annual report 2019

karex

1988

Karex began as a small family business in 1988 in Johor, Malaysia and faced many struggles during our formative years including having to obtain the requisite product registrations unique to each market, gaining entry into markets that already had very established multi-national companies and dealing with tightening credit controls during the Asian Financial Crisis.

Our Mission

We continuously build an organisation that responds to changing views and needs of sexual health and develop products that inspires better, healthier choices.

We champion social responsibility, not just as moral imperatives but to build better, stronger relationships with stakeholders within our communities.

We cultivate entrepreneurship, diversity and the desire to excel in the things we do.

Our Vision

To be the world's leading provider in sexual wellness by developing the most creative, inspiring and unique experiences for the global community.

Corporate Information

BOARD OF DIRECTORS

Tan Sri Dato' Seri Utama
Arshad bin Ayub
Chairman
Independent
Non-Executive Director

Dato' Dr. Ong Eng Long
@ Ong Siew Chuan
Senior Independent
Non-Executive Director

Professor Dato' Dr. Adeeba
binti Kamarulzaman
Independent
Non-Executive Director

Goh Leng Kian
Executive Director

Goh Yen Yen
Non-Independent
Non-Executive Director

Lam Jiuan Jiuan
Non-Independent
Non-Executive Director

Wong Yien Kim
Independent
Non-Executive Director

Law Ngee Song
Independent
Non-Executive Director

AUDIT COMMITTEE

Wong Yien Kim
Chairman
Independent
Non-Executive Director

Tan Sri Dato' Seri Utama
Arshad bin Ayub
Member
Independent
Non-Executive Director

Dato' Dr. Ong Eng Long
@ Ong Siew Chuan
Member
Senior Independent
Non-Executive Director

Professor Dato' Dr. Adeeba
binti Kamarulzaman
Member
Independent
Non-Executive Director

Law Ngee Song
Member
Independent
Non-Executive Director

RISK MANAGEMENT COMMITTEE

Lam Jiuan Jiuan
Chairwoman
Non-Independent
Non-Executive Director

Dato' Dr. Ong Eng Long
@ Ong Siew Chuan
Member
Senior Independent
Non-Executive Director

Professor Dato' Dr. Adeeba
binti Kamarulzaman
Member
Independent
Non-Executive Director

Goh Miah Kiat
Member
Chief Executive Officer

Goh Chok Siang
Member
Chief Financial Officer

REMUNERATION COMMITTEE

Tan Sri Dato' Seri Utama
Arshad bin Ayub
Chairman
Independent
Non-Executive Director

Law Ngee Song
Member
Independent
Non-Executive Director

Goh Yen Yen
Member
Non-Independent
Non-Executive Director

NOMINATION COMMITTEE

Law Ngee Song
Chairman
Independent
Non-Executive Director

Wong Yien Kim
Member
Independent
Non-Executive Director

Lam Jiuan Jiuan
Member
Non-Independent
Non-Executive Director

COMPANY SECRETARIES

Lim Lee Kuan
(MAICSA 7017753)

Teo Mee Hui
(MAICSA 7050642)

REGISTERED OFFICE

10th Floor, Menara Hap Seng
No. 1 & 3 Jalan P. Ramlee
50250 Kuala Lumpur, Malaysia
Tel : +603-2382 4288
Fax : +603-2382 4170

SHARE REGISTRAR

Boardroom Share Registrars Sdn Bhd
(378993-D)
(formerly known as
Symphony Share Registrars Sdn Bhd)
11th Floor, Menara Symphony
No. 5, Jalan Professor Khoo Kay Kim
Seksyen 13
46200 Petaling Jaya
Selangor Darul Ehsan, Malaysia
Tel : +603-7890 4700
Fax : +603-7890 4670

BANKERS

Bangkok Bank Public Company Limited
CIMB Bank Berhad
Hong Leong Bank Berhad
HSBC Bank Malaysia Berhad
RHB Bank Berhad
United Overseas Bank (Malaysia) Berhad

MANAGEMENT OFFICE

Lot 594, Persiaran Raja Lumu
Pandamaran Industrial Estate
42000 Port Klang
Selangor Darul Ehsan, Malaysia
Tel : +603-3165 6688
Fax : +603-3166 2000
Email : karex@karex.com.my

AUDITORS

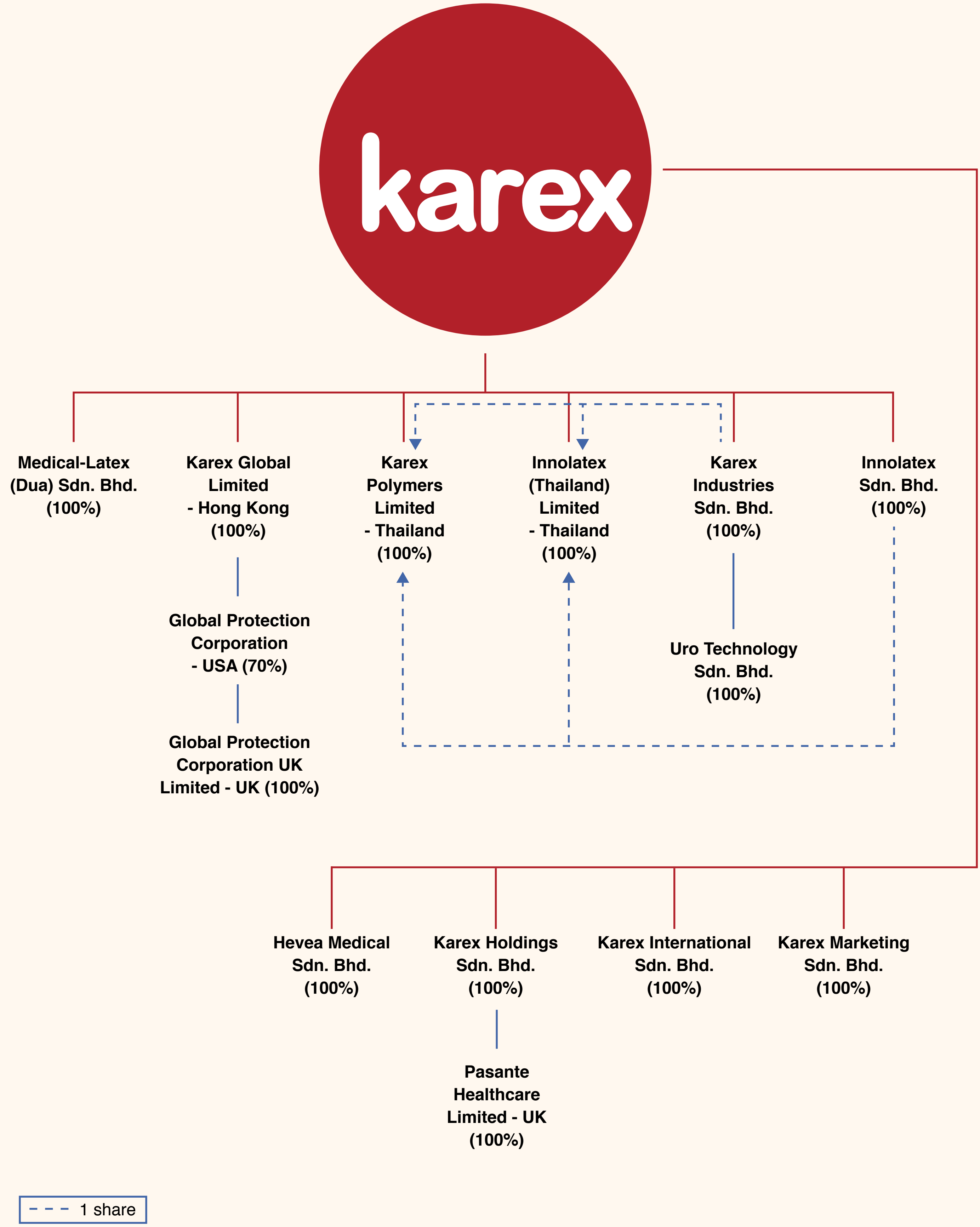
KPMG PLT
[LLP0010081-LCA & AF 0758]
Chartered Accountants
Level 3, CIMB Leadership Academy
No. 3, Jalan Medini Utara 1
Medini Iskandar
79200 Iskandar Puteri
Johor, Malaysia
Tel : +607-266 2213
Fax : +607-266 2214

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad
Stock Name : KAREX
Stock Code : 5247

Corporate Structure

As at 30 September 2019



Key Strategies

Core Competencies

We strive to continuously improve our world class manufacturing standards encompassing training, safety, machine performance, capacity and processes in order to build on our competitive advantages as the world's largest condom maker. We employ data analytics to improve our systems and hardware in order to deliver consistent quality at the most competitive costs for our customers.

Innovation

We prioritise innovation in all aspects of our operations as we believe that it will continue to set us apart from our competition. With consumer preferences changing at a faster pace than ever, it is imperative that we continue to creatively devise solutions that are able to cater for the specific requirements of our customers.

Branding

Investing in our brands not only allows our customers to understand our values better, but also offers a unique avenue to build value by giving us more leverage in the industry. We have always viewed well-strategised branding as integral to building confidence with our customers and suppliers within an industry where trust is of the utmost importance.

Human Capital

With passion and commitment, our employees continue to deploy their talents to improve our company, brands and products to provide consumers with the best possible quality. This culture is present on a daily basis amongst all of our staff, from plants to management offices and across different countries – it is present in every part of Karex. These amazing teams remain our Group's most important assets and the guarantors of Karex's success moving forward.

Financial Highlights

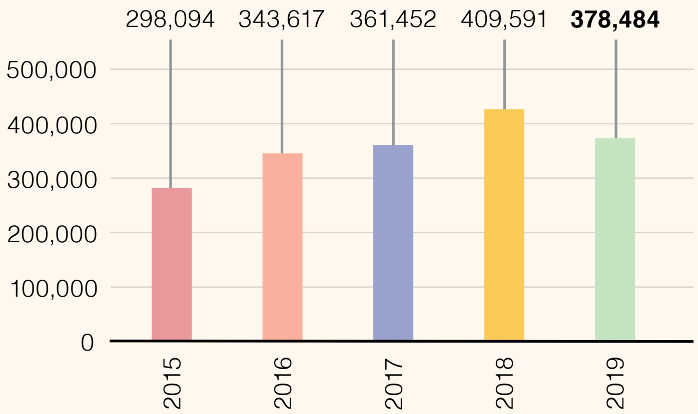
		Financial year ended 30 June				
		2015	2016	2017	2018[a]	2019
	Financial Performance (RM'000)					
(i)	Revenue	298,094	343,617	361,452	409,591	378,484
(ii)	Profit before tax	73,282	79,350	37,049	14,446	3,804
(iii)	Profit attributable to owners of the Company	59,553	66,685	27,946	10,229	2,533
	Financial Position (RM'000)					
	Assets					
(i)	Total tangible assets	473,306	525,509	496,841	488,984	498,534
(ii)	Net assets	431,597	479,067	496,644	483,140	491,032
(iii)	Current assets	343,885	344,328	294,840	277,500	275,885
	Liabilities and Shareholders' Funds					
(i)	Current liabilities	51,241	54,541	75,801	81,249	85,368
(ii)	Paid-up share capital	167,063	250,594	281,980	281,980	281,980
(iii)	Shareholders' funds	431,597	479,067	496,644	483,140	491,032
	Per Share					
(i)	Basic earning (sen) *	6.34	6.65	2.79	1.02	0.25
(ii)	Net assets (RM) **	0.65	0.48	0.50	0.48	0.49
	* Based on weighted average number of shares issued ('000)	938,962[b]	1,002,375[b]	1,002,375	1,002,375	1,002,375
	** Based on number of shares issued ('000)	668,250	1,002,375	1,002,375	1,002,375	1,002,375
	Financial Ratios					
(i)	Return on total tangible assets (%)	12.58	12.69	5.62	2.09	0.51
(ii)	Return on shareholders' funds (%)	13.80	13.92	5.63	2.12	0.52
(iii)	Current ratio (times)	6.71	6.31	3.89	3.42	3.23
(iv)	Gearing ratio (times)	0.05	0.05	0.04	0.06	0.07
(v)	Gearing ratio net of cash (times)	N/A[c]	N/A[c]	N/A[c]	N/A[c]	N/A[c]

(a) Restated to reflect the adoption of MFRS 15 Revenue from Contract Customers as disclosed in Note 28.1 of the audited financial statements.

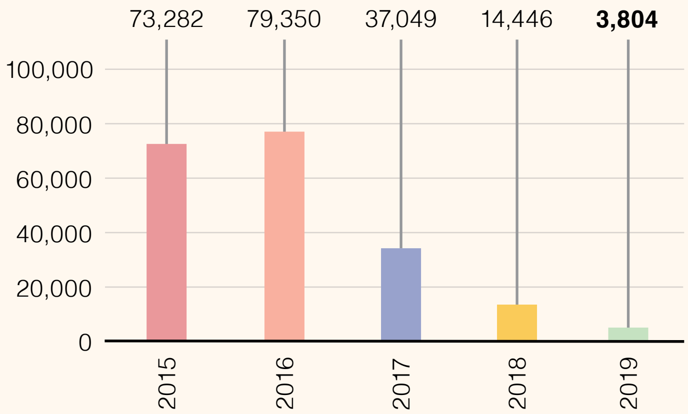
(b) Restated to reflect the retrospective adjustments arising from the bonus issue completed in the financial year 2015 and 2016 in accordance with "MFRS 133, Earnings per Share".

(c) No disclosure of gearing ratio net of cash (times) as the Group is in a net positive cash flow position.

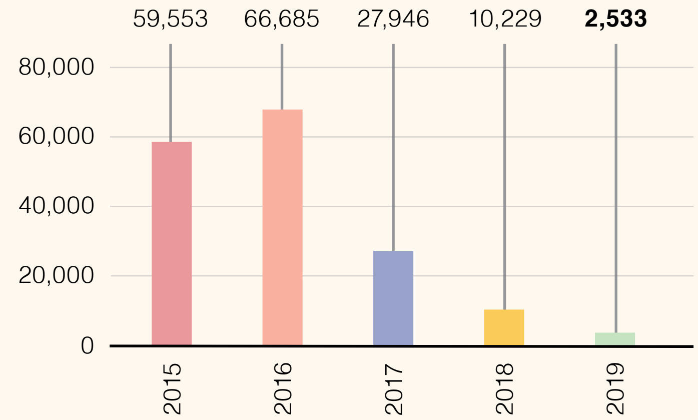
REVENUE (RM'000)



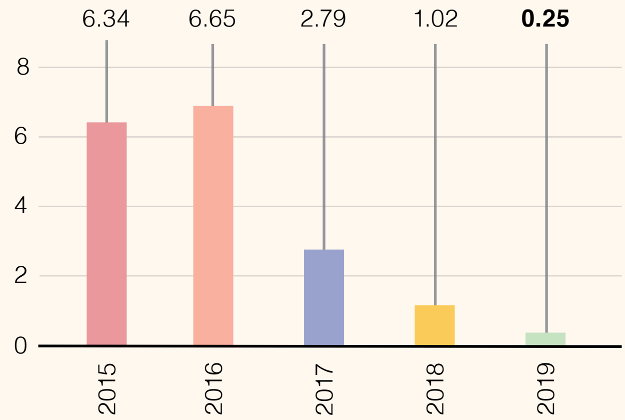
PROFIT BEFORE TAX (RM'000)



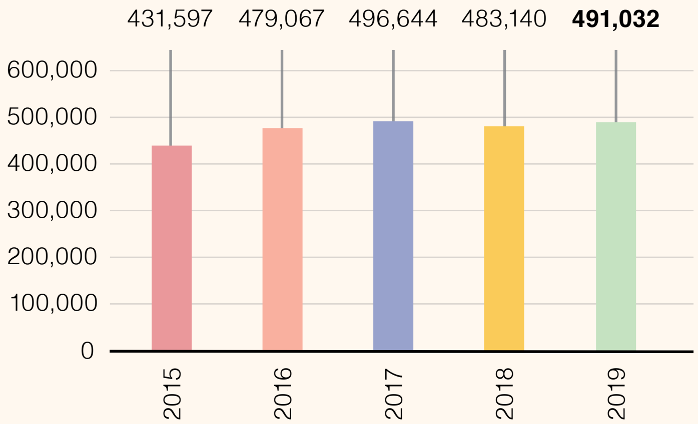
PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY (RM'000)



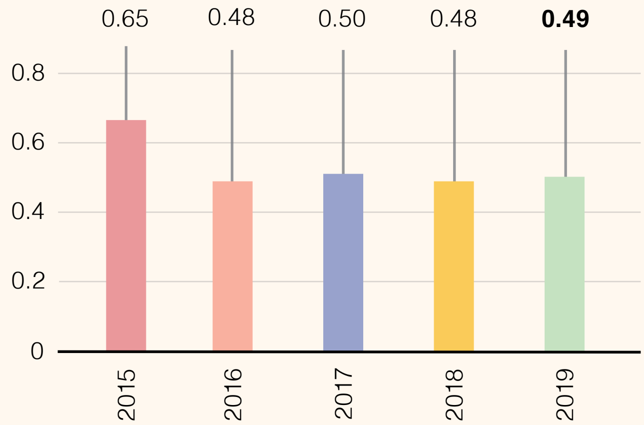
BASIC EARNING PER SHARE (SEN)



NET ASSETS (RM'000)



NET ASSETS PER SHARE (RM)



Chairman's Statement

Tan Sri Dato' Seri Utama Arshad bin Ayub

Chairman
Independent Non-Executive Director

Dear Fellow Shareholders,

2019 has been a challenging year for the global economy, with subdued growth and high levels of volatility undermining consumer confidence in many parts of the world. The industry has been no exception with humanitarian aid budget constraints and e-commerce causing widespread change and disruption. Although challenging, these changes offer significant opportunities to companies that are able to adapt swiftly and who can tailor their offerings to evolving consumer preferences.

Proposing a final single-tier dividend of

1.0 SEN PER SHARE

Revenue of

RM378.5M

During the year there was also a significant event that highlighted our commitment specifically as an organisation: a newspaper publication in the United Kingdom raised allegations regarding the unethical treatment of migrant workers in a number of Malaysian manufacturing facilities with Karex being named as one of them. Arising from this incident, the Board, whilst very concerned about the allegations have since come to be reassured by the total commitment of our CEO, MK Goh and his management team in how they have addressed these concerns and by the speed and vigour of their response.

Unfortunately, these allegations and resultant responses did have implications on our financial performance for the year. Our Group registered a revenue of RM378.5 million largely attributable to lower sales from condoms and personal lubricants as many customers had to await the completion of social audits arising from the allegations. Consequently, profit after tax was also lower at RM3.1 million following the reduced sales volumes and higher costs incurred from conducting the social audits and the associated remediation measures.

I am delighted to have had the pleasure to welcome Professor Dato' Dr. Adeeba binti Kamarulzaman to the Board during the financial year. She brings on board a wealth of experience in the sexual wellness space having worked with various international organisations as a leading expert in HIV/AIDs. We are confident that her added perspective will contribute diversity and complement the existing Board's experience and expertise, allowing us to better assess and steer our Group moving forward.

Our Group ended the year with a strong cash balance of RM63.6 million, following payment of RM5.0 million of dividends in the prior year. Our Board has recommended a final single-tier dividend of 1.0 sen per share this year. If approved at our upcoming Annual General Meeting, the dividend will be paid to shareholders on 23 December 2019.

I am grateful to my fellow Board members, to our CEO and his management team, and to all of our colleagues for their continued hard work during this year that proved to be challenging yet rewarding. I remain optimistic about our organisation's development trajectory as it matures into a global sexual wellness solution provider and I am confident that in due course we will be able to deliver value to you, our shareholders. Thank you for your continued support.

Tan Sri Dato' Seri Utama Arshad bin Ayub
Chairman

CEO's Management Discussion & Analysis

INDUSTRY OVERVIEW

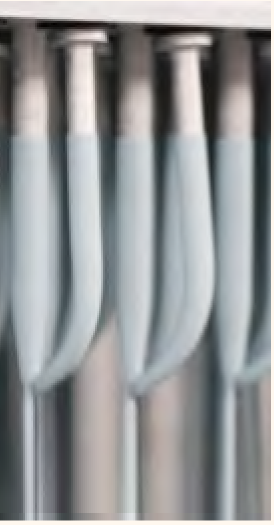
The global economy continued to be characterised by challenging operating environments and volatility caused by trade tensions between the East and the West, as well as strained emerging market economy performances across the world. Global commodity prices also remained erratic making it especially difficult for manufacturers around the world to manage costs and strategise efficiently.

In the Sexual Wellness industry, consumer tastes, preferences and expectations continued to evolve at unprecedented rates. Trends towards digital and online shopping, environmentally conscious packaging, as well as customisable options, are redefining the pace at which we need to innovate. We have focused on embracing the opportunities offered by the digital transformation across marketing, social media and e-commerce. In doing so, as an organisation today, we are delivering more personalised products, messages and services directly to our consumers.

Despite the advancement in consumer platforms, in much of the world, many traditional barriers and inequities hindering the use of condoms continue to exist. These include poor access,

age restrictions, gender norms, religious stigmas, insufficient supply and, in some places, laws that make it an offence to carry condoms. International funding for condom procurement has also noticeably decreased in recent years, with the hope that domestic funding would increase to make up for the deficit yet to materialise. This stark contrast is reflective of the disparity between sexual health education standards in different parts of the world.

Finally, one of the most prominent economic trends noticeable this year pertains to sustainability. From our frequent conversations, we realise that our consumers do not just care about what type of products they use, but also about how products are made and the resultant impact on the environment and society. We have undertaken measures to improve our consciousness surrounding the usage of materials in our packaging, energy conservation in all of our facilities, as well as broader policies governing our operations. Further details on our sustainability efforts can be found in the Sustainability Statement on pages 15 to 25 of this Report.



OPERATIONS REVIEW

The challenging industry climate has continued to emphasise the importance of reducing inefficiencies to ensure that we safeguard our position as one of the leading low-cost manufacturers in the world. To fuel our growth and improve returns, we have intensified our drive to find operational efficiencies and reduce structural costs. These initiatives have made good progress to reducing operational costs across the areas of administration, procurement and manufacturing.

The commissioning of our dedicated latex compounding facility has enabled us to maintain better controls over the quality and costs of our latex formulations. Although still in its infancy, this project has already begun to bear fruits in enabling us to produce thinner condoms more consistently, as well as reduce our rejection rates in our manufacturing facilities. Improvements will continue to be made to equip us with the tools to better insulate ourselves from the volatility in the latex market.

As minimum wages and the costs of social compliance continue to escalate, we recognise that the ability to manage our headcount will also be critical to maintaining our cost advantages in the industry. We have during the year continued to incorporate more automation into our manufacturing processes that have not only improved reliability and productivity especially with regards to condom testing, but have also provided us with a platform to further reduce our dependency on labour moving forward.

We understand that continuing to remain well-informed about our customers' needs from the ground will be critical to future success. A lot of effort has been spent during the year to collaborate with new brand owners and private label customers to develop packaging and product solutions that are customised to the needs of their markets. In doing so, we continued to expand our expertise in working with a wider range of packaging materials, finishing processes as well as condom variants. New product innovation will continue to be critical to our success especially in the Commercial segment moving forward.

CEO's Management Discussion & Analysis

FINANCIAL REVIEW

During the financial year ended 30 June 2019 ("FY 2019"), our Group recorded a revenue of RM378.5 million, representing a decrease of 7.6% in comparison to the previous financial year. This has been due to a challenging operating environment specifically within the Tender segment as well as a disruption of orders experienced during the second half of the FY 2019 resulting in lower condom sales for the year.

Managing production output against erratic ordering patterns during the year was made even more difficult against the backdrop of volatile raw material prices, most notably latex. Moreover, social compliance audits and remediation measures stemming from the migrant worker allegations caused pressure on overall profitability, resulting in the overall gross profit margin of 23.6% for the year.

