
Expected rate of salary increases (per annum)		
- strengthened by 0.25%	318,375	254,803
- weakened by 0.25%	(303,625)	(243,206)

(b) Defined benefit plan – Philippines

The Group conforms to the minimum regulatory benefit under prevailing law and regulations which is of the defined benefit type.

The normal retirement age is 60. The plan provides a benefit equal to 22.5 days' salary for every year of credited service. The regulatory benefits are paid in lump sum upon retirement.

Movement in the present value of defined benefit obligations:

	The Group	
	2016 RM	2015 RM
At 1 January	227,743	152,034
Current service costs and interest	37,491	31,167
Actuarial losses in other comprehensive income	4,568	14,982
Exchange difference	(734)	29,560
At 31 December	269,068	227,743

Expenses recognised in profit or loss:

	The Group	
	2016 RM	2015 RM
Current service costs and interests	37,491	31,167

Notes To The Financial Statements (cont'd)

24. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES (CONT'D)

(b) Defined benefit plan – Philippines (Cont'd)

Actuarial gains and losses recognised directly in other comprehensive income:

	The Group	
	2016 RM	2015 RM
Actuarial losses recognised during the year	(4,568)	(14,982)

The Group defined benefit plan based on the actuarial valuation performed by an independent actuary adopting the Projected Unit Credit method, with the following principal actuarial assumptions:

	The Group	
	2016	2015
i) Retirement age	60	60
ii) Discount rate (per annum)	5.38%	5.48%
iii) Expected rate of salary increases (per annum)	2.00%	2.00%

	The Group	
	2016 (Decrease)/ Increase	2015 (Decrease)/ Increase
Effect on defined benefit obligations		
Discount rate (per annum)		
- strengthened by 1%	(16,594)	(15,965)
- weakened by 1%	18,942	18,244
Expected rate of salary increases (per annum)		
- strengthened by 1%	17,163	16,323
- weakened by 1%	(15,260)	(14,537)

(c) Defined benefit plan – Indonesia

The Group conforms to the obligations relating to the employee benefits due under the prevailing law and regulations.

Notes To The Financial Statements (cont'd)

24. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES (CONT'D)

(c) Defined benefit plan – Indonesia (Cont'd)

Movement in the present value of defined benefit obligations:

	The Group	
	2016 RM	2015 RM
At 1 January	345,534	-
Current service costs and interest	114,687	375,329
Actuarial gains in other comprehensive income	(56,583)	(42,016)
Defined plan payable	(18,837)	-
Exchange difference	30,004	12,221
At 31 December	414,805	345,534

Expenses recognised in profit or loss:

	The Group	
	2016 RM	2015 RM
Current service costs and interests	114,687	375,329

Actuarial gains and losses recognised directly in other comprehensive income:

	The Group	
	2016 RM	2015 RM
Actuarial gains recognised during the year	56,583	42,016

The Group defined benefit plan based on the actuarial valuation performed by an independent actuary adopting the Projected Unit Credit method, with the following principal actuarial assumptions:

	The Group	
	2016	2015
i) Retirement age	55	55
ii) Disability rate (per annum)	1% of mortality rate	1% of mortality rate
iii) Discount rate (per annum)	8.30%	9.10%
iv) Expected rate of salary increases (per annum)	10.00%	10.00%

Notes To The Financial Statements (cont'd)

24. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES (CONT'D)

(c) Defined benefit plan – Indonesia (Cont'd)

	The Group	
	2016 (Decrease)/ Increase	2015 (Decrease)/ Increase
Effect on defined benefit obligations		
Discount rate (per annum)		
- strengthened by 1%	(39,066)	(33,680)
- weakened by 1%	45,434	38,868
Expected rate of salary increases (per annum)		
- strengthened by 1%	48,511	36,512
- weakened by 1%	(42,313)	(41,646)

25. BANK BORROWINGS

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Short-term borrowings				
- Money market security	4,652,400	11,535,280	-	-
Term loans - current portion (Note 22)	3,813,871	4,642,193	2,090,734	1,933,367
	8,466,271	16,177,473	2,090,734	1,933,367

The short-term borrowings represent money market loan facility obtained by a subsidiary incorporated in Singapore which are rolled over every month. The money market loan facility bear effective interest rates ranging from 2.39% to 3.33% (2015: 2.36% to 3.33%) per annum.

The security for the bank borrowings are disclosed in Note 22 to the financial statements.

26. FINANCIAL INSTRUMENTS

The Group's activities are exposed to a variety of market risk (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Financial Risk Management Policies

The Group's policies in respect of the major areas of treasury activity are as follows:-

(i) Foreign currency risk

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than the respective functional currencies of entities within the Group. The currencies giving rise to this risk are primarily United States Dollar, Singapore Dollar, New Taiwan Dollar and Indonesian Rupiah. Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level.

Notes To The Financial Statements
(cont'd)

26. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(i) Foreign currency risk (Cont'd)

The Group's exposure to foreign currency is as follows:-

The Group 2016	Singapore Dollar RM	Ringgit Malaysia RM	United States Dollar RM	Philippine Peso RM	New Taiwan Dollar RM	Others* RM	Total RM
<u>Financial assets</u>							
Trade receivables	10,338,704	15,996,875	17,795,021	904,898	50,816,601	294,492	96,146,591
Other receivables and deposits	1,647,747	692,346	385,571	590,266	1,199,731	94,925	4,610,586
Amount owing by an associate	1,362,971	-	-	-	-	-	1,362,971
Short-term investments	2,243,002	6,753,231	-	-	-	-	8,996,233
Fixed deposits with licensed banks	474,166	5,397,869	-	-	-	-	5,872,035
Cash and bank balances	1,989,027	15,269,959	25,330,584	1,915,656	43,381,102	859,184	88,745,512
	18,055,617	44,110,280	43,511,176	3,410,820	95,397,434	1,248,601	205,733,928
<u>Financial liabilities</u>							
Trade payables	2,220,289	4,036,596	2,841,588	171,449	11,451,094	105,721	20,826,737
Other payables and accrued expenses	3,744,878	4,761,147	1,089,499	1,185,959	44,259,277	520,182	55,560,942
Bank borrowings							
- Term loans	6,030,745	4,128,510	-	-	13,915,000	-	24,074,255
- Short-term borrowings	4,652,400	-	-	-	-	-	4,652,400
Hire purchase payables	209,727	393,766	-	-	-	-	603,493
	16,858,039	13,320,019	3,931,087	1,357,408	69,625,371	625,903	105,717,827
Net financial assets	1,197,578	30,790,261	39,580,089	2,053,412	25,772,063	622,698	100,016,101
Less: Net financial liabilities/(assets) denominated in the respective entities' functional currencies	745,049	(30,790,261)	-	(2,053,412)	(25,772,063)	(611,283)	(58,481,970)
Currency exposure	1,942,627	-	39,580,089	-	-	11,415	41,534,131

* Denominated in Euro, Great Britain Pound and Indonesian Rupiah.

Notes To The Financial Statements (cont'd)

26. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(i) Foreign currency risk (Cont'd)

The Group's exposure to foreign currency is as follows:-

The Group 2015	Singapore Dollar RM	Ringgit Malaysia RM	United States Dollar RM	Philippine Peso RM	New Taiwan Dollar RM	Others* RM	Total RM
Financial assets							
Trade receivables	6,899,459	13,001,724	19,757,397	618,977	46,558,302	193,760	87,029,619
Other receivables and deposits	1,685,007	677,557	344,777	612,696	1,577,785	158,332	5,056,154
Amount owing by an associate	1,330,140	-	-	-	-	-	1,330,140
Fixed deposits with licensed banks	462,913	14,847,675	-	-	-	-	15,310,588
Cash and bank balances	2,821,226	15,804,138	43,141,611	498,023	32,066,378	155,612	94,486,988
	13,198,745	44,331,094	63,243,785	1,729,696	80,202,465	507,704	203,213,489
Financial liabilities							
Trade payables	1,766,849	16,845,581	1,089,394	359,016	10,823,956	239,960	31,124,756
Other payables and accrued expenses	4,408,129	4,372,880	1,493,499	1,204,151	25,571,012	401,265	37,450,936
Bank borrowings							
- Term loans	7,588,885	10,010,772	-	-	13,055,500	-	30,655,157
- Short-term borrowings	11,535,280	-	-	-	-	-	11,535,280
Hire purchase payables	659,676	465,764	-	-	-	-	1,125,440
	25,958,819	31,694,997	2,582,893	1,563,167	49,450,468	641,225	111,891,569
Net financial (liabilities)/assets	(12,760,074)	12,636,097	60,660,892	166,529	30,751,997	(133,521)	91,321,920
Less: Net financial liabilities/(assets) denominated in the respective entities' functional currencies	12,242,821	(12,636,097)	-	(166,529)	(29,772,231)	128,765	(30,203,271)
Currency exposure	(517,253)	-	60,660,892	-	979,766	(4,756)	61,118,649

* Denominated in Euro, Great Britain Pound and Indonesian Rupiah.

Notes To The Financial Statements
(cont'd)

26. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(i) Foreign currency risk (Cont'd)

The Company 2016	Singapore Dollar RM	Ringgit Malaysia RM	United States Dollar RM	Indonesian Rupiah RM	New Taiwan Dollar RM	Total RM
<u>Financial assets</u>						
Amount owing by subsidiaries	-	8,343,147	-	1,578,751	-	9,921,898
Cash and bank balances	-	9,321,072	672,509	-	-	9,993,581
	-	17,664,219	672,509	1,578,751	-	19,915,479
<u>Financial liability</u>						
Amount owing to subsidiaries	801,355	7,155,840	5,607,500	-	-	13,564,695
Net financial (liability)/assets	(801,355)	10,508,379	(4,934,991)	1,578,751	-	6,350,784
Less: Net financial assets denominated in the entity's functional currency	-	(10,508,379)	-	-	-	(10,508,379)
Currency exposure	(801,355)	-	(4,934,991)	1,578,751	-	(4,157,595)

Notes To The Financial Statements (cont'd)

26. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(i) Foreign currency risk (Cont'd)

The Company 2015	Singapore Dollar RM	Ringgit Malaysia RM	United States Dollar RM	Indonesian Rupiah RM	New Taiwan Dollar RM	Total RM
<u>Financial assets</u>						
Amount owing by subsidiaries	-	36,583,114	-	2,751,566	-	39,334,680
Cash and bank balances	-	2,596,051	10,874,909	-	989,551	14,460,511
	-	39,179,165	10,874,909	2,751,566	989,551	53,795,191
<u>Financial liability</u>						
Amount owing to subsidiaries	3,814,659	7,256	11,374,903	-	-	15,196,818
Net financial (liability)/assets	(3,814,659)	39,171,909	(499,994)	2,751,566	989,551	38,598,373
Less: Net financial assets denominated in the entity's functional currency	-	(39,171,909)	-	-	-	(39,171,909)
Currency exposure	(3,814,659)	-	(499,994)	2,751,566	989,551	(573,536)

Notes To The Financial Statements (cont'd)

26. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(i) Foreign currency risk (Cont'd)

Foreign Currency Risk Sensitivity Analysis

The following table details the sensitivity analysis on profit after taxation to a reasonably possible change in the foreign currencies as at the end of the reporting period, with all other variables held constant:-

	The Group		The Company	
	2016 Increase/ (Decrease) RM	2015 Increase/ (Decrease) RM	2016 Increase/ (Decrease) RM	2015 Increase/ (Decrease) RM
Effects on profit after taxation/ other comprehensive income				
Singapore Dollar:-				
- strengthened by 5%	97,131	(25,863)	(40,068)	(190,733)
- weakened by 5%	(97,131)	25,863	40,068	190,733
New Taiwan Dollar				
- strengthened by 5%	-	48,988	-	49,478
- weakened by 5%	-	(48,988)	-	(49,478)
United States Dollar				
- strengthened by 5%	1,979,004	3,033,045	(246,750)	(25,000)
- weakened by 5%	(1,979,004)	(3,033,045)	246,750	25,000
Others*				
- strengthened by 5%	571	(238)	78,938	137,578
- weakened by 5%	(571)	238	(78,938)	(137,578)

* Denominated in Euro, Great Britain Pound and Indonesian Rupiah.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises mainly from long-term borrowings with variable rates. The Group's policy is to obtain the most favourable interest rates available and by maintaining a balanced portfolio of mix of fixed and floating rate borrowings.

The Group's fixed deposits with licensed banks and borrowings are carried at amortised cost. Therefore, they are not subject to interest rate risk as defined in MFRS 7 since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

The Group's exposure to interest rate risk that based on the carrying amounts of the financial instruments at the end of the reporting period is disclosed in Notes 22 and 25 to the financial statements.

Interest rate risk sensitivity analysis

The Group and the Company do not account for any fixed rate financial assets and liabilities at fair value through profit or loss, a 100 basis points strengthening in the interest rate as at the end of the reporting period would have decreased profit after taxation by RM248,535 (2015 : RM361,416) and RM31,377 (2015 : RM45,490) respectively. A 100 basis points weakening would have had an equal but opposite effect on the profit after taxation. This assumes that all other variables remain constant.