Distribution expenses were approximately 19.4% lower than the previous year in line with lower condom sales, however these savings were partially offset by higher administrative expenses exceeding last year's total by RM4.9 million. Ultimately, combined with the impact to our gross profit margins, the corresponding profit before tax and profit after tax decreased to RM3.8 million and RM3.1 million respectively for the financial year.

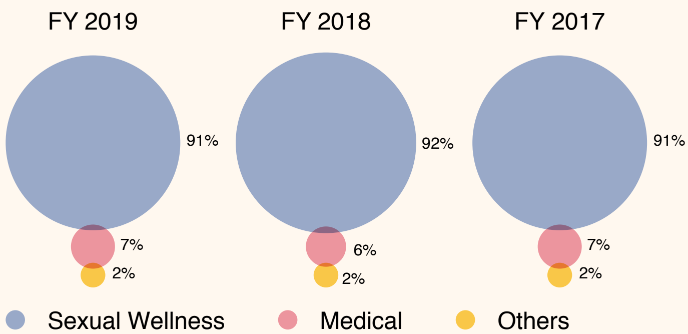
In spite of lower profits during the year, we recorded a drastic improvement in cash flows from operating activities in comparison to the previous financial year. This contributed positively to our total cash and cash equivalents total of RM63.6 million as at the end of FY 2019, representing an increase in excess of 32.0% from the previous year's total. Consequently, we have maintained liquidity on our balance sheet as represented by a healthy current ratio of 3.23x as at the end of FY 2019.

Capital expenditures amounted to RM19.0 million during the year and were primarily directed at the commissioning of our latex compounding facility as well as incorporating more automatic testing machines into our production lines. Although we did increase utilisation of some of our trade facilities during the year, overall debt still remains relatively low as reflected by a gearing ratio of 0.07x for the year. In aggregate, this contributed to non-current assets totalling RM319.2 million and a corresponding total asset base of RM595.1 million.

Product Divisions

The Sexual Wellness division continued to contribute in excess of 90% of Group revenue despite condom and personal lubricant sales being adversely affected by the social compliance allegations during the second half of FY 2019.

The Medical division recorded healthy growth lead primarily by catheter sales that increased by approximately 8% compared to the previous year. This achievement is even more impressive considering the catheter facility had been limited during the year by a lack of capacity. Plans to expand the existing site are already underway and are expected to come online over the course of the next few months.



OBM segment contributed

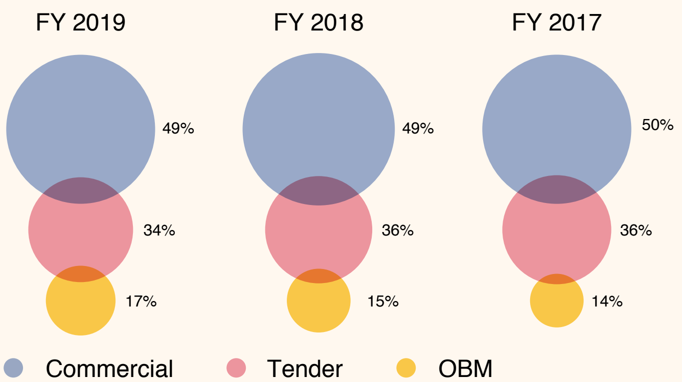
17% of revenue

Market Segments

Global tender markets remained extremely challenging to navigate during the year with the trade war between the United States of America ("USA") and China intensifying the struggle for NGOs and government bodies to secure budget allocations for humanitarian aid purposes. Market forces continued to perpetuate competitive pricing which affected the Tender segment's profitability. Sales volumes were also adversely affected by a number of social audits that had to be completed during the second half of the financial year in order to provide assurance to our customers with regards to the allegations regarding our treatment of foreign labour.

The Commercial segment remained the most significant avenue of sales for our Group with increasingly more brands opting to outsource manufacturing as a lack of product variety and costs concerns have become more prominent in developed nations. Unfortunately, sales in this segment was also hindered by social audits during the year.

Our Own Branded Manufacturing ("OBM") segment contributed a record high sales total during the year underlining its importance to our Group as a segment that not only demonstrates high future growth potential but also provides diversification for our Group's revenue stream. ONE® Condoms in particular continues to receive very positive feedback as evidenced by the increased range of products available in Walmart stores as well as the new retailers that have commenced listings during the year across the USA.

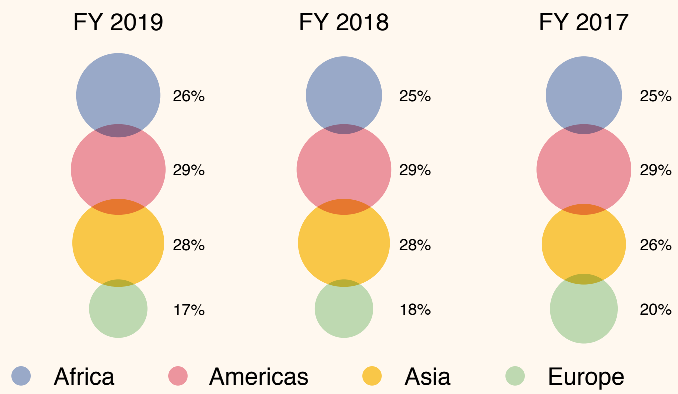


Geographical Regions

Asia remains the region that demonstrates the most prospect following last year's record sales contribution. Sales in Asia are predominantly commercial in nature, with customers in the region driving demand for our Group's most imaginative packaging and product concepts over the last few years.

Sales in the European region trended towards the private label business with many government funded health avenues being limited by budget restraints. Helping to offset this is the encouraging growth demonstrated by e-commerce sales in the region that continue to show promising growth via the Commercial as well as OBM segments.

Due to humanitarian budget constraints, sales to African and the South American sub-region were lower in the year. Sales to these regions are generally made via the Tender segment and typically involve specifications with simpler packaging and product varieties.



CEO's Management Discussion & Analysis

OUTLOOK

As we look ahead to 2020, it is clear that uncertainties will continue to persist. Trade disputes and the Brexit outcome, fluctuations in commodity and currency prices as well as expected slower growth in major economies will pose significant headwinds and heightening risks to global economic prospects. The consumer goods market in particular has evolved at a phenomenal pace to integrate the rapidly changing trends in purchasing patterns.

In spite of these changes, condoms remain the most efficient and economical means of contraception and prevention against the spread of sexually transmitted infections. Although widely acknowledged for their importance, humanitarian aid budget constraints and changing consumer trends have resulted in insufficient condoms being made available to those who need them – especially in regions of the world where the burden of HIV is highest.

Recently, UNAIDS published a feature story simply called "Not enough condoms" in which it wrote 'Condoms, if easily available and used consistently and correctly, are one of the most effective and inexpensive methods available to reduce the sexual transmission of HIV and other sexually transmitted infections and to prevent unintended pregnancy. Whilst considerable progress has been made, there is a risk that we will lose momentum. If the world is to be on track to end AIDS by 2030, there must be adequate and predictable financing for development. But, for the first time since 2000, the resources available for the AIDS response globally have declined.'

Rather than fallback to traditional avenues of education and distribution, the world is primed for new programs that should be aimed at strengthening demand for and supply of condoms and lubricants. Innovative solutions will be required to address the barriers and inequities that hinder access and use of condoms by young people, key populations and other people at higher risk of HIV. These promotion and distribution strategies need to be driven by data and tailored to the needs of different communities.

This shift will clearly advantage manufacturers like ourselves who have prioritised innovation and modernised their processes to incorporate environment, social and governance aspects into traditional core values. Though it has been challenging at times, I see many of the protocols that we have been implementing to be defining traits of our organisation moving forward that will really set us apart from the competition for years to come.

This year in particular has demonstrated that resilience, diversity and an inherent entrepreneurial spirit continue to be the key strengths of our Group. Combined with prudent capital management, a healthy liquidity and debt profile and a sustained focus on our key strategies, I am cautiously optimistic that we will be able to position ourselves at the forefront of a sexual health industry that is on the verge of dramatic transformation.

ACKNOWLEDGEMENTS

I want to thank my colleagues throughout the whole company for their hard work in persevering through these challenging times. Karex is fortunate to have such talented and dedicated people and I am deeply aware of my responsibilities to them – and to our many other stakeholders – in being asked to steer us through these waters.

I also want to thank the Board of Directors for their confidence and invaluable guidance as we aim to continue our transformation into a holistic sexual wellness solution provider. And, finally, to our shareholders, thank you for your ongoing unwavering support and belief in our company especially during these challenging times.

MK Goh
Chief Executive Officer

Sustainability Statement

Scope and Boundaries

This Statement summarises our sustainability efforts for our stakeholders and other interested parties. We aim to provide a clear, comprehensive and transparent representation of our performance in managing the Economic, Environmental and Social ("EES") aspects of our operations.

This Statement covers our EES performance across all our entities and operations in Malaysia, Thailand, the United States of America ("USA") and United Kingdom ("UK"). It includes discussions on the material topics identified through our materiality assessment to provide an accurate representation of our overall sustainability impact and performance. The report covers the period from 1 July 2018 to 30 June 2019 and has not been externally assured.

Our Approach to Sustainability

Our approach to sustainability forms part of our commitment to be a responsible corporation for our customers and communities we serve. We continously make efforts to embed sustainability in our policies and in our four key strategies detailed on page 5 of this Report, encouraging it to influence our investments, operations, stakeholder engagement and risk mitigation efforts, amongst others.

In an effort to ensure that the standard of our sustainability reporting is sufficiently comprehensive and aligned with international best practices, we have referenced different reporting guidelines and frameworks.

The Global Reporting Initiative ("GRI") is an international independent organisation that provides the world's most widely used standards on sustainability reporting. This Statement has been prepared with guidance from the GRI Standards as well as Bursa Malaysia's Sustainability Reporting Guide – 2nd Edition.

Sustainability Governance

Our strategic governance framework ensures that we make responsible decisions that consider the EES landscape to achieve our long-term objectives not just for our business but for all the stakeholders in our value chain.

Sustainability matters amongst others, come under the purview of our Risk Management Working Committee, who reports directly to the Risk Management Committee and ultimately our Board of Directors (the "Board"). Decisions are collectively reviewed and evaluated based on the respective longstanding merits and how they fit into our Group's vision towards cultivating a sustainable business model.

Risk Management Working Committee

- Responsible for identifying, monitoring and reviewing material sustainability matters under their purview
- Respective representatives take action and continue to review effects of efforts on a periodic basis
- Reports to Risk Management Committee on material matters identified and how they have been addressed

Risk Management Committee

- Reviews material sustainability matters and efforts with respective members from the Risk Management Working Committee
- Reports to the Board of Directors based on outcome of discussions

Board of Directors

- Holistically reviews Group's sustainability efforts and approves of Sustainability Statement for inclusion in Annual Report

Sustainability Statement

Stakeholder Engagement/Prioritisation

We recognise that the success of business relies on developing strong and meaningful relationships with our stakeholders. We continue to utilise various channels to foster conversations with our stakeholders in order to obtain feedback, develop ideas and provide solutions that ultimately provide more satisfaction for our customers. We have in doing so, utilised an array of platforms and different media in order to effectively align our business strategies with our sustainability goals.

Our Stakeholders	Methods of Engagement
Customers Brand owners, governments, non-governmental organisations and retail purchasers around the world	• Campaigns • Customer service • Online forums • Customer surveys • Social networks
Investors and Media Institutional and retail investors, analysts, fund managers and potential investors	• Annual general meetings • Quarterly results briefings • Conferences and roadshows • Site visits • One-to-one meetings and conference calls • Corporate website • Press releases
Employees Our employees based in Malaysia, Thailand, USA and UK	• Online newsletters and emails • Employee surveys • Virtual meetings and conference calls • Team building events • Annual performance appraisals • Townhalls
Government Agencies Regulators, health authorities and international medical device standard agencies	• Social and compliance audits • Industry and regulatory conferences • Meetings and briefings • Trade conventions • Charity events • Local council meetings
Vendors and Suppliers Contractors that provide services and products pertaining to the entire manufacturing process chain	• Transactional dealings • Training conferences and workshops • Outreach programmes • Annual dinners and company sponsored events • Supplier surveys
Community Local communities where we operate and conduct our businesses	• Charity functions • Sporting events • Dialogue and knowledge exchange events • Corporate Social Responsibility programmes

Identification of Material Issues

To identify matters that are most significant to our stakeholders and business, we conducted a comprehensive materiality assessment in the financial year ended 30 June 2018 (“FY 2018”). We utilised a step-by-step approach to identify a list of the most material matters and following discussions with stakeholders, continued to refine issues that were considered material to our business during the financial year ended 30 June 2019 (“FY 2019”):

Step 1

IDENTIFICATION

Before engaging with stakeholders to conduct an assessment, a list of material factors relating to economic, environmental and social factors relevant to our business were identified. In an effort to focus on the most material issues, the following factors were taken into consideration:

- Changing global and regional macroeconomic trends
- The expected developments of the Sexual Wellness industry and rubber products industry
- International standards and regulatory changes
- Stakeholder expectations and requirements
- Our strategies and internal policies

Step 2

PRIORITISATION AND ENGAGEMENT

A customised online survey was conducted to engage stakeholders and determine the material sustainability issues that most concerned each stakeholder. Issues identified were then narrowed down into key broad categories and ranked in terms of how critical each stakeholder considered each of them.

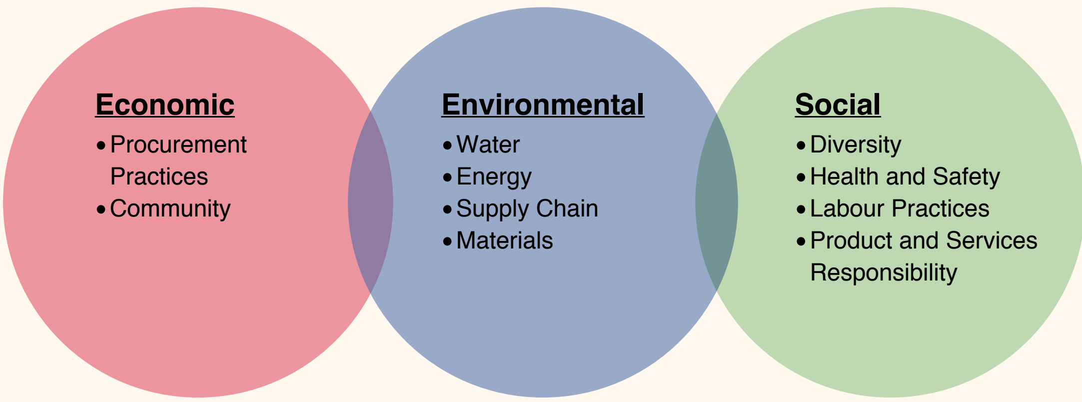
Step 3

REVIEW AND REFINE

The list of prioritised material matters was then verified through interviews and discussions with operations leaders in each respective field as well as members of the Management Team and the Risk Management Working Committee. Furthermore, we have subsequently assessed our business strategies to ensure they have taken proper consideration of the material issues identified.

The final materiality matrix was presented and endorsed by our Risk Management Working Committee.

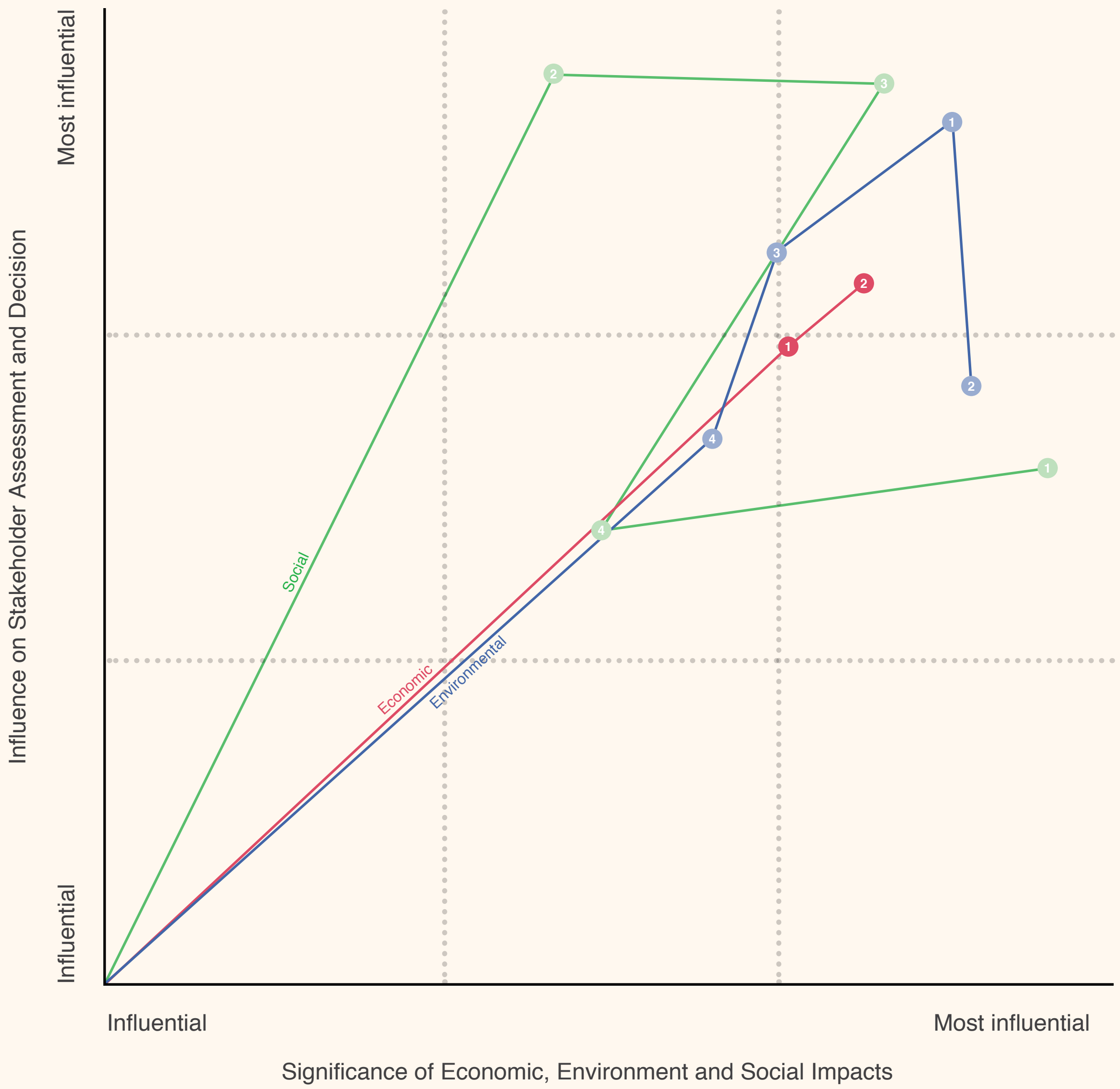
Assessment of Material Issues



Materiality Matrix

In line with Bursa Malaysia's Sustainability Reporting Guidelines, we conducted a materiality assessment through data analysis and stakeholder engagement. We gathered insight on material matters in which we have an economic, environmental and/or social impact, and prioritised 5 out of 10 of the issues identified.

Following the finalisation of our materiality matrix in FY 2018, the Management Team and Risk Management Working Committee have decided to include Labour Practices as an additional material issue for FY 2019. This is to provide stakeholders with further detail on specific events that concerned our treatment of migrant workers during the year.



Economic
1. Procurement Practices
2. Community

Environmental
1. Water
2. Energy
3. Supply Chain
4. Materials

Social
1. Diversity
2. Health and Safety
3. Labour Practices
4. Product and Services Responsibility

Mapping Initiatives Against Top Material Issues

Economic

It is imperative that our Board and Management Team ensure that the business is operated in a manner that is aligned with not only shareholders, but also of our community and end-consumers. This ensures that the business continues to be run in a manner that does not compromise future prospects in the interest of short-term benefits.

1. Community

Governance Practices

Ensuring good corporate governance is enshrined in our processes, practices and policies helps reduce the opportunity for corruption and malpractice. By formalising our corporate governance framework, we envisage workflow to be more consistent, for errors and nonconformities to be more transparent and a reduced need for 'fire-fighting', ultimately leading to cost savings.

Employing a top-down approach from leadership, we aim to develop a culture of honesty and reliability that not only provides our stakeholders assurance, but also clarity in the manner with which we make our business decisions. This not only gives shareholders comfort that proper safeguards are in place for their interests but also provides customers and suppliers notice that we remain conscious of these values at all times.

Our corporate governance policies are detailed in the Corporate Governance Overview Statement located on pages 42 to 49 of this Report as well as more comprehensively in our Corporate Governance Report that can be accessed at http://www.karex.com.my/. These documents clearly outline the responsibilities of our Board, the composition details of our Board, whistleblowing policy and corporate reporting details amongst others.

Risk Management Practices

A proper risk management framework is essential in enabling our business to pre-emptively identify possible risks, problems or disasters before they happen, as well as to set up procedures aimed at avoiding or minimising the impact upon occurrence. These procedures are integral in allowing our organisation to define our objectives for the future and identify the external and internal risks that may hinder the accomplishment of those objectives.

Our risk management team made up of members from our Board and Key Senior Management Team then come up with strategies to guard against these risks in order to enable more informed decision making moving forward. This ensures that strategic decisions are undertaken with careful deliberation so that the interests of all stakeholders are constantly being safeguarded.

Our risk management practices are detailed in the Statement of Risk Management and Internal Control located on pages 54 to 57 of this Report. These documents clearly outline the roles of the Risk Management Committee as well as the key risk focuses and mitigation plans that are in place to develop stronger internal controls.

Sustainability Statement

Environmental

Being mindful of the environmental impact of our operations will not only allow us to conserve our planet's resources but facilitate better efficiencies in our manufacturing processes. We are always on the lookout for ways to reduce our emissions, minimise our energy consumption and treat our waste more efficiently.

1. Water

Water is essential to our manufacturing processes and is a shared resource that is vital to our consumers and the communities they live in. As global warming continues to result in climate change, flooding and other water-related risks, it becomes more important to play our part in conserving this precious commodity.

We employ a variety of systems in our facilities which include using cooling systems that utilise irrigation systems for heat exchangers and cleaning, as well as water treatment plants that are able to process water waste from manufacturing for future use. Our Pontian facility employs a system that purifies waste water from the condom dipping process for reuse in other plant functions with an intention to eventually achieve zero water wastage. These initiatives are all aimed at optimising our water usage across the Group so that we may use water more efficiently and responsibly.

Furthermore, our systems are constantly being evaluated in order to identify water-related risks and opportunities. We have during the year implemented new initiatives aimed at more accurately measuring our water utilisation with the aim of being able to compile comparative periodic data moving forward.

2. Energy

We continued to strive towards more optimal energy management to reduce utility costs as well as minimise our impact on the environment. We have once again this year continued to explore methods to optimise energy utilisation across our manufacturing facilities as well as our corporate offices.

Our corporate offices have continued to promote measures that are aimed at minimising printing paper whenever possible, switching off electronics, lights and air-conditioning when not in use, and to utilise the stairs instead of the lifts whenever possible. We have also made strides to move towards eliminating single use plastics, beginning with our office functions that now utilise reusable containers for water and consumables – a directive that has been embraced enthusiastically by all our staff.

Efforts in our manufacturing facilities include the installation of more energy efficient heating mechanisms in our dipping lines, utilising natural light and swapping traditional filament bulbs in favour for eco-friendly light bulbs. We have successfully maintained the ISO 14001:2015 Environmental Management System certification at all of our manufacturing facilities. This standard ensures that each subsidiary is able to have in place an effective environmental management system.

Our Thailand facility continues to build on cutting edge technology aimed at utilising natural lighting and air pressure systems, recycling heat and reprocessing water to create an environment that is both comfortable for our staff and at the same time sets a benchmark for environmentally conscious manufacturing. The facility has been accredited the ISO 50001 Energy Management System certification and is in the process of being certified LEED (Leadership in Energy & Environmental Design) by the USA Green Building Council.

In a similar fashion to our water utilisation, we have also during the year implemented new initiatives to more accurately compile data on our energy usage. The intention is that we will be able to use this data to analyse our usage against our production output and improve efficiencies moving forward.