Notes To The Financial Statements (cont'd)

26. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(iii) Equity price risk

The Group's principal exposure to equity price risk arises mainly from changes in quoted investment prices. The Group manages its exposure to equity price risk by maintaining a portfolio of equities with different risk profiles.

Equity price risk sensitivity analysis

If prices for quoted investments at the end of the reporting period strengthened by 10% with all other variables being held constant, the Group's profit after taxation or other comprehensive income would have increase by RM899,623 (2015: NIL). A 10% weakening in the quoted prices would have had an equal but opposite effect on the Group's profit after taxation or other comprehensive income.

(iv) Credit risk

The Group's exposure to credit risk, or the risk of counterparties defaulting, arises mainly from receivables. The Group manages its exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of the trade and other receivables as appropriate. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified (where applicable). Impairment is estimated by management based on prior experience and the current economic environment.

The Company provides financial guarantee to financial institutions for credit facilities granted to certain subsidiaries. The Company monitors the results of these subsidiaries regularly and repayments made by the subsidiaries.

Credit risk concentration profile

The Group's major concentration of credit risk relates to the amount owing by 1 (2015: NIL) customer which constituted approximately 18% (2015: NIL) of its total trade receivables as at the end of the reporting period.

Exposure to credit risk

At the end of the reporting period, the maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position of the Group and of the Company after deducting any allowance for impairment losses (where applicable).

Notes To The Financial Statements (cont'd)

26. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(iv) Credit risk (Cont'd)

Ageing analysis

The ageing of the Group's trade receivables as at end of the reporting period was:-

The Group	Gross Amount RM	Individual Impairment RM	Collective Impairment RM	Carrying Value RM
2016				
Not past due	83,800,967	-	-	83,800,967
Past due:-				
- Less than 1 month	7,614,233	-	-	7,614,233
- 1 to 9 months	4,813,744	(98,322)	(131,547)	4,583,875
- over 9 months	1,841,297	(1,141,430)	(552,351)	147,516
	98,070,241	(1,239,752)	(683,898)	96,146,591
2015				
Not past due	73,326,282	-	-	73,326,282
Past due:-				
- Less than 1 month	6,673,097	-	-	6,673,097
- 1 to 9 months	7,334,292	-	(357,750)	6,976,542
- over 9 months	1,585,605	(1,248,002)	(283,905)	53,698
	88,919,276	(1,248,002)	(641,655)	87,029,619

At the end of the reporting period, trade receivables that are individually impaired are those which have defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

The Group believes that no additional impairment allowance is necessary in respect of trade receivables that are past due but not impaired because they are companies with good collection track record and no recent history of default.

(v) Liquidity risk

Liquidity risk arises mainly from general funding and business activities. The Group practises prudent risk management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities.

Notes To The Financial Statements (cont'd)

26. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(v) Liquidity risk (Cont'd)

Maturity analysis

The following table sets out the maturity profile of the financial liabilities as at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period):-

The Group	Contractual Interest Rate %	Carrying Amount RM	Contractual Undiscounted Cash Flows RM	Within 1 year RM	1 – 5 years RM	Over 5 years RM
2016						
Hire purchase payables	1.70 – 5.64	603,493	659,725	278,374	381,351	-
Term loans	1.40 – 6.46	24,074,255	25,377,626	4,352,336	17,730,163	3,295,127
Short-term borrowings	2.39 – 3.33	4,652,400	4,652,400	4,652,400	-	-
Trade payables	-	20,826,737	20,826,737	20,826,737	-	-
Other payables	-	52,426,665	52,426,665	52,426,665	-	-
		102,583,550	103,943,153	82,536,512	18,111,514	3,295,127
2015						
Hire purchase payables	1.51 – 5.64	1,125,440	1,214,506	733,560	460,802	20,144
Term loans	1.68 – 6.72	30,655,157	32,939,650	5,564,134	24,281,951	3,093,565
Short-term borrowings	2.36 – 3.33	11,535,280	11,535,280	11,535,280	-	-
Trade payables	-	31,124,756	31,124,756	31,124,756	-	-
Other payables	-	35,017,514	35,017,514	35,017,514	-	-
		109,458,147	111,831,706	83,975,244	24,742,753	3,113,709

Notes To The Financial Statements (cont'd)

26. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(v) Liquidity risk (Cont'd)

Maturity analysis (Cont'd)

The following table sets out the maturity profile of the financial liabilities as at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period):- (Cont'd)

The Company	Contractual Interest Rate %	Carrying Amount RM	Contractual Undiscounted Cash Flows RM	Within 1 year RM	1 – 5 years RM
2016					
Term loan	6.46	4,128,510	4,400,187	2,296,104	2,104,083
Other payables	-	1,238,091	1,238,091	1,238,091	-
Amount owing to subsidiaries - interest-free	-	13,564,695	13,564,695	13,564,695	-
		18,931,296	19,202,973	17,098,890	2,104,083
2015					
Term loan	6.72	6,065,353	6,699,856	2,282,044	4,417,812
Other payables	-	1,376,615	1,376,615	1,376,615	-
Amount owing to subsidiaries - interest bearing	3.00	81,385	81,385	81,385	-
- interest-free	-	15,115,433	15,115,433	15,115,433	-
		22,638,786	23,273,289	18,855,477	4,417,812

(b) Capital Risk Management

The Group manages its capital to ensure that entities within the Group will be able to maintain an optimal capital structure so as to support its businesses and maximise shareholders value. To achieve this objective, the Group may make adjustments to the capital structure in view of changes in economic conditions, such as adjusting the amount of dividend payment, returning of capital to shareholders or issuing new shares.

The Group manages its capital based on debt-to-equity ratio. The Group's strategies were unchanged from the previous financial year. The debt-to-equity ratio is calculated as net debt divided by total equity. Net debt is calculated as external borrowings less cash and bank balances and fixed deposits with licensed banks.

There was no change in the Group's approach to capital management during the financial year.

The debt-to-equity ratio of the Company is not disclosed in the financial statements as the cash and bank balances and fixed deposits with licensed banks are in surplus position after net off with external borrowings.

The Group is also required to comply with certain loan covenants, failing which, the banks may call an event of default. The Group has complied with requirement.

Notes To The Financial Statements (cont'd)

26. FINANCIAL INSTRUMENTS (CONT'D)

(c) Classification of Financial Instruments

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Financial Assets				
<u>Fair value through profit or loss:</u>				
<u>Held-for-trading</u>				
Short-term investments	8,996,233	-	5,390,526	-
<u>Loans and receivables</u>				
<u>financial assets</u>				
Trade receivables	96,146,591	87,029,619	-	-
Other receivables and deposits	4,610,586	5,056,154	36,987	19,312
Amount owing by subsidiaries	-	-	9,921,898	39,334,680
Amount owing by an associate	1,362,971	1,330,140	-	-
Fixed deposits with licensed banks	5,872,035	15,310,588	1,072,697	3,040,444
Cash and bank balances	88,745,512	94,486,988	9,993,581	14,460,511
	196,737,695	203,213,489	21,025,163	56,854,947
Financial Liabilities				
<u>Other financial liabilities</u>				
Trade payables	20,826,737	31,124,756	-	-
Other payables and accrued expenses	52,426,665	35,017,514	1,238,091	1,376,615
Amount owing to subsidiaries	-	-	13,564,695	15,196,818
Term loans	24,074,255	30,655,157	4,128,510	6,065,353
Bank borrowings	4,652,400	11,535,280	-	-
Hire purchase payables	603,493	1,125,440	-	-
	102,583,550	109,458,147	18,931,296	22,638,786

Notes To The Financial Statements
(cont'd)

26. FINANCIAL INSTRUMENTS (CONT'D)

(d) Fair Value Information

The fair values of the financial assets and financial liabilities of the Group and of the Company which are maturing within the next 12 months approximated their carrying amounts due to the relatively short-term maturity of the financial instruments or repayable on demand terms.

The following table sets out the fair value profile of financial instruments that are carried at fair value and those not carried at fair value at the end of the reporting period:-

The Group 2016	Fair Value Of Financial Instruments Carried At Fair Value			Fair Value Of Financial Instruments Not Carried At Fair Value			Total Fair Value	Carrying Amount
	Level 1 RM	Level 2 RM	Level 3 RM	Level 1 RM	Level 2 RM	Level 3 RM		
Financial Asset								
Short-term investments	8,996,233	-	-	-	-	-	8,996,233	8,996,233
Financial Liabilities								
Hire purchase payables	-	-	-	-	602,488	-	602,488	603,493
Short-term borrowings	-	-	-	-	4,652,400	-	4,652,400	4,652,400
Term loans	-	-	-	-	24,074,255	-	24,074,255	24,074,255
The Group 2015								
Financial Liabilities								
Hire purchase payables	-	-	-	-	1,120,733	-	1,120,733	1,125,440
Short-term borrowings	-	-	-	-	11,535,280	-	11,535,280	11,535,280
Term loans	-	-	-	-	30,655,157	-	30,655,157	30,655,157

Notes To The Financial Statements (cont'd)

26. FINANCIAL INSTRUMENTS (CONT'D)

(d) Fair Value Information (Cont'd)

The following table sets out the fair value profile of financial instruments that are carried at fair value and those not carried at fair value at the end of the reporting period:- (Cont'd)

The Company 2016	Fair Value Of Financial Instruments Carried At Fair Value			Fair Value Of Financial Instruments Not Carried At Fair Value			Total Fair Value	Carrying Amount
	Level 1 RM	Level 2 RM	Level 3 RM	Level 1 RM	Level 2 RM	Level 3 RM		
Financial Asset								
Short-term investments	5,390,526	-	-	-	-	-	5,390,526	5,390,526
Financial Liability								
Term loans	-	-	-	-	4,128,510	-	4,128,510	4,128,510
The Company 2015								
Financial Liability								
Term loans	-	-	-	-	6,065,353	-	6,065,353	6,065,353

Notes To The Financial Statements (cont'd)

26. FINANCIAL INSTRUMENTS (CONT'D)

(d) Fair Value Information (Cont'd)

The fair values, which are for disclosure purpose, have been determined using the following basis:-

- (i) The fair value of hire purchase payables, short-term borrowing and term loans determined by discounting the relevant cash flows using current market interest rates for similar instruments at the end of the reporting period. The interest rates used to discount the estimated cash flows are as follows:-

	The Group		The Company	
	2016 %	2015 %	2016 %	2015 %
Hire purchase payables	1.70 - 5.64	1.51 - 5.64	-	-
Short-term borrowings	2.39 - 3.33	2.36 - 3.33	-	-
Term loans	1.40 - 6.46	1.68 - 6.72	6.46	6.72

27. CONTINGENT LIABILITY

The Company provided corporate guarantees to banks and financial institutions to secure banking facilities and leasing of equipment provided to certain subsidiaries amounting to RM10,833,755 (2015 : RM35,426,387).

28. COMMITMENTS

(i) Operating lease commitments

	The Group	
	2016 RM	2015 RM
Non-cancellable future minimum lease payments		
Not later than one year	2,212,584	1,803,479
Between one year and five years	5,552,495	3,576,318
Later than five years	12,459,651	12,389,716
	20,224,730	17,769,513

The Group has various operating lease agreements for equipment, offices and other facilities. Most leases contain renewable options. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing.

(ii) Capital commitments

As of 31 December 2016, the Group has the following capital commitments:

	The Group	
	2016 RM	2015 RM
Approved and contracted for:		
Plant and equipment	9,690,898	5,089,260

Notes To The Financial Statements (cont'd)

29. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

- (i) Following the resignation of a senior management personnel of Frontken Malaysia Sdn Bhd ("FM"), a wholly-owned subsidiary of the Company, in 2012 the Board of Directors of the Company (the "Board") was made aware that there may be some irregular dealings between FM and its suppliers.

On 1 October 2012, Messrs Crowe Horwath was appointed to carry out a special investigative audit. Messrs Crowe Horwath issued a report on 18 February 2013 followed by an Expanded and Revised Investigative Audit Report on 3 June 2013.

The Company had on 11 June 2013 lodged a police report at the Police Headquarters, Commercial Crime Investigation Department at Bukit Aman on the alleged financial irregularities.

A civil suit had also been lodged against an ex-senior management personnel and 5 others ("collectively known as Defendants") in the High Court of Penang for inter alia recovery of monies identified to have been wrongfully paid out by FM to some of the Defendants in view of the findings of the Investigative Audit conducted by Messrs Crowe Horwarth.

An ex-parte Mareva Injunction Order was subsequently obtained by FM against one of the Defendants on 2 August 2013. This was followed by an ex-parte Ad Interim order dated 16 August 2013. In essence, the purpose of the ex-parte Orders was to freeze his assets. FM's Mareva application against the one of the Defendant was allowed by consent on 18 March 2014. The main civil suit has been fixed for case management on 21 July 2015. The trial date fixed on 16 to 18 November 2015 have been taken off and new trial dates have been fixed on 18 to 20 April 2016.