Social

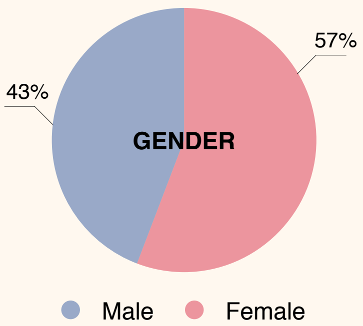
Our social sustainability ethos is centered around operating in a manner that is respectful of human rights, considerate of ethical supply chain management and adheres to health and safety. It is critical that we constantly work with our employees, local communities and customers to build meaningful relationships that last.

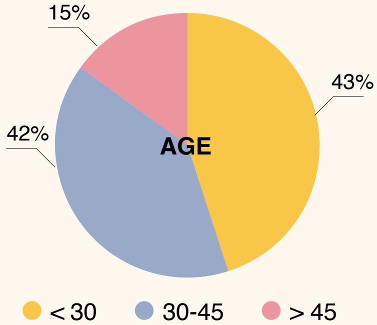
1. Diversity

Workplace

As a global business, our ability to understand, embrace and operate in a diverse world is critical to our long-term sustainability and to doing business the right way. This entails not just acknowledging different consumer preferences but also looking within to build an inclusive workplace environment that is able to leverage on the talent, insights and ideas from our global employees.

Not only do we provide equal opportunities to our staff regardless of their age, ethnicity, race, gender, sexual orientation or beliefs and backgrounds as policy, but we have also instilled several initiatives aimed at dissipating stereotypes. These include the provision of gender-neutral toilets, retraining programs for employees who may become disabled and the removal of gender, religious and sexual preference data from our human resource metrics, amongst others. Our aspiration is not only to mirror, at every level of leadership, the diversity of the communities we operate in, but also to exceed industry norms.





^ *Collaborative fashion show between the University of Maryland Health Center and ONE® Condoms*

Local Communities

Improving sexual health education is critical not just to our business but to ensure that we continue to engage with the youth in our communities. We are constantly developing creative methods to communicate critical messages aimed at de-stigmatising condom usage in key demographics.

In the USA, we continued our 5-year partnership with LIFEbeat: Music Fights HIV. Working with artists like Wiz Khalifa, Against Me, Sam Smith and A$AP Ferg, we distributed condoms and lubricants to hundreds of music performances across the USA and in the process facilitated discussions about sexual health amongst the younger generation.

ONE® Condoms collaborated with student groups and non-profits to host condom fashion shows through its Project CONDOM program in an effort to integrate arts and design conversations with sexual health topics. In FY 2019, partnerships included Planned Parenthood, Odyssey House Louisiana, and Boulder Valley Women's Health Center.

Sustainability Statement

Social

^ *Team Karex contributed towards an art installation in celebration of Pride Month*

During the year, we have also continued to support causes close to our hearts in the local community with continued donations to the Malaysian AIDS Foundation, The Edge Education Foundation and support of a local school for children with special needs (Sekolah Khas Klang). Some of the activities organised include visits to our facilities for underprivileged children during which they were provided with supplies, food and stationery. We have also organised and conducted blood donation drives as continued support for the local hospitals in the vicinity of our facilities.

Notable campaigns and organisations that have been involved with our distribution efforts during the year include the CONDOMIZE campaign run by the United Nations Population Fund, PT Foundation (Malaysia) and the Phuket Loves You Club (Thailand). We have also worked with various high schools, LGBTQ centers and reproductive health organisations in Malaysia, Thailand and USA. These collaborative efforts have involved our staff speaking at seminars on campus, conducting plant visits at our facilities and even offering internships to some of the students in the interest of promoting sexual health education.

In conjunction with World AIDS Day, we hosted the fourth installment of our charity art auction entitled “Art Against AIDS” in Kuala Lumpur, Malaysia. This year’s event once again brought local art students together with professional artists to raise awareness for HIV/AIDS. Beneficiaries this year included various welfare organisations such as the PT Foundation, Malaysian AIDS Foundation, Pertubuhan Kebajikan dan Kesihatan Umum Malaysia and the Malaysian AIDS Council.

Social

2. Health and Safety

The safety and health of our employees is of paramount importance. Our policy is to provide a safe and healthy workplace and comply with applicable safety and health laws and regulations, as well as internal requirements. In order to proactively mitigate potential risks, we constantly conduct training for new staff and refresher courses for our operators to ensure accident prevention systems are well-rehearsed. Our safety programs cover a range of procedures including, but not limited to emergency response, first-aid, evacuation, fire-fighting and crime prevention.

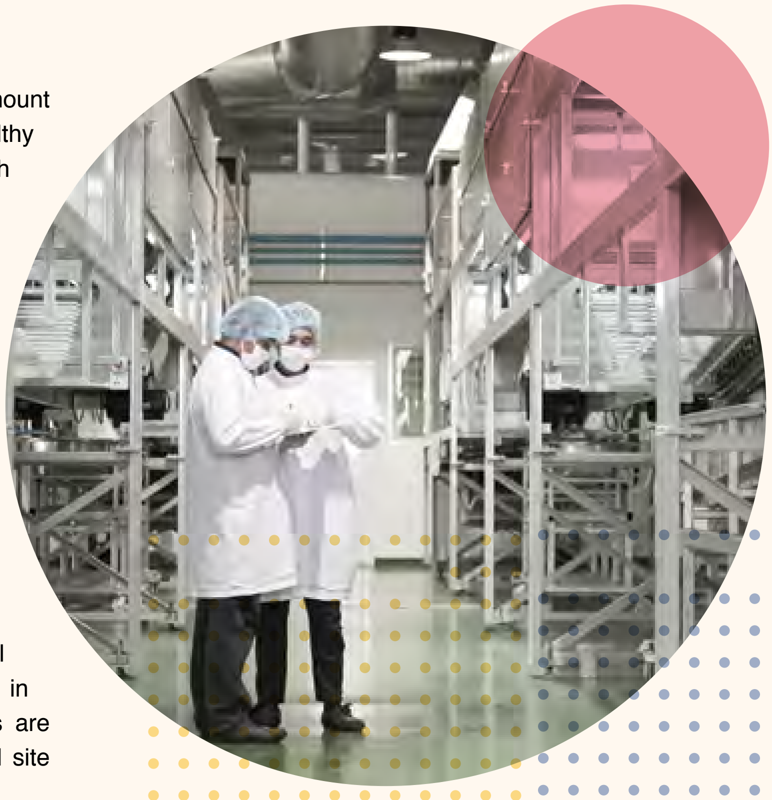
We work to provide and maintain a safe, healthy and productive workplace, in consultation with our employees, by addressing and remediating identified risks of accidents, injury and health impacts. Our staff are always afforded access to appropriate medical facilities as well as health insurance and medical care in the event of emergencies. Health and safety policies are translated into various languages and displayed on all site notice boards.

Finally, we adhere to a number of industry regulation standards that require specific production standards and protocols to be in place in order to gain certification. These internationally recognised certifications ensure that our facilities are always operating at high quality standards, that not only ensure staff are well taken care of, but also that our product quality is always safeguarded.

Our Senai facility scored an outstanding

85.5%

in an audit conducted by the Department of Occupational Safety and Health during the year



3. Labour Practices

Respect for the rights and diversities amongst our staff are fundamental values at Karex. We constantly uphold the values of meritocracy and seek to ensure that none of our staff are ever treated with prejudice. It is for these reasons that the social compliance allegations received at the beginning of the year were treated with the utmost seriousness by our Board and Management team.

We have made it a priority to ensure that our staff always feel aware of their rights and responsibilities. We have provided lockers for our foreign staff to safeguard their valuables and passports at all times, whether they opt to do so at our operations facilities or their accommodation facilities. Furthermore, foreign staff are always made aware of their rights via frequent briefings that are conducted in their native languages, as well as ensuring that any notices or signage in our facilities are also displayed in a variety of languages.

Sustainability Statement

Social

^ A monthly award for our migrant workers with the best kept hostels in the region

We are also constantly improving accommodation hostels for our migrant workers in line with international standards and local regulations. Our staff facilities are equipped with adequate amenities and recreation facilities and we have conducted thorough health and safety reviews to evaluate fire and hazard risks during the year. Moreover, logistics and transportation arrangements have also been implemented to ensure that our staff are afforded the adequate protection from criminal activities.

Following a thorough review of the recruitment processes, we have as an organisation decided to handle future recruitment utilising in-house personnel. We have made it a point not to hire any foreign workers unless we are given assurances that their recruitment has been ethically conducted by licensed agents. We have also taken the position to reimburse any staff that have incurred debt, unbeknownst to us, in order to migrate to Malaysia or Thailand to work at our facilities. This represents a radical departure from the norm in Malaysia and goes some distance to distinguish our organisation as a pioneer in the field of socially responsible manufacturing.

Looking ahead, the process, although arduous was extremely enlightening to us as an organisation. Not only were we afforded the opportunity to strengthen our communication channels with various government entities, our Management Team lead by our CEO, MK Goh also participated in a variety of migrant worker forums (British Medical Association meeting – Ethical Migrant Worker Forum, January 2019 and European Parliament Working Group on Responsible Business Conduct – Public Procurement, Responsible Business Conduct and EU Public Procurement Directive – Ethical Migrant Worker Recruitment Workshop, February 2019 to name a few) that were invaluable in developing our understanding of social sustainability.

Social

We are confident that these discussions along with the various social audits that we have undergone across our facilities have improved our fundamental understanding of labour practices, not just in our industry, but across our region. We believe this knowledge will prove vital moving forward in an industry that is becoming increasingly conscious about the ethical and social sustainability standards manufacturers are held to.

Overview of Events

December 2018

We received a complaint through our official whistleblowing channel of alleged social compliance concerns. An internal investigation was immediately launched by our Board to address these concerns.

January 2019

Allegations emerge on the UK Telegraph of unsatisfactory working conditions and social compliance concerns at our manufacturing facilities. Our Management Team immediately sanctions an independent external investigation. Key stakeholders from local and foreign governments, along with our customers were engaged immediately from the onset of the news.

February 2019

We engaged Impactt Limited ("IMPACTT"), an independent company specialising in ethical trade, human rights, labour standards and international development to conduct a thorough investigation. IMPACTT carried out their assessment at all our manufacturing facilities and proceeded to formulate a remediation plan in conjunction with our Management Team based on their findings.

June 2019

IMPACTT completed their follow up audit and verified the completion of most of the remediation measures executed by Karex. IMPACTT acknowledged that they were pleasantly surprised with the speed at which we managed to conduct the turnaround and, in the process, we were recognised as a local leader in setting an example for strong social compliance initiatives, including remediation.

This Sustainability Statement is made in accordance with the resolution of the Board dated 11 October 2019.

Profile of Board of Directors

Tan Sri Dato' Seri Utama Arshad bin Ayub

Chairman
Independent
Non-Executive Director

Nationality: Malaysian
Gender: Male
Age: 91

Tan Sri Dato' Seri Utama Arshad was appointed to the Board on 30 November 2012 as our Chairman and Independent Non-Executive Director. He is the Chairman of the Remuneration Committee and a member of the Audit Committee.

Tan Sri Dato' Seri Utama Arshad graduated with a Diploma in Agriculture from the College of Agriculture, Serdang, Selangor in 1954 and later obtained a Bachelor of Science (Honours) Economics and Statistics from University of Wales, Aberystwyth, United Kingdom in 1958. In 1964, he obtained a postgraduate Diploma in Business Administration from Management Development Institute (now IMD), Lausanne, Switzerland.

He has had a distinguished career in the Malaysian Civil Service, where he held various senior positions in various Ministries in the Malaysian Government from 1958 till 1983, including serving as Deputy Governor of Bank Negara Malaysia (1975 – 1977), Deputy Director General in the Economic Planning Unit of the Prime Minister's Department (1977 – 1978) and as Secretary General in the Ministry of Primary Industries (1978), Ministry of Agriculture (1979 – 1981) and Ministry of Land and Regional Development (1981 – 1983). He was also a Member of Justice Harun's Salaries Commission for statutory bodies.

Tan Sri Dato' Seri Utama Arshad is Pro Chancellor of Universiti Teknologi MARA ("UiTM"), Chancellor of KPJ Healthcare University College ("KPJUC") and Chancellor of INTI International University ("INTI IU") and was formerly Chairman of the board of directors of University Malaya.

He is a Governor of Tuanku Jaafar College, Chairman of PINTAR Foundation, Trustee of Amanah Raya Berhad Foundation, Chairman of Lembaga Pemegang Amanah Kolej Islam Malaya ("LAKIM") Berdaftar, Director of Lion Education Foundation, Patron of Arshad Ayub Foundation, Advisor of Yayasan Budiman ("YBUiTM") and a member of Tun Razak Foundation, Pak Rashid Foundation, Lung Foundation of Malaysia and Advisor of Malaysian Malay Businessman And Industrialists Association ("PERDASAMA").

Presently, Tan Sri Dato' Seri Utama Arshad sits on the board of directors of Malayan Flour Mills Berhad. He is also a member of the board of PFM Capital Sdn. Bhd., Ladang MOCCIS Sdn. Bhd.,and Zalaraz Sdn. Bhd. (a family-owned company). He had retired from the board of Top Glove Corporation Berhad on 8 January 2019 and resigned from the board of Tomypak Holdings Berhad on 30 September 2019.

He has attended all the Board Meetings held during the financial year ended 30 June 2019. He does not have any family relationship with any Director and/ or Major Shareholder of the Company and has no conflict of interest with the Company. He has not been convicted of any offences within the past 5 years other than traffic offences, if any. There were no sanctions and/or penalties imposed on him by any relevant regulatory bodies, which were material and made public during the financial year ended 30 June 2019.

The particulars of his shareholdings are set out on page 141 of this Annual Report.

Profile of Board of Directors

Dato' Dr. Ong Eng Long @ Ong Siew Chuan

Senior Independent Non-Executive Director

Nationality: Malaysian
Gender: Male   Age: 75

Dato' Dr. Ong Eng Long was appointed to the Board on 29 July 2013 as our Senior Independent Non-Executive Director and also a member of the Audit Committee and Risk Management Committee. He graduated from University of Malaya with a Bachelor of Science (Hons) Degree in 1969 and obtained a PhD from Queen Mary College, London in 1973.

He started off at the Rubber Research Institute of Malaysia ("RRIM") as a Senior Research Officer in 1973. He has held diffierent positions in RRIM up to 1998 when it merged with two (2) other organisations to form the Malaysian Rubber Board.

He was the former Deputy Director General of the Malaysian Rubber Board from 1998 to May 2001 and the former Deputy CEO of Malaysian Rubber Export Promotion Council from 2001 to 2008.

Dato' Dr. Ong Eng Long has been the Technical Advisor for Kossan Rubber Industries Bhd. since July 2008. He has been involved with standards development for the past two decades. Dato' Dr. Ong was the Chairman of ISO/TC 157 Non-Systemic Contraceptives and STI Barrier Prophylactics from 2007 until December 2017 and the Chairman of ISO/TC 45 SC4 Rubber Products Other Than Hoses from 2005 until December 2017. ISO/TC 157 is the technical committee that is responsible for, amongst others, the international condom standards while ISO/TC 45 is responsible for, also amongst others, international rubber glove standards. Dato' Dr. Ong has more than 150 publications in areas of rubber science and latex dipped products.

Dato' Dr. Ong Eng Long is currently the President of the Malaysian Rubber Product Manufacturers' Association. He was the President of the Institute of Chemistry, Malaysia from March 2014 until March 2018.

He has attended all Board Meetings held during the financial year ended 30 June 2019. He does not have any family relationship with any Director and/or Major Shareholder of the Company and has no conflict of interest with the Company. He has not been convicted of any offences within the past 5 years other than traffic offences, if any. There were no sanctions and/or penalties imposed on him by any relevant regulatory bodies, which were material and made public during the financial year ended 30 June 2019.

He does not hold any directorship in other public companies and listed issuers.

The particulars of his shareholdings are set out on page 141 of this Annual Report.

Professor Dato' Dr. Adeeba binti Kamarulzaman

Independent Non-Executive Director

Nationality: Malaysian
Gender: Female Age: 55

Professor Dato' Dr. Adeeba binti Kamarulzaman was appointed to the Board on 16 January 2019 as our Independent Non-Executive Director. She is a member of the Audit and Risk Management Committees.

She graduated from Monash University in 1987 and trained in internal medicine and infectious diseases at the Monash Medical Centre and Fairfield Infectious Diseases Hospital, Melbourne, Australia.

She is presently the Dean of Medicine at University of Malaya and an Adjunct Associate Professor at Yale University, USA. She established the Centre of Excellence for Research on AIDS (CERiA) that conducts multi-disciplinary research on HIV ranging from clinical studies to public health and policy research.

She is also the current Chairwoman of the Malaysian AIDS Foundation and an Executive Council member of the Malaysian AIDS Council. She is the President-Elect of the International AIDS Society and a member of the UNAIDS Scientific Expert Panel on HIV. She has been an advisor to numerous WHO committees on HIV/AIDS and was a two term Co-Chair of the Strategic and Advisory Committee on HIV for the World Health Organisation. She has played a critical role in the establishment and operations of TREAT Asia, a regional HIV research network funded by the American Foundation for AIDS Research (amfAR).

Her achievements have been recognised through several national and international awards including the Tun Mahathir Science and Merdeka Awards for her role as a member of the University of Malaya's Nipah Investigative Team. She is also the first recipient of the Advance Australia Global Award in the category of Alumni in 2012, and, in April 2015 she was honoured with a Doctor of Laws (honoris causa) from her alma mater, Monash University. She has the distinct honour of having her achievements featured in both The Lancet and Science publications in 2013 and 2014 respectively.

Since her appointment, she has attended one out of the two Board Meetings held during the financial year ended 30 June 2019. She does not have any family relationship with any Director and/or Major Shareholder of the Company and has no conflict of interest with the Company. She has not been convicted of any offences within the past 5 years other than traffic offences, if any. There were no sanctions and/or penalties imposed on him by any relevant regulatory bodies, which were material and made public during the financial year ended 30 June 2019.

She does not hold any directorship in other public companies and listed issuers.

The particulars of her shareholdings are set out on page 141 of this Annual Report.

Profile of Board of Directors

Goh Leng Kian

Executive Director, Technical and R&D

Nationality: Malaysian
Gender: Male Age: 64

Goh Leng Kian was appointed to the Board on 27 September 2012 as our Executive Director in Technical and Research and Development ("R&D"). He has over 30 years of experience in the rubber and latex industry.

Goh Leng Kian's experience includes the establishment of the condom and catheter manufacturing plants, exposing him to a wide spectrum of roles including the supervision and management for the detail design, construction, installation, commissioning and testing of all related equipments, systems as well as the facilities of the projects.

Goh Leng Kian's career started in 1980 with Ban Seng Hong Sdn. Bhd. as a Mechanical Engineer, where he was in charge of the engineering unit for the company's rubber processing facilities. He joined our Group in 1988. He is currently responsible for overseeing our Group's manufacturing facilities, including production and technical matters. This includes the construction and development of our condom dipping lines, electronic testing and foiling machines, R&D activities such as improving the dipping process, new automation to improve production efficiency and product quality and overall yield of the factories as well as sourcing of new packaging machinery.

Goh Leng Kian graduated with a Bachelor of Science Degree with Honours in Mechanical Engineering from the Loughborough University of Technology, UK in 1979.

He has attended all the Board Meetings held during the financial year ended 30 June 2019. Goh Yen Yen and Lam Jiuan Jiuan are his siblings. He has no conflict of interest with the Company and has not been convicted of any offences within the past 5 years other than traffic offences, if any. There were no sanctions and/or penalties imposed on him by any relevant regulatory bodies, which were material and made public during the financial year ended 30 June 2019.

He does not hold any directorship in other public companies and listed issuers.

The particulars of his shareholdings are set out on page 141 of this Annual Report.

Goh Yen Yen

Non-Independent Non-Executive Director

Nationality: Malaysian
Gender: Female Age: 76

Goh Yen Yen was appointed to the Board on 30 November 2012 as our Executive Director in Administration with over 20 years of experience in handling human resource, finance and administration system, internal quality auditing and also hands-on experience in budget, control and overhead cost and capital expenditure. She is a member of the Remuneration Committee. On 31 August 2018, she was re-designated from Executive Director to Non-Independent Non-Executive Director.

She graduated with a Bachelor Degree of Art in Geography with Honours from the University of Malaya in 1969. Prior to joining Karex in 1996, she was a teacher in various secondary schools in Johor for 26 years.

She has attended all the Board Meetings held during the financial year ended 30 June 2019. Goh Leng Kian and Lam Jiuan Jiuan are her siblings. She has no conflict of interest with the Company and has not been convicted of any offences within the past 5 years other than traffic offences, if any. There were no sanctions and/or penalties imposed on her by any relevant regulatory bodies, which were material and made public during the financial year ended 30 June 2019.

She does not hold any directorship in other public companies and listed issuers.

The particulars of her shareholdings are set out on page 141 of this Annual Report.

Profile of Board of Directors

Lam Jiuan Jiuan

Non-Independent Non-Executive Director

Nationality: Australian
Gender: Female Age: 67

Lam Jiuan Jiuan was appointed to the Board on 30 November 2012 as our Non-Independent Non-Executive Director. She is the Chairwoman of the Risk Management Committee and a member of the Nomination Committee. She brings with her, a vast 35 years of experience from the financial and corporate management industry.

Lam Jiuan Jiuan started out in 1976, where she joined the Commercial Banking Company of Sydney, as a management trainee, where she gained a wide spectrum of retail banking experience before moving on to join Tricontinental Australia Limited in 1978. In 1979, she moved to Hong Kong and joined Toronto Dominion Bank in its Asia and Australasia Division, responsible for credit approvals of banks/corporate and monitoring country limits. In 1986, she joined the Canadian Imperial Bank of Commerce for three (3) years as the Corporate Marketing Manager in charge of major public listed companies and as well as corporate company accounts. She joined Barclays Bank PLC in 1989 as a private banker and resigned in June 2015 as a Senior Banker in the bank's Wealth Investment Management Division.

Subsequently, she worked in a private family office of one of the leading property developers in Hong Kong and had since retired in 2016. She has since been with the Hong Kong Office of Zedra Group, a major independent trust, corporate and fund services group, as Private Clients Advisors.

She graduated with a Bachelor of Economics majoring in Accounting and Commercial Laws from the University of Sydney, Australia in 1976. She is also a Fellow of Certified Public Accountant, Australia as well as a member of the Hong Kong Registered Financial Planners.

She has attended all Board Meetings held during the financial year ended 30 June 2019. Goh Yen Yen and Goh Leng Kian are her siblings. She is the spouse of Lam Yiu Pang, Albert, a major shareholder of the Company. She has no conflict of interest with the Company and has not been convicted of any offences within the past 5 years other than traffic offences, if any. There were no sanctions and/or penalties imposed on her by any relevant regulatory bodies, which were material and made public during the financial year ended 30 June 2019.

She does not hold any directorship in other public companies and listed issuers.

The particulars of her shareholdings are set out on page 141 of this Annual Report.

Wong Yien Kim

Independent Non-Executive Director

Nationality: Malaysian
Gender: Male   Age: 65

Wong Yien Kim was appointed to the Board on 30 November 2012 as our Independent Non-Executive Director. He is the Chairman of the Audit Committee and a member of the Nomination Committee.

He has retired from his role as Senior General Manager, Finance of Kumpulan Perangsang Selangor Berhad. He was also the Vice President, Finance of Kumpulan Darul Ehsan Berhad from 1 January 2000 to 9 May 2011. In addition, between 2007 to 2013, he served as a member of the board, the audit committee and the investment committee of Taliworks Corporation Berhad.

Wong Yien Kim has been a member of the Malaysian Institute of Accountants and the Institute of Chartered Accountants England and Wales since 1982.

He has attended all the Board Meetings held during the financial year ended 30 June 2019. He does not have any family relationship with any Director and/or Major Shareholder of the Company and has no conflict of interest with the Company. He has not been convicted of any offences within the past 5 years other than traffic offences, if any. There were no sanctions and/or penalties imposed on him by any relevant regulatory bodies, which were material and made public during the financial year ended 30 June 2019.

He does not hold any directorship in other public companies and listed issuers.

The particulars of his shareholdings are set out on page 141 of this Annual Report.

Profile of Board of Directors

Law Ngee Song

Independent Non-Executive Director

Nationality: Malaysian
Gender: Male Age: 53

Law Ngee Song was appointed to the Board on 30 November 2012 as our Independent Non-Executive Director. He is the Chairman of the Nomination Committee, a member of the Audit Committee and Remuneration Committee.

He graduated from Australia National University with a Bachelor of Commerce degree and Bachelor of Laws degree in 1987 and 1989 respectively. He was admitted as Advocate and Solicitor, High Court of Malaya in 1991.

Law Ngee Song practiced as a legal assistant in Allen & Gledhill from 1991 to 1995 and was subsequently promoted to partner of the firm in 1995. He was then a Partner at Messrs Nik, Saghir & Ismail in 1996 and on 2 April 2019, he joined Azmi & Associates as a Partner for Merger & Acquisition/Corporate Practice.

Law Ngee Song has been on the board of directors of Evergreen Fibreboard Berhad since 2007 and has been serving as the chairman of the board since 2010. He is also a non-executive independent director of Anglo-Eastern Plantations PLC, a company listed on the London Stock Exchange.

He has attended all the Board Meetings held during the financial year ended 30 June 2019. He does not have any family relationship with any Director and/or Major Shareholder of the Company and has no conflict of interest with the Company. He has not been convicted of any offences within the past 5 years other than traffic offences, if any. There were no sanctions and/or penalties imposed on him by any relevant regulatory bodies, which were material and made public during the financial year ended 30 June 2019.

The particulars of his shareholdings are set out on page 141 of this Annual Report.

Key Senior Management

CEO's Profile

Goh Miah Kiat

Chief Executive Officer

Nationality: Malaysian
Gender: Male
Age: 41

Goh Miah Kiat was appointed as our Chief Executive Officer on 29 July 2013. He became an integral part of our Group since 1999 and for over 10 years, he has been overseeing the marketing and logistics, international business dealings, brand development and coordination activities. He is a member of the Risk Management Committee.

Goh Miah Kiat has been acting as a representative of Malaysia in TC 157 (the technical committee for the standardisation of non-systemic contraceptives and STI barrier prophylactics) since year 2000.

Throughout his career, Goh Miah Kiat has actively contributed to the development and promotion of condoms in Malaysia. He played a part in the development of the following:

He was named winner of the Master and Overall categories of the Ernst & Young Entrepreneur of the Year 2016 Malaysia award.

Goh Miah Kiat graduated with a Bachelor's Degree in Economics and Management from the University of Sydney in 1999. He is currently a member of the Board of Trustee, member of the Marketing Committee and member of the Scholarship Committee in the Malaysian Rubber Export Promotional Council.

He is the nephew of Goh Yen Yen, Goh Leng Kian and Lam Jiuan Jiuan, the Board members of the Company. He has no conflict of interest with the Company and has not been convicted of any offences within the past 5 years other than traffic offences, if any. There were no sanctions and/or penalties imposed on him by any relevant regulatory bodies, which were material and made public during the financial year ended 30 June 2019.

He does not hold any directorship in other public companies and listed issuers.

The particulars of his shareholdings are set out on page 141 of this Annual Report.

Profile of Key Senior Management

Goh Chok Siang was appointed as our Chief Financial Officer in April 2013. He obtained his professional qualification from the Association of Chartered Certified Accountants and has been a Chartered Accountant with the Malaysian Institute of Accountants since 1999. He is a member of the Risk Management Committee.

He has over 20 years of experience in overseeing a variety of finance functions and served as Lion Group's Chief Accountant in 2007 where he was responsible for, amongst others, corporate exercises and financial reporting. He was also a Director in Wong Chau Hwa & Co, a public accounting firm where he was involved in strategy and business development prior to joining Karex.

He does not have any family relationship with any Director and/or Major Shareholder of the Company and has no conflict of interest with the Company. He has not been convicted of any offences within the past 5 years other than traffic offences, if any. There were no sanctions and/or penalties imposed on him by any relevant regulatory bodies, which were material and made public during the financial year ended 30 June 2019.

He does not hold any directorship in other public companies and listed issuers.

Leong Weng Hong was appointed as our Chief Human Resources Officer in April 2015. He holds a Bachelor of Commerce Degree from Curtin University of Technology, Perth, Australia. He has over 20 years of experience in human resource management including management roles and functions in project start-ups, regional and global HR services hubs in various countries and continents.

Following his graduation in 1994, he started his career with Public Bank.

Prior to joining Karex, he was with Bechtel Group, Inc. for 17 years. He served in their pioneer Kuala Lumpur office before embarking on international assignments and residing in China, USA, UK, Chile, Australia and Canada over the next 14 years. He returned to Malaysia under Talentcorp's, Returning Expert Programme in 2015.

He does not have any family relationship with any Director and/or Major Shareholder of the Company and has no conflict of interest with the Company. He has not been convicted of any offences within the past 5 years other than traffic offiences, if any. There were no sanctions and/or penalties imposed on him by any relevant regulatory bodies, which were material and made public during the financial year ended 30 June 2019.

He does not hold any directorship in other public companies and listed issuers.

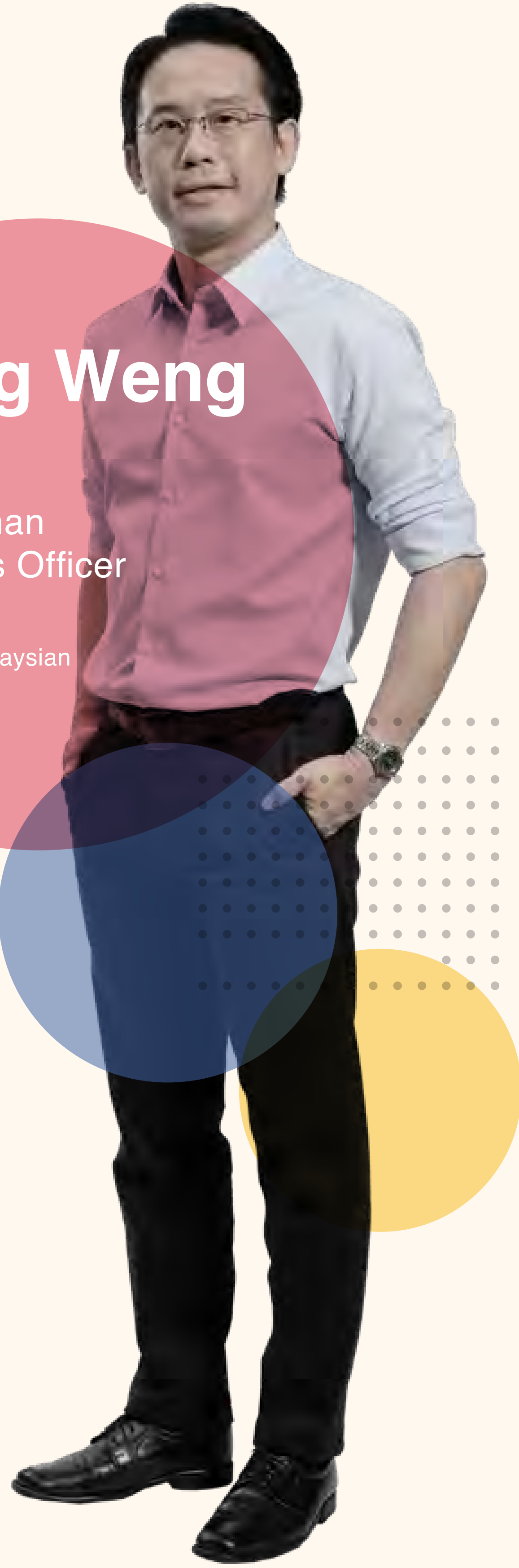
Leong Weng Hong

Chief Human Resources Officer

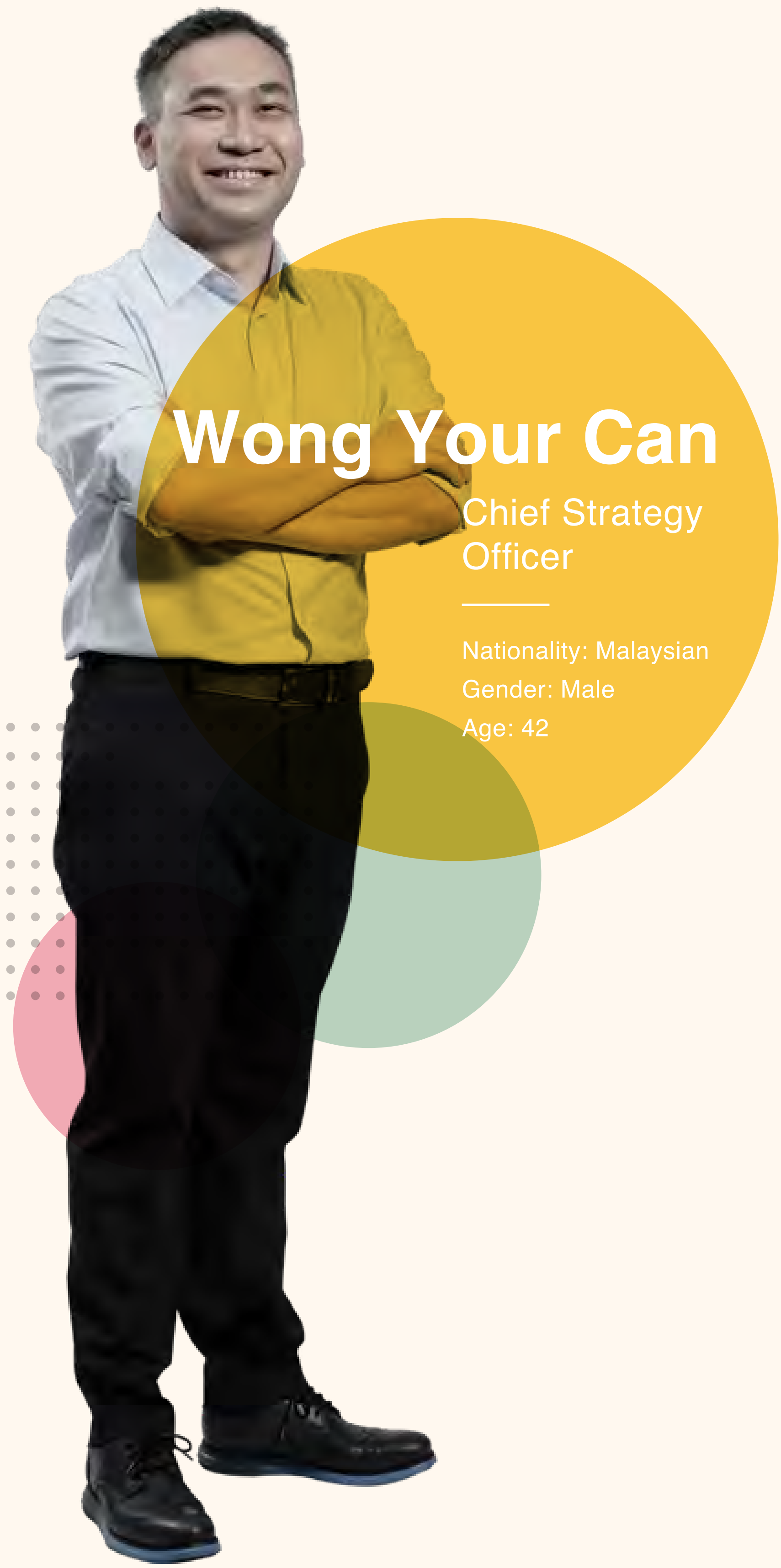
Nationality: Malaysian

Gender: Male

Age: 47



Profile of Key Senior Management



Wong Your Can

Chief Strategy Officer

Nationality: Malaysian
Gender: Male
Age: 42

Wong Your Can was appointed as our Chief Strategy Officer in October 2016. He holds a Bachelor of Business in Accountancy from RMIT University, Melbourne, Australia. He obtained his professional qualification from the Certified Public Accountant, Australia and is currently a Chartered Accountant with the Malaysian Institute of Accountants.

He began his career in the financial services industry with roles in financial reporting and assurance, gaining exposure across various industries. Following that, he accumulated working experience in the corporate finance space having raised funds in both the equity capital markets as well as debt capital markets. He was also involved in originating and executing a number of mergers and acquisitions.

He does not have any family relationship with any Director and/or Major Shareholder of the Company and has no conflict of interest with the Company. He has not been convicted of any offences within the past 5 years other than traffic offiences, if any. There were no sanctions and/or penalties imposed on him by any relevant regulatory bodies, which were material and made public during the financial year ended 30 June 2019.

He does not hold any directorship in other public companies and listed issuers.

Corporate Governance

Corporate Governance Overview Statement

This Corporate Governance Overview Statement is presented pursuant to Paragraph 15.25(1) of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities"). The objective of this Statement is to provide an overview of the application of the corporate governance practices of the Group during the financial year ended 30 June 2019 with reference to the three (3) main principles, i.e. Board Leadership and Effectiveness, Effective Audit and Risk Management and Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders as set out in the Malaysian Code on Corporate Governance 2017 ("MCCG").

The Board has also provided more disclosures on the application of each Practice in its Corporate Governance Report ("CG Report"). The CG Report was announced together with the Annual Report of the Company on 31 October 2019. Shareholders may obtain the CG Report by accessing this link http://www.karex.com.my/ for further details and are advised to read this overview statement together with the CG Report.

At the start of the financial year 2019, Karex was not a "Large Company" as defined in the MCCG. Overall the Board is of the view that the Company has, in all material aspects, complied with the Principles and Practices as set out in the MCCG except for Practice 7.2 on the disclosure of the top five senior management's remuneration on a named basis. The explanation for the departure of the abovementioned practice is reported in the announced CG Report.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

I. Board Responsibilities

It is the overall governance responsibilities of the Board to lead and control the Group. The Board, while overseeing the strategic direction and conduct of the business, leads the Group within a framework of effective controls and has embraced the responsibilities listed in the MCCG to effectively discharge the Board's stewardship and fiduciary responsibilities.

The Board has defined and formalised its Board Charter and it is published on the Company's website. The Board Charter serves as a reference for the Directors' fiduciary duties and the functions of the Board Committees. The Board reviews the Board Charter periodically to ensure that it remains relevant and consistent with the Board's objective, regulations and best practices. The Board is also guided by key matters reserved for the Board for its deliberation and decision to ensure that the direction and control of the Group's businesses vested in its hands are managed and attended to effectively.

Certain Board's authorities and discretion are delegated and conferred on the Executive Director and the Chief Executive Officer ("CEO") as well as on properly constituted Committees comprising Non-Executive Directors which operate within clearly defined Terms of Reference ("TOR").

There is a clear division of responsibilities between the Chairman and CEO to ensure an optimum and effective segregation of duties and authority. These key individuals play a vital role in bringing the Group to greater heights of success whilst ensuring strong foundation blocks of corporate governance, transparency and integrity form part of its fundamentals.

The Board is currently led by Tan Sri Dato' Seri Utama Arshad bin Ayub, an Independent Non-Executive Chairman who provides strong leadership, instils and monitors good corporate governance practices, leadership and effectiveness of the Board.

The CEO, Mr Goh Miah Kiat is responsible for the overall day-to-day running of the Group's operating units and implementation of the Group's policies and strategic plans established by the Board within a set of authorities delegated by the Board. The detailed roles and responsibilities of the Chairman and the CEO can be found in the Board Charter on the Company's website at http://www.karex.com.my/.

The Executive Director and CEO are responsible for making and implementing operational and corporate decisions while the Non-Executive Directors balance the Board's accountability by providing their independent views, advice and judgment to safeguard the interests of the shareholders.

The Board has unrestricted and timely access to all information necessary for the discharge of its responsibilities. Also, all Directors have access to the services and advice of Management and other independent professionals, at the expense of the Group in the discharge of their duties.

The Board has identified Dato' Dr. Ong Eng Long @ Ong Siew Chuan as the Senior Independent Non-Executive Director, an alternative person for shareholders to approach in order to convey their concerns and seek clarification from the Board.

Whistleblower Policy

The Company has established a Whistleblower Policy to provide clear lines of communication and reporting of concerns for employees at all levels. The channel for communication for whistleblowing can be made to the Board Chairman, Audit Committee Chairman or Senior Independent Non-Executive Director via email to karex@whistleblowing.com.my or post to the following mailbox which is handled independently by the Group's Internal Auditor:

Moore Stephens Associates PLT
Suite 133, MBE PSS Mutiara Damansara,
Lot PT40036, Jalan PJU 7/2,
47800 Petaling Jaya,
Selangor Darul Ehsan, Malaysia.

The Whistleblower Policy is published on the Company's website.

Company Secretary

The Board is assisted by two (2) qualified and competent Company Secretaries. Both Company Secretaries are members of the Malaysian Institute of Chartered Secretaries and Administrators. The Company Secretaries advise the Board, particularly with regards to compliance with regulatory requirements, guidelines, legislation and the principles of best corporate governance practices.

Further information of the roles and responsibilities carried out by the Company Secretaries are set out in Practice 1.4 of the CG Report.

Board Commitment

The underlying factors of Directors' commitment to the Group are devotion of time and continuous improvement of knowledge and skill sets. The Board meets at least once every quarter and on other occasions, as and when necessary, to inter-alia approve quarterly financial results, statutory financial statements, the Annual Report, business plans, acquisition and expansion as well as to review the performance of the Company and its operating subsidiaries, governance matters and other business development matters.

The Board papers are circulated to the Board members prior to the Board meetings so as to provide the Directors with relevant and timely information in order to enable them to conduct proper deliberation on board issues and to discharge their responsibilities with reasonable due care, skills and diligence.

During the financial year, five (5) Board meetings were held. The record of attendance of the Board members is as follows:

Directors	Meeting Attendance
Tan Sri Dato' Seri Utama Arshad bin Ayub *[Chairman/Independent Non-Executive Director]*	5/5
Dato' Dr. Ong Eng Long @ Ong Siew Chuan *[Senior Independent Non-Executive Director]*	5/5
Professor Dato' Dr. Adeeba binti Kamarulzaman *[Independent Non-Executive Director]* (Appointed on 16 January 2019)	1/2
Goh Leng Kian *[Executive Director]*	5/5
Goh Yen Yen *[Non-Independent Non-Executive Director]*	5/5
Lam Jiuan Jiuan *[Non-Independent Non-Executive Director]*	5/5
Wong Yien Kim *[Independent Non-Executive Director]*	5/5
Law Ngee Song *[Independent Non-Executive Director]*	5/5

Corporate Governance Overview Statement

The Directors recognise the need to attend trainings to enable them to discharge their duties effectively. The training needs of each Director would be identified and proposed by the individual Directors or Nomination Committee.

The following are the trainings attended by the Directors during the financial year:

Directors	Trainings Attended
Tan Sri Dato' Seri Utama Arshad bin Ayub *[Chairman/Independent Non-Executive Director]*	• Seminar on Preparation for Corporate Liability on Corruption • Bursa Malaysia - Ring the Bell for Gender Equality • IMF Regional Economic Outlook • Session with Audit Committee Members • Seminar on Malaysia Domestic Trade and Consumer Forum 2019 • Permodalan Nasional Berhad Leadership Forum • Bursa Malaysia Thought Leadership Series - Building Corporate Longevity • Bursa Malaysia - Cyber Security in the Boardroom • Special Conference - Federalism in Malaysia • Bursa Malaysia Thought Leadership Series
Dato' Dr. Ong Eng Long @ Ong Siew Chuan *[Senior Independent Non-Executive Director]*	• International Rubber Conference - The 9th International Glove Conference and Exhibition • Malaysian Rubber Products Manufacturers' Association International Rubber Conference 2019 - Moving Towards Industry 4.0 • Cyber Security in the Boardroom - Acceleration from Acceptance to Action
Professor Dato' Dr. Adeeba binti Kamarulzaman *[Independent Non-Executive Director]*	• Mandatory Accreditation Programme
Goh Leng Kian *[Executive Director]*	• Resolving Conflict in the Boardroom
Goh Yen Yen *[Non-Independent Non-Executive Director]*	• The Role of Nomination and Remuneration Committee in Human Capital Management
Lam Jiuan Jiuan *[Non-Independent Non-Executive Director]*	• Credit Suisse Investment Outlook • General Data Protection • Cyber Securities Awareness
Wong Yien Kim *[Independent Non-Executive Director]*	• Sales and Service Tax • The 2019 Budget Seminar
Law Ngee Song *[Independent Non-Executive Director]*	• Implementation of Corporate Governance as Required by Securities Commissions of Malaysia • Independent Directors Programme - The Essence of Independence

II. Board Composition

The Board has eight (8) members comprising one (1) Independent Non-Executive Chairman, one (1) Senior Independent Non-Executive Director, three (3) Independent Non-Executive Directors, two (2) Non-Independent Non-Executive Directors and one (1) Executive Director, constituting majority independent directors. The present composition of the Board is in line with Practice 4.1 of the MCCG as more than half of its members are independent directors.

The Board values independence greatly as it is important for ensuring objectivity and fairness in the Board's decision making. All Independent Directors of the Board comply with the criteria of 'independent directors' as prescribed in the MMLR.

The Board has adopted the following practices of the MCCG in order to uphold the independence of the Independent Directors:

i. Subject to the Board's justification and shareholders' approval, the tenure of Independent Directors should not exceed a cumulative term of nine (9) years; and

ii. Assessment of independence of its Independent Directors focusing on events that would affect the ability of Independent Directors to continue bringing independent and objective judgment to board deliberation and the regulatory definition of Independent Directors.

An Independent Director may continue to serve the Board upon completion of the nine (9) years subject to re-designation of the Independent Director as a Non-Independent Director. The Board may continue to retain an Independent Director who has served a cummulative term of nine (9) years by providing justification for its decision and seeking shareholders' approval. For the financial year under review, none of the current Independent Directors have served the Company for more than nine (9) years cumulatively.

The Board is satisfied with the level of independence demonstrated by the Independent Directors and their ability to act in the best interest of the Company and/or the Group.

The Board members have diverse backgrounds and experiences in various fields. Collectively, they bring a broad range of skills, experience and knowledge to direct and manage the Group's businesses. Championing diversity and equality within the Group, the Board provides fair and equal opportunities to individuals regardless of age, race or gender. As such, there are three (3) capable female directors sitting on the Board, accounting for 37.5% of the Board's composition. The Board embraces diversity in the boardroom and views diversity as an imperative and believes that diversity is required to support the execution of its business strategy. Therefore, a diversity of perspectives coming from different walks of lives and various experiences at the Senior Management level of the Group is also highly cultivated. Accordingly, the Board does not discriminate against any board member and board candidate on the grounds of race, gender, nationality, religion, sexual orientation and family status.

The Diversity Policy can be found on the Company's website at http://www.karex.com.my/.

Nomination Committee ("NC")

The NC is established and maintained to ensure that there are formal and transparent procedures for the appointment of new directors to the Board and for the performance appraisal of directors. The current NC comprising Non-Executive Directors with a majority being the Independent Non-Executive Directors are as follows:

Chairman	:	Law Ngee Song
Members	:	Wong Yien Kim
		Lam Jiuan Jiuan

The TOR sets out the duties and functions of the NC and can be found on the Company's website.

The Board recognises the value of appointing individual directors who bring a diversity of opinions, perspectives, skills, experiences, backgrounds and orientations to its discussions and decision-making processes. In this context, and with the Board's mandate, the NC establishes criteria to appraise its Board members focusing on:

- Constructive interaction during board meetings;
- Quality inputs and sharing of insights on board agenda;
- Board meeting attendance and preparation; and
- Independence for Independent Directors.

The NC is responsible for reviewing and making recommendation of any appointments to the Board for approval based on the size of the Board, the mix of skills, experiences and other qualities of the candidates. The Board utilises independent sources if needed to identify suitably qualified candidates for new appointment to the Board.