In respect of the main civil suit, some of the Defendants filed Defences and Counterclaims against FM and some of its existing senior management. The aforesaid counterclaims are being resisted by FM as well as its senior management.

The Board has lodged a second police report on one of the Defendants for fraudulently and/or unlawfully altering the email details in the Defendant affidavits for attempting to mislead the Court and pervert the course of justice.

On 18 April 2016, the Company and a defendant has recorded a consent judgement to resolve their respective claims against each other pursuant to the defendant agreed to pay a sum of RM2,100,729 to the Company within 42 months from 1 June 2016 pursuant to prescribed payment terms as contained in the Consent Judgement as final settlement of all claims that they have against each other.

30. SIGNIFICANT EVENT OCCURRING AFTER THE REPORTING PERIOD

The Companies Act 2016 came into effect on 31 January 2017 (except for Section 241 and Division 8 of Part III of the said Act) and replaces the existing Companies Act 1965.

Amongst the key changes introduced under the Companies Act 2016 that will affect the financial statements of the Group and of the Company upon its initial adoption are:-

- (i) Removal of the authorised share capital;
- (ii) Ordinary shares will cease to have par value; and
- (iii) Share premium account will become part of the share capital.

The adoption of the Companies Act 2016 is to be applied prospectively. Therefore, the changes in the accounting policies and the possible impacts on the financial statements upon its initial adoption will be disclosed in the financial statements of the Group and of the Company for the financial year ending 31 December 2017.

Notes To The Financial Statements (cont'd)

31. FOREIGN EXCHANGE RATES

The principal closing foreign exchange rates used (expressed on the basis of one unit of foreign currency to Ringgit Malaysia equivalent) for the translation of foreign currency balances at the end of the reporting period are as follows:-

	The Group/The Company	
	2016 RM	2015 RM
Singapore Dollar	3.10	3.04
United States Dollar	4.49	4.29
Philippine Peso	0.09	0.09
New Taiwan Dollar	0.14	0.13
Euro	4.72	4.69
Chinese Renminbi	0.65	0.66
Indonesian Rupiah	0.00033	0.00031
Thai Baht	0.13	0.12

Notes To The Financial Statements (cont'd)

32. SUPPLEMENTARY INFORMATION – DISCLOSURE OF REALISED AND UNREALISED PROFITS/(LOSSES)

	The Group		The Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Total retained earnings of Group and Company				
Realised	126,018,212	105,338,328	11,614,767	7,521,922
Unrealised	2,437,587	2,881,480	(1,800,698)	(3,862,115)
	128,455,799	108,219,808	9,814,069	3,659,807
Total share of retained earnings from associates				
Realised	257,498	366,023	-	-
Unrealised	-	-	-	-
	257,498	366,023	-	-
Less: Consolidation adjustments	(23,977,461)	(22,450,521)	-	-
Total retained earnings	104,735,836	86,135,310	9,814,069	3,659,807

Statement By Directors Pursuant To Section 169(15) Of The Companies Act 1965

We, **NG WAI PIN** and **DR. TAY KIANG MENG**, being two of the directors of **FRONTKEN CORPORATION BERHAD**, state that, in the opinion of the directors, and to the best of our knowledge and belief, the financial statements set out on pages 49 to 129 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2016 and of their financial performance and the cash flows for the financial year ended on that date.

The supplementary information set out in Note 32, which is not part of the financial statements, is prepared in all material respects, in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants and the directive of Bursa Malaysia Securities Berhad.

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

NG WAI PIN

27 March 2017

DR. TAY KIANG MENG

Declaration By The Officer Primarily Responsible For The Financial Management Of The Company Pursuant To Section 169(16) Of Companies Act 1965

I, **HEE KOK HIONG**, being the officer primarily responsible for the financial management of **FRONTKEN CORPORATION BERHAD**, do solemnly and sincerely declare that the financial statements of the Group and of the Company set out on pages 49 to 130 are, to the best of my knowledge and belief, correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

HEE KOK HIONG

Subscribed and solemnly declared
by the abovenamed **HEE KOK HIONG** at
KUALA LUMPUR this 27th day of March 2017.

Before me,
Lai Din (No. W-668)
COMMISSIONER FOR OATHS

List Of Properties

Details of the landed properties owned and leased by the Company and its subsidiaries are set out below:

Address	Description/ Existing use	Land area/ Built-up area sq m	Approximate age of building	Tenure	Audited net book value as at 31.12.2016 RM'000	Date of acquisition
Frontken (Singapore) Pte Ltd (FS)						
Pte Lot A12843 (to be known as Pte Lot A21020) Bearing postal address: 156A Gul Circle Singapore 629614	2 factory buildings with mezzanine office and a 4-storey factory to house production facilities	11,154/ 11,213	20 years, 30 years & 6 years	Leasehold expiring on 19.07.2039	18,421	01.08.2001
FS						
Pte Lot A22490 (to be known as Pte Lot A1355601) Bearing postal address: 15 Gul Drive Singapore 629466	4-storey factory building to house production facilities and R&D activities	4,877/ 3,147	15 years	Leasehold expiring on 30.04.2026	2,903	18.03.2005
Frontken Malaysia Sdn Bhd (FM)						
177296 Lot 38206 Pekan Baru Hicom Daerah Petaling Selangor Darul Ehsan Bearing postal address: Lot 2-46, Jalan Subang Utama 7 Taman Perindustrian Subang Utama Seksyen 22 40300 Shah Alam Selangor Darul Ehsan	1½-storey detached factory building to house production facilities	2,023/ 1,006	20 years	Freehold	1,918	17.03.2003
FM						
177293 Lot 38196 Pekan Baru Hicom Daerah Petaling Selangor Darul Ehsan Bearing postal address: Lot 2-47, Jalan Subang Utama 8 Taman Perindustrian Subang Utama Seksyen 22 40300 Shah Alam Selangor Darul Ehsan	Vacant industrial land	2,177/ -	N/A	Freehold	1,500	04.07.2007

List Of Properties (cont'd)

Address	Description/ Existing use	Land area/ Built-up area sq m	Approximate age of building	Tenure	Audited net book value as at 31.12.2016 RM'000	Date of acquisition
FM						
H.S. (D) 40495 & 40609 Lots 12049 & 12063 Mukim 14, Daerah Seberang Perai Tengah Penang	1½-storey semi- detached factory to house production facilities and R&D activities	604/ 597	14 years	Freehold	474	07.07.2003
Bearing postal address: No. 18, Jalan Pala 12 Kawasan Industri Ringan Permatang Tinggi 14100 Bukit Mertajam Penang						
H.S. (D) 40496 & 40610 Lots 12050 & 12064 Mukim 14, Daerah Seberang Perai Tengah Penang	1½-storey semi- detached factory to house production facilities and R&D activities	603/ 541	14 years	Freehold		
Bearing postal address: No. 20, Jalan Pala 12 Kawasan Industri Ringan Permatang Tinggi 14100 Bukit Mertajam Penang						
FM						
H.S. (D) 50571 P.T. No. 1923 Mukim Padang Cina Daerah Kulim Kedah Darul Aman	Single-storey detached factory building to house production facilities and R&D activities	12,141/ 3,299	11 years	Leasehold expiring on 08.05.2066	6,297	23.12.2005
Bearing postal address: PT1923, Jalan Hi Tech 2/3 Industrial Zone Phase I Kulim Hi-Tech Industrial Park 09000 Kulim Kedah Darul Aman						
FM						
H.S. (D) 50571 P.T. No. 1923 Mukim Padang Cina Daerah Kulim Kedah Darul Aman	Vacant industrial land	15,419/ -	N/A	Leasehold expiring on 08.05.2066	1,766	09.11.2007
Bearing postal address: PT 1923, Jalan Hi Tech 2/3 Industrial Zone Phase I Kulim Hi-Tech Industrial Park 09000 Kulim Kedah Darul Aman						

List Of Properties (cont'd)

Address	Description/ Existing use	Land area/ Built-up area sq m	Approximate age of building	Tenure	Audited net book value as at 31.12.2016 RM'000	Date of acquisition
Ares Green Technology Corporation						
0273-0000, 0276-0000 & 0277-0000 Bearing postal address: No. 17, Bade Road Xinying Dist. Tainan City, 73054 Taiwan, R.O.C.	A single-storey factory building and a 2-storey factory building to house production facilities and R&D activities and a 2-storey office building	16,966/ 14,190	17 years	Freehold	49,540	14.06.2004
PT Frontken Indonesia						
NIB No. 28.04.02.19.00499 28.04.02.19.00497 28.04.02.19.00495 28.04.02.19.00493 28.04.02.19.00492 28.04.02.19.00490 Bearing postal address: Jl. Raya Serang KM.13 RT.003/RW.002 Kp. Cirewed, Sukadamai- Cikupa Tangerang Banten Indonesia 15710	A single-storey factory building to house production facilities and office	5,385/ 3,222	32 years	Leasehold expiring on 17.10.2039 & 19.05.2041	1,565	12.12.2011
TTES Frontken Integrated Services Sdn Bhd						
Lot 3687 & 3688, Mukim Telok Kalong, Kemaman Terengganu Bearing postal address: Lot 3687 & 3688, Mukim Telok Kalong, Kemaman Terengganu	Vacant industrial land	4,133/ -	N/A	Leasehold expiring on 22.08.2057	253	08.12.2009

Shareholding Statistics As At 15 March 2017

Issued and Paid-up Share Capital	:	RM118,925,352 comprising 1,053,435,130 ordinary shares
Class of shares	:	Ordinary shares
Voting rights	:	One vote per share

DISTRIBUTION OF SHAREHOLDINGS AS AT 15 MARCH 2017

Size of holdings	No. of shareholders	% of shareholders	*No. of shares	*% of issued capital
Less than 100	186	3.0	8,188	~
100 – 1,000	323	5.2	159,184	~
1,001 – 10,000	1,615	26.1	11,309,258	1.1
10,001 – 100,000	3,271	52.9	140,122,128	13.4
100,001 to less than 5% of issued shares	791	12.8	548,923,499	52.4
5% and above of issued shares	2	~	347,446,273	33.1
Total	6,188	100.0	1,047,968,530	100.0

Notes:

~ Negligible

* Excluding 5,466,600 shares held as treasury shares as at 15 March 2017

Distribution of shareholdings based on Record of Depositors

DIRECTORS' SHAREHOLDINGS AS AT 15 MARCH 2017

The shareholdings of the directors of the Company and the number of shares held by them as recorded in the Register of Director Shareholdings at the date of this statement are as follows:-

No.	Name	Direct		Indirect	
		No. of shares	*%	No. of shares	%
1.	Ng Wai Pin	5,000,000	0.5	-	-
2.	Dr Tay Kiang Meng	9,404,808	0.9	-	-
3.	Dato' Haji Johar Bin Murat @ Murad	-	-	-	-
4.	Aaron Sim Kwee Lein	-	-	-	-
5.	Dr Jorg Helmut Hohnloser	-	-	-	-
6.	Timo Fabian Seeberger	-	-	-	-

Note:

* Excluding 5,466,600 shares held as treasury shares as at 15 March 2017

SUBSTANTIAL SHAREHOLDERS AS AT 15 MARCH 2017

No.	Name	Direct		Indirect	
		No. of shares	*%	No. of shares	%
1.	Maybank Securities Nominees (Asing) Sdn Bhd CP Asia Holding GmbH	290,991,473	27.8	-	-
2.	Ooi Keng Thye	137,275,300	13.1	-	-

Note:

* Excluding 5,466,600 shares held as treasury shares as at 15 March 2017
Substantial shareholders based on Register of Substantial Shareholders

Shareholding Statistics (Cont'd)