Corporate Governance Overview Statement

The NC assists the Board in reviewing the composition of the Board members annually and ensures that the current composition of the Board functions competently and effectively.

The NC has conducted one (1) meeting during the financial year and a summary of key activities undertaken by the NC in discharging its duties are as below:

- Reviewed and assessed the performance and effectiveness of the Board as a whole, the Board Committee, and the contribution of each director;
- Reviewed and assessed the independence of Independent Directors;
- Reviewed and recommended to the Board the appointment of a new Director;
- Reviewed and recommended to the Board, the re-election of the Directors who will be retiring at the forthcoming Annual General Meeting;
- Reviewed and assessed the terms of office and performance of the AC and each of its members; and
- Reviewed and assessed the performance of the Senior Management.

Based on the NC's assesments, the Board concluded that the current size and composition of the Board is optimum and balanced. Utilising diverse skills, experience and knowledge, the Board as a whole and its Board Committees have been effective in discharging their functions. The NC and the Board are generally satisfied with the level of independence demonstrated by all the Independent Directors and their ability to bring independent and objective judgment to the Board deliberations. The NC also opined that the AC and all its members have carried out their duties in accordance with the TOR.

III. Remuneration

Remuneration Committee ("RC")

The RC is responsible for reviewing and recommending to the Board the remuneration policy and remuneration packages of Directors and Senior Management. Composition of the RC are as follows:

Chairman	:	Tan Sri Dato' Seri Utama Arshad bin Ayub
Members	:	Law Ngee Song
		Goh Yen Yen

The TOR sets out the duties and functions of the RC and can be found on the Company's website.

The RC reviews annually the remuneration packages of Executive and Non-Executive Directors for recommendation and approval by the Board. The remuneration of Directors is determined at levels which enables the Company to attract and retain Directors with the relevant experience and expertise to manage the business of the Group effectively. All Directors shall abstain from participating in the decision making of his or her remuneration.

The RC also evaluates the Senior Managements' remuneration based on their Key Performance Indicators, experience, expertise, skills and industry benchmarks. This remuneration is maintained at a level which enables the Company to attract, develop and retain high performing individuals with the relevant experience and expertise.

During the financial year, one (1) RC meeting was held to review and recommend the adjustment of directors' remunerations and fees for the Board's and shareholders' approval.

Subject to the shareholders' approval at the forthcoming AGM, the proposed Non-Executive Directors' fee for the financial year ended 30 June 2019 is RM586,667 whilst their benefits, comprising of meeting allowances are proposed to be capped at RM56,000 for the period from 1 December 2019 to 30 November 2020.

Directors' Remuneration

The breakdown of the Directors' remuneration for the year ended 30 June 2019 are as follows:

Director	Fees[1] RM	Salaries, Bonuses & Allowances[2] RM	Benefits[3] RM	EPF RM	Total RM
Tan Sri Dato' Seri Utama Arshad bin Ayub	120,000	6,000	-	-	**126,000**
Dato' Dr. Ong Eng Long @ Ong Siew Chuan	90,000	6,500	-	-	**96,500**
Professor Dato' Dr. Adeeba binti Kamarulzaman	40,000	1,000	-	-	**41,000**
Wong Yien Kim	90,000	6,000	-	-	**96,000**
Law Ngee Song	90,000	7,500	-	-	**97,500**
Lam Jiuan Jiuan	90,000	4,500	-	-	**94,500**
Goh Yen Yen[4]	66,667	406,129	3,992	7,820	**484,608**
Goh Leng Kian	-	495,000	28,000	92,660	**615,660**
	586,667	**932,629**	**31,992**	**100,480**	**1,651,768**

1 Fees paid to Non-Executive Directors
2 Salaries, bonuses and meeting allowances for Directors' attendance at each Board and Board Committee meeting
3 Benefits in terms of car-related benefits
4 Re-designated from Executive Director to Non-Independent Non-Executive Director on 31 August 2018

Senior Managements' Remuneration

The Board deliberated and concluded that the disclosure of Senior Managements' remuneration including the top five key management personnel in the Audited Financial Statements was adequate. This approach was arrived at having taken into consideration the sensitivity of Senior Managements' remuneration packages and the potential privacy, security and staff poaching issues that may arise due to disclosure.

The Board wishes to provide shareholders assurance that the remuneration of Senior Management is continuously evaluated based on individual performance and potential to contribute in relation to the Group's overall performance.

Corporate Governance Overview Statement

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

I. Audit Committee ("AC")

The Board has established an effective and independent AC, comprising highly accredited members who have vast experience in various fields. Presently, the AC comprises solely Independent Non-Executive Directors and the Chairman of the AC is not the Chairman of the Board.

The responsibilities, composition and summary of work of the AC are outlined in the AC Report on pages 51 to 52 of this Annual Report.

The AC complies with the recommendation of MCCG requiring all members to be independent and at least one member fulfils qualifications prescribed by the MMLR. Independence is an essential element for the AC members to fulfil their roles objectively and to provide critical and sound views in ensuring the integrity of financial controls and integrated reporting, while identifying and managing key risks. All members of the AC are financially literate.

The AC has adopted a policy that requires a former key audit partner to observe a cooling-off period of at least two (2) years before being appointed as a member of the AC and the said policy has been incorporated in the TOR of the AC which is available on the Company's website.

The Board has defined its policy on suitability and independence of External Auditors engaged to assess, review and evaluate the Group's financial matters. In accordance with this policy, the AC will review the qualification, audit performance and execution, provision of non-audit service and tenure of service of the External Auditors. Annually, the AC also reviews the appointment, performance and remuneration of the External Auditors before recommending them to the shareholders for re-appointment during the AGM.

KPMG PLT, the existing External Auditors of the Company, has in place a policy on rotation for partners of an audit engagement to ensure objectivity, independence and integrity of the audit. The External Auditors have declared their independence to the Group and their compliance with By-Laws (on professional ethics, conduct and independence) of the Malaysian Institute of Accountants.

II. Risk Management and Internal Control

The Board acknowledges its overall responsibilities for establishing and maintaining a sound risk management and internal control systems, and for reviewing its adequacy and integrity.

The Board has an established on-going process for identifying, evaluating and managing significant risks which may affect the Company's business objectives. The Board through its Risk Management Committee ("RMC") reviews this process to ensure the internal control and risk management framework is adequate and effective. The present composition of the RMC are as follows:

Chairwoman	:	Lam Jiuan Jiuan
Members	:	Dato' Dr. Ong Eng Long @ Ong Siew Chuan
		Professor Dato' Dr. Adeeba binti Kamarulzaman (Appointed on 25 February 2019)
		Law Ngee Song (Resigned on 25 February 2019)
		Goh Miah Kiat
		Goh Chok Siang

The details of the Group's risk management and internal control framework are disclosed in the Statement on Risk Management and Internal Control on pages 54 to 57 of the Annual Report.

The Internal Audit Function is outsourced to IA Essential Sdn Bhd, an independent internal audit professional service firm. The Internal Audit Function is headed by a Director who is assisted by a manager and supported by an audit executive. The Director in charge is a qualified accountant while the other team members are university graduates with adequate experience. The Internal Auditors have performed their work with reference to the principles of the International Professional Practice Framework of Institute of Internal Auditors. The AC will review the engagement between the Group and the Internal Auditors to ensure that the Internal Auditors' objectivity and independence are not impaired or affected.

The engagement of IA Essential Sdn Bhd ended on 31 May 2019, and with effect from 1 June 2019, the Internal Audit function was outsourced to Moore Stephens Associates PLT, a chartered accounting firm.

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

I. Communication with Stakeholders

Corporate disclosure and information is of utmost importance for investors and shareholders. The Board is advised by Management, the Company Secretaries and the External and Internal Auditors on the contents and timing of disclosure requirements of the MMLR on the financial results and various announcements. The Board ensures that there is timely release of quarterly financial results, circulars, Annual Reports, corporate announcement and press releases. In addition to the various announcements made, further information of the Company is available on the Company's website at http://www.karex.com.my/.

Promoting sustainability is part of the corporate responsibilities of the Group. The Board has reported its sustainability initiatives undertaken by the Group on pages 15 to 25 of this Annual Report.

II. Conduct of General Meetings

It has always been the Company's practice to maintain good relations with its shareholders. Major corporate developments and activities in the Company have always been duly and promptly announced to all shareholders, in line with Bursa Securities' objectives of ensuring transparency and good corporate governance practices.

The CEO presents the Company's performance and major activities carried out during the financial year under review in each Annual General Meeting ("AGM") to provide meaningful information and encourage shareholder participation. Shareholders had the opportunity to enquire and comment on the Company's performance at the AGM. The Board including the Chair of all respective Board Committees, were in full attendance, addressed shareholders' concerns alongside the CEO. Similar information is also shared in press releases or press conferences, if held during the year.

The CEO also holds regular analyst briefings and investor relations meetings as part of the Company's investor relation initiatives.

The Notice of AGM is circulated at least twenty eight (28) days before the date of the meeting to provide shareholders sufficient time to go through the Annual Report and papers supporting the proposed resolutions.

Shareholders who are unable to attend are allowed to appoint proxies to attend, speak and vote on their behalf.

All the resolutions set out in the Notice of the Sixth AGM were put to vote by poll and duly passed. The outcome of the AGM was announced to Bursa Securities on the same day as the meeting.

This Corporate Governance Overview Statement is made in accordance with a resolution of the Board dated 11 October 2019.

Additional Compliance Information

The following information is provided in accordance with Paragraph 9.25 of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad as set out in Appendix 9C for the financial year ended 30 June 2019, unless otherwise stated:

1. Utilisation of Proceeds

There were no proceeds raised from any corporate proposals during the financial year.

2. Non-Audit Fees

For the financial year ended 30 June 2019, the amount of audit and non-audit fees paid by the Company and the Group to KPMG PLT and its affiliates are as follows:

	Group		Company	
Fees paid to external auditors and its affiliates	**2019 RM'000**	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Audit fees	398	390	85	85
Non-audit fees	20	5	20	5

3. Material Contracts Involving the Interest of Directors, Chief Executive and Major Shareholders

There was no material contract entered into by the Group involving the interest of Directors, Chief Executive and Major Shareholders, either subsisting as at the end of the current financial year or entered into since the end of the previous financial period.

The Chief Executive Officer is the Chief Executive who oversees and is primarily responsible for the overall Group business operations.

4. Recurrent Related Party Transactions

The recurrent related party transaction of revenue nature incurred by the Group for the financial year did not exceed the threshold prescribed under Paragraph 10.09(1) of the MMLR.

Audit Committee Report

The Board of Karex Berhad is pleased to present the Audit Committee Report for the financial year ended 30 June 2019.

Composition and Meetings

The Audit Committee ("AC") comprises the following members and details of their attendance at the five (5) meetings held during the financial year ended 30 June 2019 are as follows:

		Name of Directors	Meeting Attendance
Chairman	:	Wong Yien Kim [Independent Non-Executive Director]	5/5
Members	:	Tan Sri Dato' Seri Utama Arshad bin Ayub [Independent Non-Executive Director]	5/5
		Dato' Dr Ong Eng Long @ Ong Siew Chuan [Senior Independent Non-Executive Director]	5/5
		Professor Dato' Dr. Adeeba binti Kamarulzaman [Independent Non-Executive Director] (Appointed on 25 February 2019)	1/2
		Law Ngee Song [Independent Non-Executive Director]	5/5

The AC Chairman, Wong Yien Kim, is a fellow member of the Malaysian Institute of Accountants and the Institute of Chartered Accountants England and Wales. Accordingly, the Company complies with Paragraph 15.09(1)(c)(i) of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities").

During the financial year, the Nomination Committee has reviewed the performance and effectiveness of the AC based on the criteria as stated in Corporate Governance Overview Statement and reported that the AC and its members have discharged their functions, duties and responsibilities in accordance with its Terms of Reference.

Further details of each AC member are listed under the Profile of Directors as set out on pages 26 to 34 of this Annual Report.

Terms of Reference ("TOR")

The TOR of AC are published on the corporate website of the Company at http://www.karex.com.my/ for shareholders' reference pursuant to Paragraph 15.11 of MMLR. These TOR were updated in accordance with the latest practices in the Malaysian Code on Corporate Governance 2017 on the provisions of the composition requirements of AC members as well as the roles of AC Chairman and members.

Summary of Work

The work carried out by the AC during the financial year with respect to their responsibilities are summarised as follows:

Ensuring Financial Statements Comply with Applicable Financial Reporting Standards:

(a) Reviewed the financial positions, unaudited quarterly interim financial reports and announcements for the respective financial quarters prior to submission to the Board for consideration and approval. The review is to ensure that the Company's unaudited quarterly financial reporting and disclosures present a true and fair view of the Group's financial position and performance and are in compliance with the approved Malaysian Financial Reporting Standard and disclosure provision of the MMLR; and

(b) Reviewed the audited financial statements for the financial year ended 30 June 2018 and discussed with the Management and External Auditors on the accounting principles and standards that were applied in the annual audited financial statements. As part of this review, the AC also considered the integrity of information in the financial statements focusing particularly on:

- significant adjustments resulting from the audit, going concern assumption, completeness of disclosures and compliance with accounting standards;
- changes in and implementations of major accounting policies and practices to the Group, if any;
- significant matters and unusual events or transactions highlighted by the External Auditors; and
- how these significant matters were addressed including the judgment of those involved and reservations, if any arising from the audit.

Reviewing the Audit Findings of the External Auditors and Assessing their Performance Suitability and Independence:

(a) Reviewed the audit plan of the External Auditors covering their scope of audit, methodology and timetable, audit materiality, and areas of focus prior to the commencement of their annual audit;

Audit Committee Report

(b) Assessed and discussed the External Auditors' audit status report covering the key audit matters, audit findings and recommendations relating to internal control deficiencies;

(c) Met the External Auditors without the presence of executive Board Members and Management to further discuss matters arising from the audit and assessed the co-operation and assistance given by Management to the External Auditors; and

(d) Reviewed the fees and expenses paid to the External Auditors, including fees paid for non-audit services during the year and assessed the independence of the External Auditors for the re-appointment as External Auditors. The AC is of the opinion that the independence of the External Auditors has not been compromised based on the independent confirmation provided by the External Auditors.

Reviewing the Audit Findings of the Internal Auditors and Assisting the Board in Reviewing the Effectiveness and Adequacy of Systems of Internal Control in the Key Operation Processes:

(a) Discussed with the Internal Auditors on the progress and coverage of the audit plan in its quarterly meetings to ensure that the audit scope remains relevant taking into consideration changes in the Group's operating environment;

(b) Reviewed and discussed with the Internal Auditors, their audit findings, recommendations made, Management's responses to the audit findings and proposed action plans, including those issues arising during the course of audit (in the absence of Management where necessary);

(c) Reviewed the effectiveness and efficiency of the internal controls system in place and the risk factors affecting the Company as well as the action plans taken by Management to resolve the issues to ensure adequacy of the internal controls system;

(d) Reviewed and established frameworks to address past internal audit findings, whilst further strengthening the Group's internal processes; and

(e) Assessed the adequacy of the scope, independence, competency and cost of the Internal Audit Function to ensure efficient and effective functionality of the Internal Auditors.

Overseeing Governance Practices in the Company:

a) Reviewed the Corporate Governance Statement, AC Report and Statement on Risk Management and Internal Control before recommending them to the Board for approval and inclusion in the Annual Report; and

b) Monitored the Group's involvement in related party transactions and ensured that these transactions were performed at arm's length basis, on normal commercial terms, and were not detrimental to the interests of minority shareholders.

Internal Audit Functions

The Group's Internal Audit Function was outsourced to IA Essential Sdn Bhd, an independent internal audit professional service firm up until 31 May 2019 and with effect from 1 June 2019, the Internal Audit Function was outsourced to Moore Stephens Associates PLT, a chartered accounting firm. The outsourced Internal Auditors reported directly to the AC and assisted the Board and the AC in providing an independent assessment of the adequacy, efficiency and effectiveness of the Group's risk management and internal control systems.

The Internal Auditors have performed their work in accordance with the principles of the international professional practice framework on internal auditing covering the conduct of audit planning, execution, documentation, communication of findings and consultation with key stakeholders on the audit concerns. In order to ensure that the audit focuses on relevant and appropriate risk areas, an internal audit plan was developed in consultation with Management, taking into consideration the Group's structure, concerns and the challenges faced. A new internal audit plan will be proposed and presented to the AC when appropriate for deliberation and approval before internal audit reviews are carried out.

The summary of work conducted and reported by the Internal Auditors to the AC during the AC's quarterly meetings in the current financial year are as follows:

(i) Evaluated the effectiveness and compliance of general controls underpinning information technology;

(ii) Assessed the effectiveness and control procedures of purchasing and inventory management;

(iii) Conducted an investigation and follow-up on allegation of migrant issues;

(iv) Conducted follow-up audits in every quarter with Management to ensure implementations of the agreed audit recommendations; and

(v) Reviewed the adequacy of the Group's enterprise risk management framework, processes and risk profile.

The fee for the Internal Audit Function of the Group for the financial year ended 30 June 2019 was RM90,000.

This report is made in accordance with the resolution of the Board dated 11 October 2019.

Directors' Responsibility Statement

The Directors of Karex Berhad ("the Company") are required to prepare financial statements for each financial year which have been made in accordance with the applicable financial reporting standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the state of affairs of the Company and of the Group at the end of the financial year and of their results and cash flows for that financial year.

In preparing the financial statements of the Company and of the Group for the financial year ended 30 June 2019, the Directors of the Company have:

- Adopted suitable accounting policies and applied them consistently;
- Made judgments and estimates that are reasonable and prudent;
- Ensured that applicable financial reporting standards have been followed; and
- Prepared the financial statements on a going concern basis as the Directors have a reasonable expectation, upon making enquiries, that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

The Directors are responsible to ensure that the Company and the Group maintain proper accounting records that disclose their financial positions with reasonable accuracy, in compliance with the Companies Act 2016.

The Directors are also responsible for taking such steps which are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraudulent or irregular activities.

Statement on Risk Management and Internal Control

The Board of Directors ("the Board') is pleased to present its Statement on Risk Management and Internal Control for the financial year ended 30 June 2019. This Statement is prepared pursuant to paragraph 15.26(b) and Practice Note 9 of the Main Market Listing Requirements ("MMLR") and is guided by the "Statement on Risk Management and Internal Control – Guidelines for Directors of Listed Issuers" ("the Guideline") endorsed by Bursa Malaysia Securities Berhad ("Bursa Securities").

Board's Responsibility

Committed towards the maintenance of a sound internal control system and effective risk management structure, the Board sets appropriate policies on internal control and constantly seeks assurance of the adequacy and effectiveness of them. These policies and guidelines comply with applicable laws and rules of risk management, including the Malaysian Code of Corporate Governance.

The Board is also responsible for setting business direction and in overseeing the conduct of the Group's operations, besides building a stronger foundation of internal control to effectively manage and mitigate risks face by the Group. This solid foundation of internal controls has been ingrained into the Group's corporate culture as a mechanism to safeguard shareholders' investments and the Group's assets.

Risk Management and Internal Controls

As Karex's endeavour to continuously strive for high standards of corporate governance practices, the Board has established a Risk Management Committee ("RMC"), specifically to perform risk assessment, which relates to identifying and analysing the risks which could potentially affect the Group. This Committee is further assisted by the Group's Senior Management personnel, who collectively form the Risk Management Working Committee ("RMWC").

Composition of RMC:

Chairwoman	:	Lam Jiuan Jiuan [Non-Independent Non-Executive Director]
Members	:	Dato' Dr. Ong Eng Long @ Ong Siew Chuan [Senior Independent Non-Executive Director]
		Professor Dato' Dr. Adeeba binti Kamarulzaman [Independent Non-Executive Director] (Appointed on 25 February 2019)
		Law Ngee Song [Independent Non-Executive Director] (Resigned on 25 February 2019)
		Goh Miah Kiat [Chief Executive Officer]
		Goh Chok Siang [Chief Financial Officer]

Risk Management

The RMWC carries the responsibility of identifying, evaluating, monitoring and managing key risk areas which could potentially affect the achievement of the Group's business objectives and strategies. Identification of risk appetite which commensurates with the structure, risk profile, complexity, activities and size of the Group is also performed by the RMWC, which is subsequently presented to the RMC for approval.

The RMC then continues to assess the key risks, controls and action plans identified to mitigate and manage the Group's risk exposure in efforts to further strengthen the Group's existing risk management framework. Major risks identified, together with their proposed action plans are then presented to the Board.

Throughout the financial year in review, two (2) meetings were conducted by the RMC, which revolved around the analysis of emerging and existing strategic risks faced by the Group and the establishment of solid mitigation plans in managing the identified risks. Key matters raised during the meetings are as follows:

Key Risk Focus	Key Mitigation Plan
Information Technology ("IT") Risk	• Appointment of Group IT Manager to review the entire IT system to further enhance the Group's cyber and network security as well as disaster recovery process. • Embedment of IT risk awareness across the Group through continuous training and communication of IT procedures to all users.
Labour Dependency	• Expedition of automation of production processes to address labour dependency and social compliance challenges. • Recruitment of foreign workers to be handled internally and directly from their home country ensuring good social practices.
Management Succession	• On-going talent management programme to attract, groom and retain talents to succeed the key management positions.
Supply Chain	• Implementation of supply chain management initiatives to achieve cost saving in the Group.
Crisis Management	• Implementation of incidence reporting procedure and appointment of Departmental Safety Officers as the primary contact person in the event of crisis incident to initiate immediate action plan.
Foreign Exchange Risk	• Continuous monitoring and mitigating of foreign currency exposure through forward exchange contracts with multiple banks.

On the operational level, risk management remains a primary matter discussed in management meetings between the RMWC and Head of Departments ("HODs"). Involved in the daily affairs of the Group, these HODs are then required to monitor and implement action plans, while enforcing internal controls to manage the potential risks.

As an on-going effort to improve the Group's risk management practice, the outsourced Internal Auditors have performed a review on the adequacy of the Group's enterprise risk management framework, processes and risk profile. In conjunction with the review, the Internal Auditors have conducted a risk management workshop for the top and middle management team to reiterate on the importance, concept and process of risk management, as well as overall risk awareness.

As a result of the said review, the following were achieved:

- A more comprehensive and complete risk management framework, enhancing clarity and alignment on risk structure, risk assessment process, risk communication/reporting and monitoring; and

- An updated risk register and profile with documentation of additional risks and re-evaluation of existing risk documented.

Statement on Risk Management and Internal Control

Internal Controls

The key subsidiaries of the Group continue to be certified under the ISO 13485:2016 Quality Management System and the ISO 14001:2015 Environmental Management System. These management systems form the fundamentals of the operational procedures in ensuring consistency in production processes. Internal quality audits and independent surveillance audits are also being conducted by external certificated bodies to ensure compliance of the Group towards each certification requirements. In addition, the Group continues to be certified and licensed by regulators from various countries.

Other key elements relating to the internal control system of the Group are as follows:

- The Group's organisation chart outlines the responsibilities, accountability and hierarchical structure of reporting lines;
- The structure establishes a clear reporting line for approval and authority of the Board, Chief Executive Officer ("CEO"), Senior Management and HODs for the transactions undertaken in the Group;
- As a precautionary step, risks faced by the Group have been insured to minimise financial exposure and losses. They include burglary, fire, stocks, money, fidelity guarantee, product liability and staff health and safety;
- Financial performance is reviewed by Executive Director and CEO;
- Written policies and procedures on key processes of the Group are constantly being reviewed and enhanced to ensure its adequacy;
- Ongoing monthly management reporting procedures are executed to monitor and track the Group's performance; and
- Internal Auditors conduct testing of the effectiveness and adequacy of internal control procedures and processes.

Board Review Mechanism

The Audit Committee ("AC") is entrusted by the Board with the responsibility of ensuring the objectivity of internal control system within the Group. In order to enhance the effectiveness of risk management and internal control systems, the AC is assisted by the Internal Auditors, a body independent of the Group's activities and operations, to assess the adequacy and effectiveness of control of the selected key functions on a quarterly basis. The Group's External Auditors have also provided the AC with their professional views and feedback on the risk and control issues identified during the course of their statutory audit.

Areas for improvement identified by both Internal and External Auditors throughout the financial year in review have been deliberated by the Board and AC to maintain the integrity of internal controls. None of the reported control weaknesses have resulted in any material loss, contingencies or uncertainties that would require mention in the Company's Annual Report. While the Group takes pride in its current comprehensive internal control framework, the Management Team continuously strives to further strengthen and enhance internal controls with assistance from both internal and external parties.

In addition, Management supplements the AC review on control and understanding of risk issues when presenting their quarterly financial performance and results. Together with the Group's business development and the performance of its subsidiaries, the financial performance of the Group is then reviewed and thereafter recommended to the Board for approval before subsequently being publicly announced.

The Board has also defined the Code of Ethics for the Group and established a whistle blowing channel for reporting violations against this code. Under this establishment, employees and stakeholders who know of or suspect any forms of violation are encouraged to report the incident.

Management Responsibilities and Assurance

In accordance to the Guideline, Management is responsible to the Board for:

- Identifying risks relating to the Group's objectives and strategies;
- Designing, implementing and monitoring the risk management framework in accordance with the Group's strategic vision and overall risk appetite; and
- Identifying changes to risks or emerging risks, responding appropriately and promptly bringing these to the attention of the Board.

The Board has received assurance and affirmation from the CEO and Chief Financial Officer to the best of their knowledge that the Group's risk management and internal control systems are operating adequately and effectively in all material aspects.

Board Assurance and Limitation

The Board confirms that the process for identifying, evaluating and managing significant risks in the Group is on-going. For the financial year under review, there was no material loss which resulted from significant control weaknesses. The Board is satisfied that the existing levels of risk management and internal controls are adequate and effective in enabling the Group to achieve its business objectives and operational efficiency and effectiveness.

The Board is of the view that the risk management and internal control systems in place for the year under review are adequate and effective in safeguarding the shareholders' investment, the interest of customers, regulators and employees, and the Group assets.

While the Board wishes to reiterate that risk management and systems of internal control are being continuously improved in line with evolving business developments, it should be noted that the risk management systems and systems of internal control cannot fully eliminate all risks of failure to achieve business objectives. Therefore, these systems of internal control and risk management in the Group are only able to provide reasonable but not absolute assurance against material misstatements, frauds and losses.

Review of Statement on Risk Management and Internal Control by External Auditors

The External Auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Audit and Assurance Practice Guide ("AAPG") 3, (previously Recommended Practice Guide 5 (Revised 2015)), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by Malaysian Institute of Accountants for inclusion in the annual report of the Group for the year ended 30 June 2019, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the Annual Report of the Group, in all material respects:

(a) Has not been prepared 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 Issuers, or

(b) Is factually inaccurate.

AAPG 3 does not require the External Auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and Management thereon. The External Auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

Financial Statements

Directors' Report

For the year ended 30 June 2019

The Directors have pleasure in presenting their report and the audited financial statements of the Group and of the Company for the financial year ended 30 June 2019.

Principal activities

The principal activity of the Company consists of investment holding. The principal activities of the subsidiaries are disclosed in Note 4 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

Subsidiaries

The details of the Company's subsidiaries are disclosed in Note 4 to the financial statements.

Results

	Group RM'000	Company RM'000
Profit for the year attributable to:		
Owners of the Company	2,533	8,244
Non-controlling interests	524	-
	3,057	8,244

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the statements of changes in equity.

Dividends

Since the end of the previous financial year, the Company declared a final single-tier dividend of 0.5 sen per ordinary share totalling RM5,011,875 in respect of the financial year ended 30 June 2018 on 9 October 2018 and paid on 20 December 2018.

The Directors proposed a final single-tier dividend of 1.0 sen per ordinary share totalling RM10,023,750 in respect of the year ended 30 June 2019 subject to the approval of the shareholders at the forthcoming Annual General Meeting. These financial statements do not reflect this proposed final single-tier dividend, which will be accounted for in the shareholders' equity as an appropriation of retained earnings in the financial year ending 30 June 2020.

Directors of the Company

Directors who served during the financial year until the date of this report are:

Tan Sri Dato' Seri Utama Arshad bin Ayub
Dato' Dr. Ong Eng Long @ Ong Siew Chuan
Professor Dato' Dr. Adeeba binti Kamarulzaman (appointed on 16 January 2019)
Mr. Goh Leng Kian
Ms. Goh Yen Yen
Ms. Lam Jiuan Jiuan
Mr. Wong Yien Kim
Mr. Law Ngee Song

The names of the Directors of subsidiaries are set out in the respective subsidiaries' financial statements and the said information is deemed incorporated herein by such reference and made a part hereof.

Directors' and Chief Executive Officer's interests in shares

The interests and deemed interests in the shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors and Chief Executive Officer ("CEO") at financial year end (including the interests of the spouses or children of the Directors and CEO who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings and Members are as follows:

		Number of ordinary shares			
Name of Directors and CEO	**Interest**	**At 1 July 2018**	**Bought/ Transfer in**	**Sold/ Transfer out**	**At 30 June 2019**
Company					
Directors of the Company					
Tan Sri Dato' Seri Utama Arshad bin Ayub	Direct	10,560,000	4,310,000	-	14,870,000
	Deemed[(1)]	2,800,000	1,660,000	-	4,460,000
Dato' Dr. Ong Eng Long@ Ong Siew Chuan	Direct	420,000	290,000	-	710,000
Mr. Goh Leng Kian	Direct	36,468,865	4,000,000	-	40,468,865
	Deemed[(2)]	322,437,500	-	(138,187,500)	184,250,000
	Deemed[(3)]	573,750	-	-	573,750
Ms. Goh Yen Yen	Direct	25,499,956	46,062,500[(4)]	-	71,562,456
	Deemed[(2)]	322,437,500	-	(322,437,500)[(4)]	-
Ms. Lam Jiuan Jiuan	Direct	19,087,456	-	-	19,087,456
	Deemed[(3)]	64,312,456	-	-	64,312,456
	Deemed[(5)]	335,262,500	-	(138,187,500)	197,075,000
Mr. Law Ngee Song	Direct	258,750	-	-	258,750
CEO of the Company					
Mr. Goh Miah Kiat	Direct	26,685,097	4,376,000	-	31,061,097
	Deemed[(2)]	322,437,500	-	(138,187,500)	184,250,000

(1) Deemed interested by virtue of his equity interest in Zalaraz Sdn. Bhd. pursuant to Section 8 of the Companies Act 2016.
(2) Deemed interested by virtue of his/her equity interest in Karex One Limited pursuant to Section 8 of the Companies Act 2016.
(3) Deemed interested by virtue of his/her equity interest held by his/her spouse pursuant to Section 59 (11)(c) of the Companies Act 2016.
(4) Ceased to have direct interest in Karex One Limited and indirect interest in the Company after 46,062,500 shares were transferred
(5) Deemed interested by virtue of her equity interest in AJNA Holdings Limited and Karex One Limited pursuant to Section 8 of the Companies Act 2016.

By virtue of their substantial interests in the shares of the Company, Mr. Goh Leng Kian, Ms Goh Yen Yen, Ms. Lam Jiuan Jiuan and Mr. Goh Miah Kiat are also deemed interested in the ordinary shares of the wholly-owned subsidiaries during the financial year to the extent that Karex Berhad has an interest.

The other Directors holding office at 30 June 2019 do not have any interest in the ordinary shares of the Company and of its related corporations during the financial year.

Directors' Report
For the year ended 30 June 2019

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than those fees and other benefits included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a corporation of which the Director is a member, or with a company in which the Director has a substantial financial interest other than certain Directors who have significant financial interest in companies which traded with certain companies in the Group in the ordinary course of business as disclosed in Note 26 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Issue of shares and debentures

There were no changes in the issued and paid-up capital of the Company during the financial year.

There were no debentures issued during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

Indemnity and insurance costs

During the financial year, the total amount of premium paid for insurance effected for Directors and officers of the Group and of the Company was RM29,000 for a total sum insured of RM10 million.

There were no indemnity given to, or insurance effected for auditors of the Company during the financial year.

Qualification of subsidiaries' financial statements

The auditors' report on the audited financial statements of Company's subsidiaries did not contain any qualification or any adverse comments.

Other statutory information

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

i) all known bad debts have been written off and adequate provision has been made for doubtful debts, and

ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

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

i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts in the Group and in the Company inadequate to any substantial extent, or

ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

Other statutory information (continued)

iii) 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

iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group 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, the financial performance of the Group and of the Company for the financial year ended 30 June 2019 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Auditors

The auditors, KPMG PLT, have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 17 to the financial statements.

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

Wong Yien Kim
Director

Goh Leng Kian
Director

Kuala Lumpur

Date: 11 October 2019

Statements of Financial Position

As at 30 June 2019

		Group		Company	
		2019	2018	2019	2018
	Note	RM'000	RM'000	RM'000	RM'000
Assets					
Property, plant and equipment	3	220,735	210,643	-	-
Investments in subsidiaries	4	-	-	283,675	279,865
Intangible assets	5	96,562	95,221	-	-
Deferred tax assets	6	1,914	841	-	-
Total non-current assets		319,211	306,705	283,675	279,865
Inventories	7	119,628	122,277	-	-
Trade and other receivables	8	82,285	98,289	56,894	52,015
Contract assets	9	500	-	-	-
Current tax assets		9,837	8,980	-	-
Cash and cash equivalents	10	63,635	48,222	23,224	29,710
Total current assets		275,885	277,768	80,118	81,725
Total assets		595,096	584,473	363,793	361,590
Equity					
Share capital	11	281,980	281,980	281,980	281,980
Reserves	11	209,052	201,366	79,533	76,301
Equity attributable to owners of the Company		491,032	483,346	361,513	358,281
Non-controlling interest		1,576	1,030	-	-
Total equity		492,608	484,376	361,513	358,281
Liabilities					
Loans and borrowings	12	9,056	10,573	828	1,938
Deferred tax liabilities	6	8,064	8,275	-	-
Total non-current liabilities		17,120	18,848	828	1,938
Trade and other payables	13	60,339	61,053	184	130
Loans and borrowings	12	24,612	17,258	1,157	1,131
Derivative financial liabilities	14	3	1,541	-	-
Current tax liabilities		414	1,397	111	110
Total current liabilities		85,368	81,249	1,452	1,371
Total liabilities		102,488	100,097	2,280	3,309
Total equity and liabilities		595,096	584,473	363,793	361,590

The accompanying notes form an integral part of the financial statements.

Statements of Profit or Loss

For the year ended 30 June 2019

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Revenue	15	378,484	406,792	6,500	-
Cost of sales		(289,296)	(300,882)	-	-
Gross profit		89,188	105,910	6,500	-
Other income		2,067	951	35	22
Distribution expenses		(36,590)	(45,371)	-	-
Administrative expenses		(49,315)	(44,383)	(1,438)	(1,552)
Other expenses		(1,140)	(3,058)	-	(117)
Results from operating activities		4,210	14,049	5,097	(1,647)
Finance income		1,018	1,480	3,730	3,941
Finance costs		(1,424)	(1,251)	(117)	(137)
Net finance (costs)/income		(406)	229	3,613	3,804
Profit before tax		3,804	14,278	8,710	2,157
Tax expense	16	(747)	(4,090)	(466)	(511)
Profit for the year	17	3,057	10,188	8,244	1,646
Profit attributable to:					
Owners of the Company		2,533	10,103	8,244	1,646
Non-controlling interest		524	85	-	-
Profit for the year		3,057	10,188	8,244	1,646
Basic and diluted earnings per ordinary share (sen)	18	0.25	1.01		

The accompanying notes form an integral part of the financial statements.

Statements of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2019

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit for the year	3,057	10,188	8,244	1,646
Other comprehensive income/(expense), net of tax				
Items that are or may be reclassified subsequently to profit or loss				
Foreign currency translation differences for foreign operations	10,393	(6,362)	-	-
Total comprehensive income for the year	13,450	3,826	8,244	1,646
Total comprehensive income attributable to:				
Owners of the Company	12,904	3,861	8,244	1,646
Non-controlling interest	546	(35)	-	-
Total comprehensive income for the year	13,450	3,826	8,244	1,646

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

		Attributable to owners of the Company							
		Non-Distributable				Distributable			
	Note	Share capital RM'000	Merger reserve RM'000	Translation reserve RM'000	Other reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interest RM'000	Total equity RM'000
Group									
At 1 July 2017		281,980	63,511	9,895	718	140,540	496,644	1,499	498,143
Foreign currency translation differences for foreign operations/**Total other comprehensive expense for the year**		-	-	(6,242)	-	-	(6,242)	(120)	(6,362)
Profit for the year		-	-	-	-	10,103	10,103	85	10,188
Total comprehensive (expense)/income for the year		-	-	(6,242)	-	10,103	3,861	(35)	3,826
Contributions by and distributions to owners of the Company									
Dividends to owners of the Company/**Total transactions with owners of the Company**	19	-	-	-	-	(10,024)	(10,024)	-	(10,024)
Change in ownership interest in a subsidiary	27	-	-	-	-	(7,135)	(7,135)	(434)	(7,569)
At 30 June 2018		281,980	63,511	3,653	718	133,484	483,346	1,030	484,376

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

		Attributable to owners of the Company							
		Non-Distributable				Distributable			
	Note	Share capital RM'000	Merger reserve RM'000	Translation reserve RM'000	Other reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interest RM'000	Total equity RM'000
Group									
At 1 July 2018, as previously reported		281,980	63,511	3,653	718	133,484	483,346	1,030	484,376
Adjustments on initial application of MFRS 9, net of tax	28	-	-	-	-	(332)	(332)	-	(332)
Adjustments on initial application of MFRS 15, net of tax	28	-	-	-	-	126	126	-	126
At 1 July 2018, restated		281,980	63,511	3,653	718	133,278	483,140	1,030	484,170
Foreign currency translation differences for foreign operations/**Total other comprehensive income for the year**		-	-	10,371	-	-	10,371	22	10,393
Profit for the year		-	-	-	-	2,533	2,533	524	3,057
Total comprehensive income for the year		-	-	10,371	-	2,533	12,904	546	13,450
Contributions by and distributions to owners of the Company									
Dividends to owners of the Company/**Total transactions with owners of the Company**	19	-	-	-	-	(5,012)	(5,012)	-	(5,012)
At 30 June 2019		281,980	63,511	14,024	718	130,799	491,032	1,576	492,608

The accompanying notes form an integral part of the financial statements.

Statement of Changes in Equity

For the year ended 30 June 2019

		Attributable to owners of the Company			
		Non-distributable		Distributable	
	Note	Share capital RM'000	Merger reserve RM'000	Retained earnings RM'000	Total equity RM'000
Company					
At 1 July 2017		281,980	63,511	21,168	366,659
Profit and total comprehensive income for the year		-	-	1,646	1,646
Contributions by and distributions to owners of the Company					
Dividends to owners of the Company/ **Total transactions with owners of the Company**	19	-	-	(10,024)	(10,024)
At 30 June 2018/1 July 2018		281,980	63,511	12,790	358,281
Profit and total comprehensive income for the year		-	-	8,244	8,244
Contributions by and distributions to owners of the Company					
Dividends to owners of the Company/ **Total transactions with owners of the Company**	19	-	-	(5,012)	(5,012)
At 30 June 2019		281,980	63,511	16,022	361,513

The accompanying notes form an integral part of the financial statements.

Statements of Cash Flows

For the year ended 30 June 2019

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash flows from operating activities				
Profit before tax	3,804	14,278	8,710	2,157
Adjustments for:				
Depreciation and amortisation	15,653	14,015	-	-
Dividend income	-	-	(6,500)	-
Fair value loss on derivative instruments	3	1,541	-	-
Finance costs	1,424	1,251	117	137
Finance income	(1,018)	(1,480)	(3,730)	(3,941)
(Reversal of)/Impairment loss on trade receivables	(88)	330	-	-
Inventories:				
- (Reversal of)/Allowance for slow moving	(5)	2,892	-	-
- Written off	104	335	-	-
- Written down to net realisable value	818	325	-	-
Property, plant and equipment:				
- (Gain)/Loss on disposal	(217)	153	-	-
- Written off	157	208	-	-
Unrealised loss/(gain) on foreign exchange	23	(373)	(32)	(22)
Operating profit/(loss) before changes in working capital	20,658	33,475	(1,435)	(1,669)
Change in inventories	1,732	(24,847)	-	-
Change in trade and other receivables	16,386	1,869	(4,847)	(3,200)
Change in contract assets	(500)	-	-	-
Change in trade and other payables	(2,130)	(1,516)	54	107
Cash generated from/(used in) operations	36,146	8,981	(6,228)	(4,762)
Tax paid	(3,871)	(5,688)	(465)	(572)
Net cash from/(used in) operating activities	32,275	3,293	(6,693)	(5,334)

The accompanying notes form an integral part of the financial statements.

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Cash flows from investing activities					
Acquisition of:					
- intangible assets	5	(802)	(277)	-	-
- property, plant and equipment	20	(18,244)	(28,200)	-	-
- non-controlling interest	27	-	(7,569)	-	-
Increase in investment in subsidiaries		-	-	(3,810)	(12,633)
Proceeds from disposal of property, plant and equipment		2,035	74	-	-
Dividend received		-	-	6,500	-
Interest received		1,018	1,480	3,730	3,941
Net cash (used in)/from investing activities		(15,993)	(34,492)	6,420	(8,692)
Cash flows from financing activities					
Interest paid		(1,619)	(1,297)	(117)	(137)
Change in pledged deposits		(334)	(353)	-	-
Dividends paid to owners of the Company	19	(5,012)	(10,024)	(5,012)	(10,024)
Repayments of:					
- finance lease liabilities		(677)	(698)	-	-
- term loans		(2,366)	(7,173)	(1,084)	(1,396)
- export financing		(1,372)	-	-	-
- revolving credit		(56)	-	-	-
Drawdown of:					
- bankers' acceptance		6,555	3,808	-	-
- export financing		-	2,161	-	-
- foreign currency trade loan		352	-	-	-
- revolving credit		-	2,019	-	-
- term loans		3,857	4,562	-	-
- trust receipt		61	414	-	-
Net cash used in financing activities		(611)	(6,581)	(6,213)	(11,557)
Effect of exchange rate fluctuations on cash held		238	(265)	-	-
Net increase/(decrease) in cash and cash equivalents		15,909	(38,045)	(6,486)	(25,583)
Cash and cash equivalents at 1 July		46,334	84,379	29,710	55,293
Cash and cash equivalents at 30 June	10	62,243	46,334	23,224	29,710

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements

Karex Berhad is a public limited liability company, incorporated and domiciled in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad. The addresses of the principal place of business and registered office of the Company are as follows:

Principal place of business
Lot 594, Persiaran Raja Lumu
Pandamaran Industrial Estate
42000 Port Klang
Selangor Darul Ehsan
Malaysia

Registered office
10th Floor, Menara Hap Seng
No. 1 & 3, Jalan P. Ramlee
50250 Kuala Lumpur
Malaysia

The consolidated financial statements of the Company as at and for the year ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities"). The financial statements of the Company as at and for the financial year ended 30 June 2019 do not include other entities.

The principal activity of the Company consists of investment holding. The principal activities of the subsidiaries are disclosed in Note 4.

These financial statements were authorised for issue by the Board of Directors on 11 October 2019.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The following are accounting standards, interpretations and amendments that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group and the Company:

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108*, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128*, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group and the Company plan to apply the abovementioned standards, interpretations and amendments in the respective financial year when the above standards, interpretations and amendments become effective.

The Group and the Company do not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 as it is not applicable to the Group and the Company.

The initial application of the accounting standards, interpretations and amendments are not expected to have any material financial impacts to the current period and prior period financial statements of the Group and of the Company except as mentioned below:

MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease,* IC Interpretation 115*, Operating Leases – Incentives* and IC Interpretation 127*, Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Group has assessed the estimated impact that the initial application of MFRS 16 will have on its consolidated financial statements as at 1 July 2019 as below. The estimated impact on initial application is based on assessment undertaken to date and the actual impacts of adopting the standard may change because:

- the Group has not finalised the testing and assessment of controls over its new accounting system;
- the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application;

	As reported at 30 June 2019 RM'000	Estimated adjustments due to adoption of MFRS 16 RM'000	Estimated adjusted opening balance at 1 July 2019 RM'000
Group			
Property, plant and equipment	220,735	(954)	219,781
Right-of-use assets	-	21,280	21,280
Trade and other receivables	82,285	(692)	81,593
Finance lease liabilities	807	(807)	-
Lease liabilities	-	20,441	20,441

Notes to the Financial Statements

1. Basis of preparation (continued)

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis other than as disclosed in Note 2.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

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

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

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 5 - intangible assets
- Note 7 - measurement of allowance for slow-moving inventories

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by Group entities, unless otherwise stated.

Arising from the adoption of MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments*, there are changes to the accounting policies of:

i) financial instruments;
ii) revenue recognition; and
iii) impairment losses of financial instruments

as compared to those adopted in previous financial statements. The impacts arising from the changes are disclosed in Note 28.

(a) Basis of consolidation

(i) Subsidiaries

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

The Group controls an entity when it is exposed, or has rights, to variable returns 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.

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

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(iii) Acquisitions of non-controlling interests

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

(iv) Restructuring among common shareholders

During a restructuring where the combining entities are controlled by the same parties both before and after the combination, book value accounting is applied. The assets and liabilities acquired are recognised in the consolidated financial statements at their respective carrying amounts without restatement. The difference between the cost of acquisition and the nominal value of the shares acquired together with any other reserves of the combining entities are taken to merger reserve (or adjusted against any suitable reserve in the case of debit differences). The other components of equity of the acquired entities are added to the same components within group equity.

(v) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity accounted investee or as a financial asset depending on the level of influence retained.

(vi) Non-controlling interests

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

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(vii) Transactions eliminated on consolidation

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

2. Significant accounting policies (continued)

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

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

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of equity instruments where they are measured at fair value through other comprehensive income or a financial instrument designated as a cash flow hedge, which are recognised in other comprehensive income.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the foreign currency translation reserve ("FCTR") in equity.

(ii) Operations denominated in functional currencies other than Ringgit Malaysia

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the FCTR in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(c) Financial instruments

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the Group and the Company have elected not to restate the comparatives.

(i) Recognition and initial measurement

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

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Recognition and initial measurement (continued)

Current financial year

A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

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

Previous financial year

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

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

(ii) Financial instrument categories and subsequent measurement

Financial assets

Current financial year

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Group or the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

The categories of financial assets at initial recognition are as follows:

(a) *Amortised cost*

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 2(j)(i)) where the effective interest rate is applied to the amortised cost.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

Current financial year (continued)

(b) *Fair value through profit or loss*

All financial assets not measured at amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a designated and effective hedging instrument). On initial recognition, the Group or the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value. Net gains or losses, including any interest or dividend income, are recognised in the profit or loss.

All financial assets, except for those measured at fair value through profit or loss are subject to impairment assessment (see Note 2(j)(i)).

Previous financial year

In the previous financial year, financial assets of the Group and the Company were classified and measured under MFRS 139, *Financial Instruments: Recognition and Measurement* as follows:

(a) *Financial assets at fair value through profit or loss*

Fair value through profit or loss category comprised financial assets that were held for trading, including derivatives (except for a derivative that was a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination or financial assets that were specifically designated into this category upon initial recognition.

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

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

(b) *Loans and receivables*

Loans and receivables category comprised debt instruments that were not quoted in an active market, trade and other receivables and cash and cash equivalent.

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

(c) *Available-for-sale financial assets*

Available-for-sale category comprised investments in equity and debt instruments that were not held for trading.

Investments in equity instruments did not have a quoted market price in an active market and whose fair value could not be reliably measured were measured at cost. Other financial assets categorised as available-for-sale were subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which were recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income was reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method was recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss, were subject to impairment assessment (see Note 2(j)(i)).