THIRTY LARGEST SHAREHOLDERS AS AT 15 MARCH 2017

No.	Shareholders	No. of shares	*% of issued capital
1	Maybank Securities Nominees (Asing) Sdn Bhd CP Asia Holding GmbH	290,991,473	27.77
2	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Ooi Keng Thye	56,454,800	5.39
3	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Ooi Keng Thye (6000009)	18,565,300	1.77
4	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Cheng Chew Giap (6000179)	17,128,000	1.63
5	Kho Chew Swan	17,075,552	1.63
6	CIMSEC Nominees (Asing) Sdn Bhd Exempt An For CIMB Securities (Singapore) Pte Ltd (Retail Clients)	15,800,035	1.51
7	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Ooi Keng Thye (E-PPG)	15,231,000	1.45
8	Affin Hwang Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account For Ooi Keng Thye	13,254,100	1.26
9	Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Ooi Keng Thye (023)	11,856,400	1.13
10	HLB Nominees (Asing) Sdn Bhd Pledged Securities Account For Patrick Tan Choon Hock (Sin 9967-2)	11,760,000	1.12
11	Mohd Shukri Bin Hitam	11,482,000	1.10
12	Citigroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Ooi Keng Thye (474326)	11,443,800	1.09
13	Tay Kiang Meng	9,404,808	0.90
14	Koh Kok Choon	7,000,000	0.67
15	Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Cheng Chew Giap (023)	6,424,800	0.61
16	Ooi Keng Thye	6,383,600	0.61
17	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Francis Chia Mong Tet (CEB)	6,250,000	0.60
18	TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Kho Chai Yam	6,174,000	0.59
19	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Ronie Tan Choo Seng (8058147)	5,000,000	0.48
20	RHB Capital Nominees (Tempatan) Sdn Bhd Ng Wai Pin	5,000,000	0.48
21	AMSEC Nominees (Tempatan) Sdn Bhd Pledged Securities Account - Ambank (M) Berhad For Ooi Keng Thye (Smart)	4,985,800	0.48
22	Public Invest Nominees (Asing) Sdn Bhd Exempt An For Phillip Securities Pte Ltd (Clients)	4,701,552	0.45
23	Maybank Nominees (Tempatan) Sdn Bhd Eyo Sze Guan	4,466,000	0.43
24	Tan Shu Ayan	4,200,000	0.40
25	RHB Capital Nominees (Tempatan) Sdn Bhd Tan Yet Meng	4,111,600	0.39
26	Mohammad Allaudin & Co. Sdn. Bhd.	4,000,000	0.38
27	Maybank Securities Nominees (Tempatan) Sdn Bhd Maybank Kim Eng Securities Pte Ltd For Tan San Chuan	3,770,800	0.36
28	RHB Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Cheng Chew Giap	3,551,800	0.34
29	Fong Pik Na	3,542,730	0.34
30	Lee Mee Huong	3,530,900	0.34

Note:-

*Excluding 5,466,600 shares held as treasury shares as at 15 March 2017

Notice Of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Thirteenth Annual General Meeting of the Company will be held at Suite 301, 3rd Floor, Block F, Pusat Dagangan Phileo Damansara 1, No. 9, Jalan 16/11, Off Jalan Damansara, 46350 Petaling Jaya, Selangor on Tuesday, 30 May 2017 at 11.00 a.m. for the transaction of the following businesses:-

AGENDA

As Ordinary Business:-

1. To receive the Audited Financial Statements for the year ended 31 December 2016 together with the Reports of the Directors and the Auditors thereon. *(Please refer to Explanatory Note 1)*
2. To re-elect the following Directors who retire pursuant Article 74 of the Company's Constitution:-
 - (a) Dr Jorg Helmut Hohnloser; and *(Ordinary Resolution 1)*
 - (b) Dato' Haji Johar bin Murat @ Murad. *(Ordinary Resolution 2)*
3. To approve the payment of Directors' fees and Benefits of up to RM500,000.00 for the financial year ending 31 December 2017 up to the following next Annual General Meeting. *(Ordinary Resolution 3)*
4. To re-appoint Messrs Crowe Horwath as Auditors of the Company for the financial year ending 31 December 2017 and to authorise the Directors to fix their remuneration. *(Ordinary Resolution 4)*

As Special Business:-

To consider and if thought fit, to pass the following Resolutions:-

5. **AUTHORITY TO ISSUE SHARES PURSUANT TO SECTIONS 75 AND 76 OF THE COMPANIES ACT 2016 ("ACT")** *(Ordinary Resolution 5)*

"THAT subject always to the Act, the Constitution of the Company and the approvals of Bursa Malaysia Securities Berhad ("Bursa Securities") and the relevant regulatory authorities where such approval is necessary, the Directors be and are hereby empowered, pursuant to Sections 75 and 76 of the Act, to issue shares of the Company at any time until the conclusion of the next Annual General Meeting ("AGM") and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, provided that the aggregate number of shares to be issued does not exceed 10% of the total issued and paid-up share capital of the Company (excluding treasury shares) at the time of issue.

AND THAT the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Securities and that such authority shall continue to be in force until the conclusion of the next AGM of the Company."

6. **PROPOSED RENEWAL OF AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES ("PROPOSED RENEWAL OF SHARE BUY-BACK MANDATE")** *(Ordinary Resolution 6)*

"THAT subject to the provisions under the Act, the Constitution of the Company, the Listing Requirements and any other applicable laws, rules, regulations and guidelines for the time being in force, the Company be and is hereby authorised to purchase such number of ordinary shares in the Company ("Shares") as may be determined by the Directors from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that the aggregate number of shares purchased pursuant to this resolution shall not exceed 10% of the total issued and paid-up share capital of the Company.

THAT the maximum amount of funds to be allocated for the purpose of purchasing the Shares shall not exceed the retained profits of the Company.

Notice Of Annual General Meeting (cont'd)

6. PROPOSED RENEWAL OF AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES (“PROPOSED RENEWAL OF SHARE BUY-BACK MANDATE”) (CONT'D)

THAT authority be and is hereby given to the Directors to decide at their discretion, as may be permitted and prescribed by the Act and/or any prevailing laws, rules, regulations, orders, guidelines and requirements issued by the relevant authorities for the time being in force to deal with any of the Shares so purchased by the Company in the following manner:-

- (i) the Shares so purchased could be cancelled; or
- (ii) the Shares so purchased could be retained as treasury shares for distribution as dividends or bonus shares to the shareholders of the Company and/or be resold through Bursa Securities in accordance with the relevant rules of Bursa Securities and/or transferred in accordance with the Act and/or be cancelled subsequently; or
- (iii) combination of (i) and (ii) above.

THAT the authority conferred by this resolution will be effective immediately from the passing of this ordinary resolution and shall continue to be in force until:-

- (i) the conclusion of the next AGM of the Company, at which time the said authority would lapse unless by an ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which the next AGM is required by law to be held; or
- (iii) the authority is revoked or varied by an ordinary resolution of the shareholders of the Company in a general meeting,

whichever occurs first.

AND THAT the Directors be and are hereby authorised to take such steps as are necessary or expedient to implement or to effect the purchase(s) of the Shares with full power to assent to any conditions, modifications, variations and/or amendments as may be imposed by the relevant authorities and to take such steps as they may deem necessary or expedient in order to implement, finalise and give full effect in relation thereto.”

7. RETENTION OF INDEPENDENT DIRECTOR

*(Ordinary
Resolution 7)*

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

“**THAT** approval be and is hereby given to Dato’ Haji Johar Bin Murat @ Murad, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, to continue to act as an Independent Non-Executive Director of the Company.”