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial liabilities

Current financial year

The categories of financial liabilities at initial recognition are as follows:

(a) *Fair value through profit or loss*

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination and financial liabilities that are specifically designated into this category upon initial recognition.

On initial recognition, the Group or the Company may irrevocably designate a financial liability that otherwise meets the requirements to be measured at amortised cost as at fair value through profit or loss:

(a) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise;
(b) a group of financial liabilities or assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel; or
(c) if a contract contains one or more embedded derivatives and the host is not a financial asset in the scope of MFRS 9, where the embedded derivative significantly modifies the cash flows and separation is not prohibited.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any interest expense are recognised in the profit or loss.

For financial liabilities where it is designated as fair value through profit or loss upon initial recognition, the Group and the Company recognise the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income and remaining amount of the change in fair value in the profit or loss, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch.

(b) *Amortised cost*

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

Previous financial year

In the previous financial year, financial liabilities of the Group and the Company were subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprised financial liabilities that were derivatives (except for a derivative that was a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination or financial liabilities that were specifically designated into this category upon initial recognition.

Derivatives that were linked to and must be settled by delivery of unquoted equity instruments that did not have a quoted price in an active market for identical instruments whose fair values otherwise could not be reliably measured were measured at cost.

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

Notes to the Financial Statements

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Regular way purchase or sale of financial assets

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date or settlement date accounting in the current year.

Trade date accounting refers to:
(a) the recognition of an asset to be received and the liability to pay for it on the trade date, and
(b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Settlement date accounting refers to:
(a) the recognition of an asset on the day it is received by the Group or the Company, and
(b) derecognition of an asset and recognition of any gain or loss on disposal on the day that is delivered by the Group or the Company.

Any change in the fair value of the asset to be received during the period between the trade date and the settlement date is accounted in the same way as it accounts for the acquired asset.

Generally, the Group or the Company applies settlement date accounting unless otherwise stated for the specific class of asset.

(iv) 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 specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Current financial year

Financial guarantees issued are initially measured at fair value. Subsequently, they are measured at higher of:
- the amount of the loss allowance; and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance to the principles of MFRS 15, *Revenue from Contracts with Customers.*

Liabilities arising from financial guarantees are presented together with other provisions.

Previous financial year

In the previous financial years, fair value arising from financial guarantee contracts were classified as deferred income and was amortised to profit or loss using a straight-line method over the contractual period or, when there was no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract was probable, an estimate of the obligation was made. If the carrying value of the financial guarantee contract was lower than the obligation, the carrying value was adjusted to the obligation amount and accounted for as a provision.

(v) 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 transferred, or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount of the financial asset and the sum of consideration received (including any new asset obtained less any new liability assumed) 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, cancelled or expires. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. 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.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(vi) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group or the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and liability simultaneously.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that 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.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within “other income” and “other expenses” respectively in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment from the date that they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use. Leasehold land is amortised in equal instalment over the lease period from 27 to 62 years.

Notes to the Financial Statements

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation (continued)

The estimated useful lives for the current and comparative periods are as follows:

Buildings	20 - 50 years
Plant and machinery	10 - 20 years
Motor vehicles	5 - 10 years
Electrical installation, renovation, equipment, furniture and fittings	3 - 10 years

Depreciation methods, useful lives and residual values are reviewed at end of the reporting period, and adjusted as appropriate.

(e) Leased assets

(i) Finance lease

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. 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.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment, or as investment property if held to earn rental income or for capital appreciation or for both.

(ii) Operating lease

Leases, where the Group or the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property and measured using fair value model.

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

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

(f) Intangible assets

(i) Goodwill

Goodwill arises on business combinations is measured at cost less any accumulated impairment losses. In respect of equity-accounted associates and joint venture, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted associates and joint venture.

(ii) Brands

Brands that are acquired by the Group, which have indefinite useful lives, are measured at cost less any accumulated impairment losses.

2. Significant accounting policies (continued)

(f) Intangible assets (continued)

(iii) Patents and trademarks

Patents and trademarks acquired by the Group, which have finite useful lives are measured at cost less any accumulated amortisation and any accumulated impairment losses.

(iv) Other intangible assets

Other intangible assets acquired by the Group, which have finite useful lives, are measured at cost less any accumulated amortisation and any accumulated impairment losses. Other intangible assets with indefinite useful lives are measured at cost less any accumulated impairment losses.

(v) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(vi) Amortisation

Goodwill and intangible assets with indefinite useful lives are not amortised but are tested for impairment annually and whenever there is an indication that they may be impaired.

Other intangible assets with finite useful lives are amortised from the date that they are available for use. 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.

The estimated useful lives for the current and comparative periods are as follows:

- Patents and trademarks 10 - 15 years

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

(g) Inventories

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

The cost of inventories is calculated using the first-in first-out method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of work-in-progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

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

(h) Contract asset

A contract asset is recognised when the Group's right to consideration is conditional on something other than the passage of time. A contract asset is subject to impairment in accordance to MFRS 9, *Financial Instruments* (see Note 2(j)(i)).

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

Notes to the Financial Statements

2. Significant accounting policies (continued)

(j) Impairment

(i) Financial assets

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the Group and the Company have elected not to restate the comparatives.

Current financial year

The Group and the Company recognise loss allowances for expected credit losses on financial assets measured at amortised cost and contract assets. Expected credit losses are a probability-weighted estimate of credit losses.

The Group and the Company measure loss allowances at an amount equal to lifetime expected credit loss, except for cash and bank balance for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company are exposed to credit risk.

The Group and the Company estimate the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's or the Company's procedures for recovery amounts due.

Previous financial year

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

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

2. Significant accounting policies (continued)

(j) Impairment (continued)

(i) Financial assets (continued)

Previous financial year (continued)

An impairment loss in respect of available-for-sale financial assets was recognised in profit or loss and was measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset had been recognised in other comprehensive income, the cumulative loss in other comprehensive income was reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that was carried at cost was recognised in profit or loss and was measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale was not reversed through profit or loss.

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

(ii) Other assets

The carrying amounts of other assets (except for inventories, contract assets, deferred tax assets and assets arising from employee benefits) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash-generating unit or a group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amount of the other assets in the cash-generating unit (groups of cash-generating units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

Notes to the Financial Statements

2. Significant accounting policies (continued)

(k) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Issue expenses

Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

(ii) Ordinary shares

Ordinary shares are classified as equity.

(l) Income tax

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

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

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

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

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

(m) Revenue and other income

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 15, *Revenue from Contracts with Customers,* the Group and the Company have elected not to restate the comparatives.

(i) Revenue

Current financial year

Revenue is measured based on the consideration specified in a contract with a customer in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. The Group or the Company recognises revenue when (or as) it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

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

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

2. Significant accounting policies (continued)

(m) Revenue and other income (continued)

(i) Revenue (continued)

Previous financial year

Revenue from the sale of goods in the course of ordinary activities was measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue was recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership had been transferred to the customer, recovery of the consideration was probable, the associated costs and possible return of goods could be estimated reliably, there was no continuing management involvement with the goods, and the amount of revenue could be measured reliably. If it was probable that discounts would be granted and the amount could be measured reliably, then the discount was recognised as a reduction of revenue as the sales were recognised.

(ii) Dividend income

Dividend income is recognised in profit or loss on the date that the Group's or the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

(n) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(o) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The Group's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Notes to the Financial Statements

2. Significant accounting policies (continued)

(o) Employee benefits (continued)

(iii) Defined benefit plans

The Group provides for post employment retirement benefits, payable to employees under the labour laws applicable in Thailand in respect of its subsidiaries incorporated in Thailand.

The Group's net obligation in respect of defined benefit 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. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed by a qualified actuary using the projected unit credit 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 Company. An economic benefit is available to the Company 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 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.

Actuarial gains and losses arising from defined benefit plans will be recognised as income or expense in the statement of other comprehensive income and all expenses related to defined benefit plans will be recognised as income and expense in profit or loss.

As the amount involved is not material to the Group. Accordingly, no further disclosure as required by the standard is made.

(p) Earnings per ordinary share

The Group presents basic and diluted earnings per share data for its ordinary shares ("EPS").

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

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(q) Operating segments

An 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. Operating segment results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

2. Significant accounting policies (continued)

(r) Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability 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.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group 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.

Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

Notes to the Financial Statements

3. Property, plant and equipment

	Land and buildings RM'000	Plant and machinery RM'000	Equipment, furniture and fittings RM'000	Electrical installation and renovation RM'000	Motor vehicles RM'000	Construction -in-progress RM'000	Total RM'000
Group							
At cost							
At 1 July 2017	92,085	148,633	20,896	26,176	7,293	15,355	310,438
Additions (see Note 20)	521	5,266	1,305	1,203	904	16,950	26,149
Disposals	-	(256)	(4)	-	(103)	(76)	(439)
Written off	-	(355)	(189)	(99)	-	-	(643)
Transfers	3,967	2,041	108	852	-	(6,968)	-
Translation differences	(1,181)	(1,840)	(195)	(804)	(50)	(198)	(4,268)
At 30 June 2018/1 July 2018	95,392	153,489	21,921	27,328	8,044	25,063	331,237
Additions (see Note 20)	916	5,675	1,772	1,118	995	8,501	18,977
Disposals	-	(588)	(70)	-	(3,535)	(172)	(4,365)
Written off	-	(310)	(11)	-	(138)	(3)	(462)
Transfers	3,576	9,772	348	1,571	-	(15,267)	-
Translation differences	3,869	5,870	353	1,690	121	850	12,753
At 30 June 2019	103,753	173,908	24,313	31,707	5,487	18,972	358,140
Accumulated depreciation							
At 1 July 2017	10,490	72,692	10,541	10,546	4,439	-	108,708
Depreciation charge	2,097	7,266	2,136	1,492	865	-	13,856
Disposals	-	(152)	-	-	(60)	-	(212)
Written off	-	(155)	(181)	(99)	-	-	(435)
Translation differences	(210)	(822)	(86)	(168)	(37)	-	(1,323)
At 30 June 2018/1 July 2018	12,377	78,829	12,410	11,771	5,207	-	120,594
Depreciation charge	2,186	8,586	2,268	1,749	741	-	15,530
Disposals	-	(117)	(67)	-	(2,363)	-	(2,547)
Written off	-	(210)	(10)	-	(85)	-	(305)
Translation differences	669	2,896	197	279	92	-	4,133
At 30 June 2019	15,232	89,984	14,798	13,799	3,592	-	137,405
Carrying amounts							
At 1 July 2017	81,595	75,941	10,355	15,630	2,854	15,355	201,730
At 30 June 2018/1 July 2018	83,015	74,660	9,511	15,557	2,837	25,063	210,643
At 30 June 2019	88,521	83,924	9,515	17,908	1,895	18,972	220,735

Land and buildings

Included in the carrying amounts of land and buildings are:

	Group	
	2019 RM'000	2018 RM'000
Land	28,350	28,483
Buildings	60,171	54,532
	88,521	83,015

3. Property, plant and equipment (continued)

Security

The land and buildings and plant and machinery of the Group with a carrying amount of RM51,448,000 (2018: RM45,638,000) are charged to licensed banks as security for banking facilities granted as disclosed in Note 12.

Leased plant and machinery and motor vehicles

At 30 June, the net carrying amounts of leased assets are as follows:

	Group	
	2019 RM'000	2018 RM'000
Plant and machinery	-	1,788
Motor vehicles	954	1,768
	954	3,556

Construction-in-progress

Construction-in-progress consists of assets relating to latex compounding facilities, condom production facilities and other machineries which are not ready for intended use.

Others

Included in buildings of the Group is finance cost capitalised of RM195,000 (2018: RM46,000) at 4.18% (2018: 4.59%) per annum.

4. Investments in subsidiaries

	Company	
	2019 RM'000	2018 RM'000
Unquoted shares, at cost	279,865	279,865
Amounts due from subsidiaries	3,810	-
	283,675	279,865

The amounts due from subsidiaries are interest free, unsecured and do not have fixed repayment terms. The management is of the view that, in substance, the amounts due from subsidiaries provided an exposure similar to an investment in ordinary shares of the subsidiaries.

Notes to the Financial Statements

4. Investments in subsidiaries (continued)

Details of the subsidiaries are as follows:

Name of entity	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2019 %	Effective ownership interest and voting interest 2018 %
Direct subsidiaries				
Karex Industries Sdn. Bhd.	Manufacture and sale of condoms, rubber products, personal lubricants and others	Malaysia	100	100
Hevea Medical Sdn. Bhd.	Manufacture and sale of condoms, rubber products, personal lubricants and others	Malaysia	100	100
Innolatex Sdn. Bhd.	Manufacture and sale of condoms, rubber products, personal lubricants and others	Malaysia	100	100
Innolatex (Thailand) Limited*	Manufacture and sale of condoms, rubber products, personal lubricants and others	Thailand	100	100
Karex Global Limited#	Investment holding	Hong Kong	100	100
Medical-Latex (Dua) Sdn. Bhd.	Manufacture and sale of condoms, rubber products, personal lubricants and others	Malaysia	100	100
Karex Holdings Sdn. Bhd.	Investment holding	Malaysia	100	100
Karex International Sdn. Bhd.	Investment holding	Malaysia	100	100
Karex Marketing Sdn. Bhd.	Dormant	Malaysia	100	100
Karex Polymers Limited#	Manufacturing of pre-vulcanised latex	Thailand	100	100
Subsidiary of Karex Holdings Sdn. Bhd.				
Pasante Healthcare Limited#	Wholesalers of healthcare products	United Kingdom	100	100
Subsidiary of Karex Industries Sdn. Bhd.				
Uro Technology Sdn. Bhd.	Manufacturing and sale of urinary urethral products	Malaysia	100	100
Subsidiary of Karex Global Limited				
Global Protection Corporation#	Distribution, packaging and marketing of condoms and related products	United States of America	70	70
Subsidiary of Global Protection Corporation				
Global Protection Corp UK Limited#	Dormant	United Kingdom	100	100

* Audited by other member firm of KPMG International.

\# Not audited by member firm of KPMG International.

There is no disclosure for non-controlling interest in a subsidiary as the balance is not material to the Group.

5. Intangible assets

	Goodwill RM'000	Brands RM'000	Patents and trademarks RM'000	Other intangible assets RM'000	Total RM'000
Group					
At cost					
At 1 July 2017	27,230	62,501	1,622	5,947	97,300
Addition	-	-	277	-	277
Effect of movements in exchange rates	-	(1,746)	(100)	-	(1,846)
At 30 June 2018/1 July 2018	27,230	60,755	1,799	5,947	95,731
Addition	-	-	802	-	802
Effect of movements in exchange rates	-	634	39	-	673
At 30 June 2019	27,230	61,389	2,640	5,947	97,206
Accumulated amortisation					
At 1 July 2017	-	-	360	-	360
Amortisation charge	-	-	159	-	159
Effect of movements in exchange rates	-	-	(9)	-	(9)
At 30 June 2018/1 July 2018	-	-	510	-	510
Amortisation charge	-	-	123	-	123
Effect of movements in exchange rates	-	-	11	-	11
At 30 June 2019	-	-	644	-	644
Carrying amounts					
At 1 July 2017	27,230	62,501	1,262	5,947	96,940
At 30 June 2018/1 July 2018	27,230	60,755	1,289	5,947	95,221
At 30 June 2019	27,230	61,389	1,996	5,947	96,562

Other intangible assets

Other intangible assets comprise of patents, distribution rights, websites, quality certifications and others that are related to fitted condom and former production.

Amortisation

The brands and the other intangible assets are of such nature that they will continue to remain relevant to the Group in terms of access to market, brand loyalty from customers, innovative business platform and restriction of new entrant. The management expects the brands and the other intangible assets to generate net cash inflows indefinitely into the future. As a result, no amortisation is provided against the carrying value of the brands and the other intangible assets as the management believes that the lives of such assets are indefinite at this point.

The amortisation of patents and trademarks which have finite useful life are recognised and charged to the administration expenses.

Notes to the Financial Statements

5. Intangible assets (continued)

Impairment testing for cash-generating units ("CGU") containing intangible assets

For the purpose of impairment testing, brands and other intangible assets with indefinite useful lives are allocated to the Group's manufacturing and distribution units which represent the lowest level within the Group at which the intangible assets are monitored for internal management purpose.

The aggregate carrying amount of the intangible assets allocated to each unit are as follows:

	Goodwill		Brands		Other intangible assets	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Pasante Healthcare Limited ("Pasante")	27,230	27,230	-	-	-	-
"ONE" brand manufacturing and distribution	-	-	26,471	25,856	-	-
"Trustex" brand manufacturing and distribution	-	-	34,100	34,100	-	-
"NüVo" brand manufacturing and distribution	-	-	818	799	-	-
Other intangible assets related to fitted condom	-	-	-	-	5,589	5,589
Other intangible assets related to former production	-	-	-	-	358	358
	27,230	27,230	61,389	60,755	5,947	5,947

Goodwill

Goodwill was generated upon acquisition of Pasante. The recoverable amount for goodwill were based on its value in use, determined by discounting the future cash flows to be generated from the CGU and were based on the following key assumptions:

i) Cash flows were projected based on 10-year plan and an estimated terminal value.
ii) Revenue were projected based on growth rate of 8.00% - 10.00% on historical sales performance.
iii) Profit margins were based on the historical performance of the distribution units and remain constant throughout the projected period.
iv) A pre-tax discount rate of 11.9% was applied in determining the recoverable amount of the unit. The discount rate was estimated based on the industry's weighted average cost of capital.

5. Intangible assets (continued)

Brands

The recoverable amount for Brands were based on their value in use, determined by discounting the future cash flows to be generated from the CGU and were based on the following key assumptions:

i) Cash flows were projected based on 10-year plan and an estimated terminal value.
ii) Revenue were projected based on adult population that uses condom of the target territories.
iii) Profit margins were based on the historical performance of the manufacturing and distribution units and remain constant throughout the projected period.
iv) Pre-tax discount rates of 11.5% to 12.0% were applied in determining the recoverable amount of the units. The discount rates were estimated based on the industry's weighted average cost of capital.

Other intangible assets related to fitted condoms

The recoverable amount for the other intangible assets were based on its value in use, determined by discounting the future cash flows to be generated from the CGU and were based on the following key assumptions:

i) Cash flows were projected based on 10-year plan and an estimated terminal value.
ii) Revenue was projected based on adult population that uses condom of the target territories.
iii) Profit margin was based on the historical performance of the manufacturing and distribution units and remain constant throughout the projected period.
iv) A pre-tax discount rate of 11.7% was applied in determining the recoverable amount of the unit. The discount rate was estimated based on the industry's weighted average cost of capital.

The value assigned to the key assumptions represents management's assessment of future trends in the industry and are based on both internal and external sources.

Based on the management assessment, no impairment is required as the recoverable amount was higher than carrying amount of the above intangible assets.

The following table shows the reduction of recoverable amount with the changes in the key assumptions which are particularly sensitive:

	1 percentage point change in revenue growth		**1 percentage point change in gross profit margin**		**1 percentage point change in discount rate**	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Pasante	4,419	9,549	5,376	5,689	3,124	4,628
"ONE" brand manufacturing and distribution	1,095	373	7,726	2,990	14,151	4,371
"Trustex" brand manufacturing and distribution	521	361	1,182	906	5,717	4,023
"NüVo" brand manufacturing and distribution	32	21	117	115	302	230
Other intangible assets related to fitted condom	1,081	118	360	263	1,078	1,244

Based on sensitivity analysis, management concluded that there are no reasonably foreseeable changes in any of the above key assumptions would cause the carrying values of goodwill, brands and other intangible assets to exceed its recoverable amounts.

There is no further disclosure on other intangible assets related to former production as the amount is not significant to the Group.

Notes to the Financial Statements

6. Deferred tax assets/(liabilities)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Group						
Property, plant and equipment	189	-	(10,934)	(10,263)	(10,745)	(10,263)
Unutilised business losses	1,637	468	-	-	1,637	468
Unutilised capital allowances	1,572	-	-	-	1,572	-
Inventories	689	1,439	-	-	689	1,439
Trade receivables	616	237	-	-	616	237
Others	114	1,038	(33)	(353)	81	685
Tax assets/(liabilities)	4,817	3,182	(10,967)	(10,616)	(6,150)	(7,434)
Set off of tax	(2,903)	(2,341)	2,903	2,341	-	-
Net tax assets/(liabilities)	1,914	841	(8,064)	(8,275)	(6,150)	(7,434)

Movement in temporary differences during the year

	At 1 July 2018 RM'000	Recognised in profit or loss (Note 16) RM'000	At 30 June 2019 RM'000
Group			
Property, plant and equipment	(10,263)	(482)	(10,745)
Unutilised business losses	468	1,169	1,637
Unutilised capital allowance	-	1,572	1,572
Inventories	1,439	(750)	689
Trade receivables	237	379	616
Others	685	(604)	81
	(7,434)	1,284	(6,150)

	At 1 July 2017 RM'000	Recognised in profit or loss (Note 16) RM'000	At 30 June 2018 RM'000
Group			
Property, plant and equipment	(9,701)	(562)	(10,263)
Unutilised business losses	282	186	468
Inventories	377	1,062	1,439
Trade receivables	852	(615)	237
Others	(168)	853	685
	(8,358)	924	(7,434)

Unutilised business losses of the Thailand subsidiaries are subjected to a 5-year time limit under the tax legislation of Thailand. Unutilised capital allowances do not expire under the respective countries' tax legislations.

7. Inventories

	Group 2019 RM'000	Group 2018 RM'000
Raw materials	30,685	39,402
Work-in-progress	33,017	29,891
Finished goods	54,435	51,275
Chemicals and factory supplies	1,491	1,709
	119,628	122,277
Carrying amount:		
- At cost	116,309	118,872
- At net realisable value	3,319	3,405
	119,628	122,277
Recognised in profit or loss:		
- Inventories recognised as cost of sales	288,379	297,330
- (Reversal of)/Allowance for slow-moving	(5)	2,892
- Written off	104	335
- Written down to net realisable value	818	325

8. Trade and other receivables

	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Trade				
Trade receivables	68,208	83,537	-	-
Non-trade				
Other receivables	5,076	9,188	3	24
Deposits	1,979	1,135	-	-
Prepayments	7,022	4,429	-	-
Due from subsidiaries	-	-	56,891	51,991
	14,077	14,752	56,894	52,015
	82,285	98,289	56,894	52,015

The amounts due from subsidiaries are unsecured, subject to interest at 5% (2018: 5%) per annum and repayable upon demand.

Included in prepayments is advance payment made to suppliers amounting to RM379,000 (2018: RM688,000).

Notes to the Financial Statements

9. Contract assets

The contract assets primarily relate to the Group's rights to consideration for work completed on condoms but not yet billed at the reporting date. Typically, the amount will be billed upon delivery and payment is expected within 90 days.

10. Cash and cash equivalents

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Cash and bank balances	41,434	18,543	2,415	1,089
Short-term deposits	22,201	29,679	20,809	28,621
Cash and cash equivalents in the statements of financial position	63,635	48,222	23,224	29,710
Less: Pledged deposits	(1,392)	(1,058)	-	-
Bank overdraft	-	(830)	-	-
Cash and cash equivalents in the statements of cash flows	62,243	46,334	23,224	29,710

Included in short-term deposits of the Group are RM1,392,000 (2018: RM1,058,000) pledged to bank as security for bank guarantee granted to the Group.

11. Capital and reserves

Share capital

	Group/Company		Group/Company Number of ordinary shares	
	2019 RM'000	2018 RM'000	2019 '000	2018 '000
Issued and fully paid shares classified as equity instruments:				
Ordinary shares	281,980	281,980	1,002,375	1,002,375

Reserves

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Distributable				
Retained earnings	130,799	133,484	16,022	12,790
Non-distributable				
Merger reserve	63,511	63,511	63,511	63,511
Translation reserve	14,024	3,653	-	-
Other reserve	718	718	-	-
	209,052	201,366	79,533	76,301

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

Merger reserve

The merger reserve comprises of the differences between the cost of acquisition and the nominal value of shares acquired together with any other reserves of the combining entities during the restructuring among common shareholders as stated in the accounting policy Note 2(a)(iv).