8. To transact any other business of which due notice shall be given.

BY ORDER OF THE BOARD

Mah Li Chen (MAICSA 7022751)
Chew Mei Ling (MAICSA 7019175)
Yeap Yee Ling (MAICSA 7067021)
Company Secretaries

Kuala Lumpur
25 April 2017

Notice Of Annual General Meeting (cont'd)

Notes:-

1. A Member entitled to attend and vote at this meeting is entitled to appoint a proxy/proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
2. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
3. Where the appointer is a corporation, this form must be executed under its common seal, if any or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy or proxies must be deposited at the office of the Share Registrar of the Company situated at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time fixed for convening the Meeting or any adjournment thereof.
5. For the purpose of determining a member who shall be entitled to attend the Thirteenth Annual General Meeting, the Company shall request Bursa Malaysia Depository Sdn Bhd to issue a Record of Depositors as at 24 May 2017. Only a depositor whose name appears on the Record of the Depositor as at 24 May 2017 shall be entitled to attend this Thirteenth Annual General Meeting or appoint proxies to attend and/or vote on his/her behalf.
6. All resolutions at the Annual General Meeting shall be voted by poll.

Explanatory Notes on Ordinary Business:-

1. Item 1 of the Agenda

This Agenda item is meant for discussion only as the provision of Section 340(1)(a) of the Act does not require a formal approval of the shareholders for the Audited Financial Statements. Hence, this item is not put forward to shareholders for voting.

2. Item 3 of the Agenda

Section 230(1) of the Act requires that the fees of the directors and any benefits payable to the directors be approved at a general meeting. The benefits comprised of meeting allowance, travelling allowance and Board Committee allowances.

Explanatory Note on Special Business:-

3. Item 5 of the Agenda

The proposed Ordinary Resolution 5, if passed, will empower the Directors from the conclusion of this AGM, to allot and issue up to a maximum of 10% of the total issued and paid-up share capital of the Company (excluding treasury shares) at the time of issue (other than bonus or rights issue) without the need to convene a general meeting and for such purposes as they consider would be in the best interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the next AGM of the Company. This mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to placing of shares, for the purpose of funding working capital, future investment project(s) and/or acquisition(s). At this juncture, there is no decision to issue new shares. If there should be a decision to issue any new share after the general mandate is sought, the Company will make an announcement in respect thereof.

The proposed Ordinary Resolution 5 is a renewal of the general mandate for issuance of shares pursuant to Sections 75 and 76 of the Act. The Company had, at the Twelfth AGM held on 24 June 2016, obtained its shareholders' approval for the general mandate for issuance of shares pursuant to Section 132D of the Companies Act 1965. As at the date of this notice, the Company did not issue any share pursuant to the said mandate.

Notice Of Annual General Meeting (cont'd)

4. Item 6 of the Agenda

The proposed Ordinary Resolution 6, if passed, will give the Directors of the Company the authority to take all such steps as are necessary or expedient to implement, finalise, complete and/or effect the purchase(s) of Shares by the Company as the Directors may deem fit and expedient in the best interest of the Company. This authority will, unless renewed or revoked or varied by the Company at a general meeting, continue to be in force until the conclusion of the next AGM of the Company or the expiry of the period within which the next AGM of the Company following the Thirteenth AGM is required by the law to be held. Please refer to the Share Buy-Back Statement dated 25 April 2017 which is despatched together with this Annual Report for more information.

5. Item 7 of the Agenda

The Nomination Committee has assessed the independence of Dato' Haji Johar Bin Murat @ Murad, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, and recommended him to continue to act as an Independent Non-Executive Director of the Company based on the following justifications:-

- (a) He fulfills the criteria under the definition of Independent Director as stated in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and thus, he is able to provide a check and balance by bringing an element of objectivity and independent judgement to the Board's deliberation;
- (b) He brings with him vast experience and expertise to complement the competencies of the other Directors to enhance boardroom discussion and decision;
- (c) He has been with the Company for more than nine (9) years since 2006 and accordingly, is familiar with the nuances and understanding of the Group's business operations; and
- (d) He has exercised due care, skill and diligence during his tenure as an Independent Non-Executive Director of the Company and carried out his duties professionally and objectively in the interest of the Company and shareholders.



FRONTKEN CORPORATION BERHAD
(Company No.: 651020-T)

(Incorporated in Malaysia under the Companies Act 2016)

PROXY FORM

CDS Account No.

Number of shares held

I/We..... Tel. No.:.....
[Full name in block and NRIC No./Company No.]

of.....
[Address]

being a member/members of **Frontken Corporation Berhad**, hereby appoint:-

Full Name (in Block)	NRIC/Passport/Company No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and / or (delete as appropriate)

Full Name (in Block)	NRIC/Passport/Company No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing him, the Chairman of the Meeting as my/our proxy to attend and to vote for me/us and on my/our behalf at the Thirteenth Annual General Meeting of the Company to be held at Suite 301, 3rd Floor, Block F, Pusat Dagangan Phileo Damansara 1, No. 9, Jalan 16/11, Off Jalan Damansara, 46350 Petaling Jaya, Selangor on Tuesday, 30 May 2017 at 11.00 a.m. or any adjournment thereof, and to vote as indicated below:-

Item	Agenda	Resolution	For	Against
1.	Re-election of Dr Jorg Helmut Hohnloser	Ordinary Resolution 1		
2.	Re-election of Dato' Haji Johar bin Murat @ Murad	Ordinary Resolution 2		
3.	Payment of Directors' fees and Benefits	Ordinary Resolution 3		
4.	Re-appointment of auditors	Ordinary Resolution 4		
5.	Authority to issue shares	Ordinary Resolution 5		
6.	Proposed Renewal of Share Buy-Back Mandate	Ordinary Resolution 6		
7.	Retention of Independent Director	Ordinary Resolution 7		

Please indicate with an "X" in the space provided whether you wish your votes to be cast for or against the resolutions. In the absence of specific direction, your proxy may vote or abstain as he thinks fit.

Signed this day of , 2017.

Signature of Shareholder(s)/Common Seal

Notes:-

1. A Member entitled to attend and vote at this meeting is entitled to appoint a proxy/proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
2. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
3. Where the appointer is a corporation, this form must be executed under its common seal, if any or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy or proxies must be deposited at the office of the Share Registrar of the Company situated at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time fixed for convening the Meeting or any adjournment thereof.
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6. All resolutions at the Annual General Meeting will be voted by poll.

FOLD THIS FLAP FOR SEALING

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**Affix
stamp**

FRONTKEN CORPORATION BERHAD (651020-T)
c/o Tricor Investor & Issuing House Services Sdn Bhd
Unit 32-01, Level 32, Tower A
Vertical Business Suite, Avenue 3
Bangsar South, No. 8, Jalan Kerinchi
59200 Kuala Lumpur
MALAYSIA

FOLD HERE



FRONTKEN CORPORATION BERHAD (651020-T)
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