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Other reserve

Based on Thailand Law, the other reserve comprises of reserve fund allocated at each distribution of dividend, being at least 5% of the profit until it reaches 10% of the registered capital of a foreign subsidiary, and claimable upon disposal or liquidation of the foreign subsidiary by the Group. The legal reserve is not available for dividend distribution.

Notes to the Financial Statements

12. Loans and borrowings

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Non-current				
Secured				
Term loans	8,525	9,805	828	1,938
Finance lease liabilities	531	768	-	-
	9,056	10,573	828	1,938
Current				
Secured				
Term loans	7,227	4,456	1,157	1,131
Bankers' acceptance	13,530	6,975	-	-
Bank overdraft	-	830	-	-
Finance lease liabilities	276	403	-	-
	21,033	12,664	1,157	1,131
Unsecured				
Trust receipt	475	414	-	-
Export financing	789	2,161	-	-
Revolving credit	1,963	2,019	-	-
Foreign currency trade loan	352	-	-	-
	3,579	4,594	-	-
	24,612	17,258	1,157	1,131
	33,668	27,831	1,985	3,069

The loans and borrowings are secured by:

i) Fixed and floating charges over the Group's certain assets as disclosed in Note 3; and
ii) Corporate guarantee by the Company.

Significant covenants

The borrowings of a subsidiary of the Group, Karex Industries Sdn. Bhd. is subject to the following covenants:

a. Maintain gearing ratios of not more than 1.5 times or 2.0 times or 3.5 times as defined by the respective financial institutions.

b. Net tangible worth of the said subsidiary shall not be less than RM40,000,000.

c. The said subsidiary shall not without the banks' prior written consent, incur or assume additional indebtedness or guarantee any indebtedness (except in the ordinary course of business), alter the present ownership structure and extend loans and advances to the Directors of the Company and its related companies.

d. The said subsidiary shall not without the banks' prior written consent, declare and pay dividend exceeding 50% of the profit after tax of each financial year.

The said subsidiary has complied with the above loan covenants.

12. **Loans and borrowings (continued)**

Finance lease liabilities

Finance lease liabilities (secured) are payable as follows:

	2019			2018		
	Future minimum lease payments RM'000	**Interest RM'000**	**Present value of minimum lease payments RM'000**	**Future minimum lease payments RM'000**	**Interest RM'000**	**Present value of minimum lease payments RM'000**
Group						
Less than one year	306	30	276	446	43	403
Between one and five years	565	34	531	809	41	768
	871	64	807	1,255	84	1,171

Reconciliation of movement of liabilities to cash flows arising from financing activities:

	At 1 July 2018 RM'000	**Net changes from financing cash flows RM'000**	**Acquisition of new lease RM'000**	**At 30 June 2019 RM'000**
Group				
Trust receipt	414	61	-	475
Bankers' acceptance	6,975	6,555	-	13,530
Finance lease liabilities	1,171	(677)	313	807
Term loans	14,261	1,491	-	15,752
Export financing	2,161	(1,372)	-	789
Revolving credit	2,019	(56)	-	1,963
Foreign currency trade loan	-	352	-	352
Total liabilities from financing activities	27,001	6,354	313	33,668
Company				
Term loans/**Total liabilities from financing activities**	3,069	(1,084)	-	1,985

12. Loans and borrowings (continued)

Reconciliation of movement of liabilities to cash flows arising from financing activities (continued):

	At 1 July 2017 RM'000	Net changes from financing cash flows RM'000	Acquisition of new lease RM'000	At 30 June 2018 RM'000
Group				
Trust receipt	-	414	-	414
Bankers' acceptance	3,167	3,808	-	6,975
Finance lease liabilities	1,399	(698)	470	1,171
Term loans	16,872	(2,611)	-	14,261
Export financing	-	2,161	-	2,161
Revolving credit	-	2,019	-	2,019
Total liabilities from financing activities	21,438	5,093	470	27,001
Company				
Term loans/**Total liabilities from financing activities**	4,465	(1,396)	-	3,069

13. Trade and other payables

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Trade				
Trade payables	35,864	38,173	-	-
Non-trade				
Other payables and accrued expenses	24,475	22,880	184	130
	60,339	61,053	184	130

Included in other payables and accrued expenses of the Group are RM6,231,000 (2018: RM5,861,000) in respect of advances received from customers.

14. Derivative financial liabilities

	2019		2018	
	Nominal value RM'000	Financial liabilities RM'000	Nominal value RM'000	Financial liabilities RM'000
Group				
Derivatives at fair value through profit or loss				
- Forward exchange contracts	92,705	3	104,038	1,541

Forward exchange contracts are used to manage the foreign currency exposures arising from the Group's receivables and payables denominated in currencies other than the functional currency of the Group. Most of the forward exchange contracts have maturities of less than one year after the end of the reporting period. Where necessary, the forward contracts are rolled over at maturity.

15. Revenue

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Revenue from contracts with customers	378,484	406,792	-	-
Other revenue				
- Dividend income	-	-	6,500	-
Total revenue	378,484	406,792	6,500	-

15.1 Disaggregation of revenue

	Reportable segments							
	Sexual wellness		Medical		Others		Total	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Group								
Primary geographical markets								
Asia	90,669	99,714	13,981	12,581	-	-	104,650	112,295
Africa	98,635	101,537	551	432	-	-	99,186	101,969
Americas	108,425	118,473	1,598	1,169	-	-	110,023	119,642
Europe	46,697	54,506	11,769	12,165	6,159	6,215	64,625	72,886
	344,426	374,230	27,899	26,347	6,159	6,215	378,484	406,792
Major products and service lines								
Condoms	329,932	353,367	-	-	-	-	329,932	353,367
Personal lubricants	11,697	17,904	-	-	-	-	11,697	17,904
Probe covers	-	-	7,725	6,821	-	-	7,725	6,821
Catheters	-	-	16,114	14,929	-	-	16,114	14,929
Other	2,797	2,959	4,060	4,597	6,159	6,215	13,016	13,771
	344,426	374,230	27,899	26,347	6,159	6,215	378,484	406,792
Timing and recognition								
At a point in time	338,730	370,491	27,899	26,347	6,159	6,215	372,788	403,053
Over time	5,696	3,739	-	-	-	-	5,696	3,739
	344,426	374,230	27,899	26,347	6,159	6,215	378,484	406,792

15.2 Nature of goods and services

The following information reflects the typical transactions of the Group:

Nature of goods or services	Timing of recognition or method used to recognise revenue	Significant payment terms
Condoms, personal lubricants, probe covers, catheters and other healthcare products	Revenue is recognised at a point in time when the control over a product or service is delivered and accepted by the customer	Credit period of 0 to 120 days from invoice date
Made-to order products	Revenue is recognised over time as costs are incurred. These contracts would meet the no alternative use and the Group has rights to payment for work performed	Credit period of 90 days from invoice date/upon shipment of goods

The Group applies the practical expedient for exemption on disclosure of information on remaining performance obligation that have original expected durations of one year or less.

Notes to the Financial Statements

16. Tax expense

Recognised in profit or loss

Major components of income tax expense include:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Current tax expense				
- Current year	2,568	4,696	528	488
- Prior years	(537)	318	(62)	23
	2,031	5,014	466	511
Deferred tax income				
- Origination and reversal of temporary differences	(1,316)	(1,083)	-	-
- Under provision in prior years	32	159	-	-
	(1,284)	(924)	-	-
	747	4,090	466	511

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Reconciliation of tax expense				
Profit before tax	3,804	14,278	8,710	2,157
Income tax calculated using Malaysian tax rate of 24%	913	3,427	2,090	518
Non-deductible expenses	602	810	298	296
Non-taxable income	(313)	(326)	(1,860)	(326)
Effect of different tax rates in different jurisdictions	60	114	-	-
Tax incentives	(10)	(412)	-	-
	1,252	3,613	528	488
(Over)/Under provision in prior years	(505)	477	(62)	23
Tax expense	747	4,090	466	511

17. Profit for the year

	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Profit for the year is arrived at after charging/(crediting)				
Audit fees				
- KPMG PLT	290	290	85	85
- Overseas affiliate of KPMG PLT	108	100	-	-
- Other auditors	341	332	-	-
Non-audit fees			-	-
- KPMG PLT	20	5	20	5
Depreciation and amortisation	15,653	14,015	-	-
Fair value loss on derivative instruments	3	1,541	-	-
Finance costs	1,424	1,251	117	137
Finance income	(1,018)	(1,480)	(3,730)	(3,941)
Foreign exchange:				
- Realised loss/(gain)	786	701	(3)	117
- Unrealised loss/(gain)	23	(373)	(32)	(22)
(Reversal of)/Impairment loss on trade receivables	(88)	330	-	-
Inventories:				
- (Reversal of)/Allowance for slow moving	(5)	2,892	-	-
- Written off	104	335	-	-
- Written down to net realisable value	818	325	-	-
Personnel expenses (including key management personnel):				
- Contributions to state plans	3,731	3,696	-	-
- Wages, salaries and others	97,223	97,615	587	460
Property, plant and equipment:				
- (Gain)/Loss on disposal	(217)	153	-	-
- Written off	157	208	-	-
Rental expense	4,972	3,893	-	-

18. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share at 30 June 2019 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

	Group	
	2019 RM'000	**2018 RM'000**
Profit for the year attributable to owners of the Company	2,533	10,103
Weighted average number of ordinary shares		
Weighted average number of ordinary shares at 30 June ('000)	1,002,375	1,002,375
Basic earnings per ordinary share (sen)	0.25	1.01

Diluted earnings per ordinary share

The diluted earnings per share is the same as basic earnings per share as there are no dilutive potential ordinary shares outstanding.

19. Dividends

Dividends recognised by the Company are:

	Sen per share	Total amount RM'000	Date of payment
2019			
Dividend 2018	0.5	5,012	20 December 2018
2018			
Dividend 2017	1.0	10,024	18 December 2017

After the reporting period, the following final single-tier dividend was proposed by the Directors. The dividend will be recognised in subsequent financial period upon approval by the owners of the Company at the forthcoming Annual General Meeting.

	Sen per share	Total amount RM'000
Final 2019	1.0	10,024

20. Acquisition of property, plant and equipment

Acquisition of property, plant and equipment in statement of cash flows represents:

	Group	
	2019 RM'000	2018 RM'000
Current year additions	18,977	26,149
Add/(Less):		
- Amount financed by finance lease	(313)	(470)
- Balances in respect of acquisition of property, plant and equipment included in other creditors		
- at end of year	(2,114)	(1,889)
- at beginning of year	1,889	4,456
- Interest capitalised	(195)	(46)
Cash from acquisition of property, plant and equipment	18,244	28,200

21. Operating segments

Group

The Group's main business activities comprise investment holding, manufacture and sale of sexual wellness, medical and other health related products. These activities are principally located in Malaysia, Thailand, United States of America and Europe. Inter-segment pricing is determined based on negotiated terms.

Performance is measured based on segment profit before tax and interest, as included in the internal management reports that are reviewed by the Chief Executive Officer ("CEO"), who is the Group's chief operating decision maker. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Segment assets

The total of segment asset is measured based on all assets of a segment, as included in the internal management reports that are reviewed by the CEO. Segment total asset is used to measure the return of assets of each segment.

Segment liabilities

Segment liabilities information is neither included in the internal management reports nor provided regularly to the CEO. Hence, no disclosure is made on segment liability.

Notes to the Financial Statements

21. Operating segments (continued)

Segment capital expenditure

Segment capital expenditure is the total cost incurred during the financial year to acquire property, plant and equipment and intangible assets other than goodwill.

	Sexual wellness RM'000	Medical RM'000	Others RM'000	Total RM'000
2019				
Segment profit	2,551	2,954	239	5,744
Included in the measure of segment profit are:				
Revenue from external customers	344,426	27,899	6,159	378,484
Inventories:				
- Reversal of allowance for slow moving	5	-	-	5
- Written off	(104)	-	-	(104)
- Written down to net realisable value	(818)	-	-	(818)
Depreciation and amortisation	(15,465)	(186)	(2)	(15,653)
Not included in the measure of segment profit but provided to CEO:				
Finance income	96	1	-	97
Finance costs	(1,268)	(34)	(5)	(1,307)
Segment assets	538,096	29,035	4,679	571,810
Not included in the measure of segment assets are:				
Additions to non-current assets other than financial instruments and deferred tax assets	18,712	265	-	18,977
2018				
Segment profit	11,581	4,127	259	15,967
Included in the measure of segment profit are:				
Revenue from external customers	374,230	26,347	6,215	406,792
Inventories:				
- Allowance for slow moving	(2,892)	-	-	(2,892)
- Written off	(335)	-	-	(335)
- Written down to net realisable value	(325)	-	-	(325)
Depreciation and amortisation	(13,803)	(209)	(3)	(14,015)
Not included in the measure of segment profit but provided to CEO:				
Finance income	63	1	-	64
Finance costs	(1,090)	(24)	-	(1,114)
Segment assets	527,623	24,897	2,130	554,650
Not included in the measure of segment assets are:				
Additions to non-current assets other than financial instruments and deferred tax assets	25,934	215	-	26,149

21. Operating segments (continued)

Segment capital expenditure (continued)

Reconciliations of reportable segment revenues, profit or loss, assets and other material items:

	Group	
	2019 RM'000	**2018 RM'000**
Profit or loss		
Total profit for reportable segments	5,744	15,967
Finance costs	(1,307)	(1,114)
Finance income	97	64
Unallocated items:		
- Corporate expenses	(1,534)	(1,552)
- Finance income from deposits with licensed banks and other corporation	921	1,416
- Finance costs	(117)	(137)
- Others	-	(366)
Consolidated profit before tax	3,804	14,278
Total assets		
Total assets for reportable segments	571,810	554,804
Other non-reportable segments	23,286	29,669
Consolidated total assets	595,096	584,473

Geographical segments

The sexual wellness and medical segments are managed on a worldwide basis, but operate manufacturing facilities and sales offices in Malaysia, Thailand, United Kingdom and the United States of America.

In presenting information on the basis of geographical segments, segment revenue is based on geographical destination markets of the export for the financial years.

Geographical segment non-current assets information is neither included in the internal management reports nor provided regularly to the CEO. Hence, no disclosure is made on geographical segment non-current assets.

Geographical revenue

Geographical segment revenue is as disclosed in Note 15.1.

Major customers

There is no significant concentration of sales to a customer exceeding 10% of the Group's revenue for year 2019 and 2018.

Notes to the Financial Statements

22. Financial instruments

22.1 Categories of financial instruments

The table below provides an analysis of financial instruments as at 30 June 2019 categorised as follows:

(a) Amortised cost ("AC")
(b) Fair value through profit or loss ("FVTPL")
- Mandatorily required by MFRS 9

	Carrying amount RM'000	AC RM'000	Mandatorily at FVTPL RM'000
Group			
2019			
Financial assets			
Trade and other receivables	75,263	75,263	-
Contract assets	500	500	-
Cash and cash equivalents	63,635	63,635	-
	139,398	139,398	-
Financial liabilities			
Trade and other payables	(55,738)	(55,738)	-
Loans and borrowings	(33,668)	(33,668)	-
Derivative financial liabilities	(3)	-	(3)
	(89,409)	(89,406)	(3)
Company			
2019			
Financial assets			
Trade and other receivables	56,894	56,894	-
Cash and cash equivalents	23,224	23,224	-
	80,118	80,118	-
Financial liabilities			
Trade and other payables	(184)	(184)	-
Loans and borrowings	(1,985)	(1,985)	-
	(2,169)	(2,169)	-

22. Financial instruments (continued)

22.1 Categories of financial instruments (continued)

The table below provides an analysis of financial instruments as at 30 June 2018 are categorised as follows:
(a) Loans and receivables ("L&R");
(b) Financial liabilities measured at amortised cost ("FL"); and
(c) Fair value through profit or loss ("FVTPL"):
- Held for trading ("HFT").

	Carrying amount RM'000	L&R RM'000	FL RM'000	FVTPL -HFT RM'000
Group				
2018				
Financial assets				
Trade and other receivables	94,426	94,426	-	-
Cash and cash equivalents	48,222	48,222	-	-
	142,648	142,648	-	-
Financial liabilities				
Trade and other payables	(58,216)	-	(58,216)	-
Loans and borrowings	(27,831)	-	(27,831)	-
Derivative financial liabilities	(1,541)	-	-	(1,541)
	(87,588)	-	(86,047)	(1,541)
Company				
2018				
Financial assets				
Trade and other receivables	52,015	52,015	-	-
Cash and cash equivalents	29,710	29,710	-	-
	81,725	81,725	-	-
Financial liabilities				
Trade and other payables	(130)	(130)	-	-
Loans and borrowings	(3,069)	(3,069)	-	-
	(3,199)	(3,199)	-	-

22.2 Net gains and losses arising from financial instruments

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Net (losses)/gains on:				
Financial liabilities at amortised cost	(1,424)	(1,251)	(117)	(137)
Financial assets at amortised cost	297	-	3,765	-
Financial liabilities at fair value through profit or loss				
- Mandatorily required by MFRS 9	(3)	-	-	-
- Held for trading	-	(1,541)	-	-
Loans and receivables	-	822	-	3,846
	(1,130)	(1,970)	3,648	3,709

Notes to the Financial Statements

22. Financial instruments (continued)

22.3 Financial risk management

The Group has exposure to the following risks from its financial instruments:

- Credit risk
- Liquidity risk
- Market risk

22.4 Credit risk

Credit risk is the risk of a financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's and the Company's exposure to credit risk arises principally from its receivables from customers and subsidiaries. There are no significant changes as compared to prior period.

Trade receivables and contract assets

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Normally credit evaluations are performed on customers requiring credit over a certain amount.

At each reporting date, the Group assesses whether any of the trade receivables and contract assets are credit impaired.

The gross carrying amounts of credit impaired trade receivables and contract assets are written off (either partially or full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, trade receivables and contract assets that are written off could still be subject to enforcement activities.

There are no significant changes as compared to prior period.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, there were no significant concentrations of credit risk and the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

Recognition and measurement of impairment loss

In managing credit risk of trade receivables, the Group manages its debtors and takes appropriate actions (including but not limited to legal actions) to recover long overdue balances. Generally, trade receivables will pay within 120 days.

The Group uses an allowance matrix to measure expected credit losses ("ECLs") of trade receivables. Invoices which are aged more than one year will be considered as credit impaired.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency.

Loss rates are based on actual credit loss experience over the past three years. The Group also considers differences between (a) economic conditions during the period over which the historic data has been collected, (b) current conditions and (c) the Group's view of economic conditions over the expected lives of the receivables. Nevertheless, the Group believes that these factors are immaterial for the purpose of impairment calculation for the year.

22. **Financial instruments (continued)**

22.4 **Credit risk (continued)**

Trade receivables and contract assets (continued)

Recognition and measurement of impairment loss (continued)

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets as at the end of the reporting period which are grouped together as they are expected to have similar risk nature.

	Gross carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
Group			
2019			
Current (not past due)	47,878	-	47,878
1 - 30 days past due	11,678	-	11,678
31 - 60 days past due	5,750	-	5,750
61 - 90 days past due	792	-	792
More than 90 days past due	2,610	-	2,610
	68,708	-	68,708
Credit impaired			
Individually impaired	591	(591)	-
	69,299	(591)	68,708
Trade receivables	68,799	(591)	68,208
Contract assets	500	-	500
	69,299	(591)	68,708

The movements in the allowance for impairment in respect of trade receivables during the year are shown below.

	Credit impaired/ Total RM'000
Group	
Balance at 1 July 2018 as per MFRS 139	243
Adjustment on initial application of MFRS 9	436
Balance at 1 July 2018 as per MFRS 9	679
Net remeasurement of loss allowance	(88)
Balance at 30 June 2019	591

22. Financial instruments (continued)

22.4 Credit risk (continued)

Trade receivables and contract assets (continued)

Recognition and measurement of impairment loss (continued)

Comparative information under MFRS 139, Financial Instruments: Recognition and Measurement

The ageing of receivables as at 30 June 2018 was as follows:

	Gross RM'000	Individual impairment RM'000	Net RM'000
Group			
2018			
Not past due	54,534	-	54,534
Past due 0 - 30 days	12,173	-	12,173
Past due 31 - 60 days	5,213	-	5,213
Past due more than 60 days	11,860	(243)	11,617
	83,780	(243)	83,537

In determining whether additional allowance is required to be made, the Group considered financial background of the customers, past transactions and other specific reasons causing these balances to be past due more than 60 days. The customers were regular customers that have been transacting with the Group. The Group did not consider it necessary to impair further the receivable amount and was satisfied that the amount net of allowance can be recovered.

The movements in the allowance for impairment losses of receivables during the financial year were:

	Group 2018 RM'000
At 1 July	624
Impairment loss recognised	330
Impairment loss written off	(711)
At 30 June	243

The allowance account in respect of trade receivables was used to record impairment losses. Unless the Group was satisfied that recovery of the amount was possible, the amount considered irrecoverable was written off against the receivable directly.

Inter-company balances

Risk management objectives, policies and processes for managing the risk

The Company's exposure to credit risk arose from unsecured advances provided to its subsidiaries.

The Company monitors the financial positions of subsidiaries in assessing its credit risk.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

22. Financial instruments (continued)

22.4 Credit risk (continued)

Inter-company balances (continued)

Recognition and measurement of impairment loss

Generally, the Company considers amounts due from subsidiaries have low credit risk. The Company assumes that there is a significant increase in credit risk when the subsidiaries' financial position deteriorates significantly. The Company considers amounts due from subsidiaries to be credit impaired when:

- The subsidiaries are unlikely to repay the amount to the Company in full; or
- The subsidiaries are continuously loss making and is having a deficit shareholders' fund.

The Company determines the probability of default for this amount individually using internal information available.

At the end of the reporting period, there is no indication that the financial positions of the subsidiaries have deteriorated significantly. There is no subsidiary which is unlikely to repay its amount to the Company in full and in deficit shareholders' fund.

Comparative information under MFRS 139, Financial Instruments: Recognition and Measurement

In the previous financial year, there was no indication that the amounts due from subsidiaries were not recoverable and hence no impairment loss was recognised.

Cash and cash equivalents

The cash and cash equivalents are held with banks and financial institutions. As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

These banks and financial institutions have low credit risks. In addition, some of the bank balances are insured by government agencies. Consequently, the Group and the Company are of the view that the loss allowance is not material and hence, it is not provided for.

Other receivables

The Group and the Company monitor the exposure to credit risk on individual basis.

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position and the Group and the Company do not recognise any allowance for impairment losses.

Financial guarantees

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured financial guarantees to banks in respect of banking facilities granted to subsidiaries. The Company monitors on an ongoing basis the results of its subsidiaries and repayments made by its subsidiaries.

Exposure to credit risk, credit quality and collateral

The Company's maximum exposure to credit risk amounts to RM30,561,000 (2018: RM25,147,000) representing the outstanding banking facilities of its subsidiaries as at the end of the reporting period.

Recognition and measurement of impairment loss

The Company determines the probability of default for the guaranteed loans using internal information available by assessing individual subsidiary's financial position and likelihood to repay the loan.

As at the end of the reporting period, there was no indication that these subsidiaries would default on repayment.

The financial guarantees have not been recognised since the fair value on initial recognition was not material.

22. Financial instruments (continued)

22.5 Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet its financial obligations as they fall due. The Group's and the Company's exposure to liquidity risk arises principally from its various payables, loans and borrowings.

The Group and the Company maintain a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Maturity analysis

The table below summarises the maturity profile of the Group's and of the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount RM'000	Contractual interest rate/ coupon %	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
Group							
2019							
Non-derivative financial liabilities							
Trade and other payables	54,108	-	54,108	54,108	-	-	-
Secured term loans	15,752	3.48 - 6.17	16,113	7,210	4,307	3,765	831
Secured finance lease liabilities	807	2.90 - 4.22	871	306	276	289	-
Secured bankers' acceptance	13,530	3.41 - 4.35	13,530	13,530	-	-	-
Unsecured export financing	789	3.50	789	789	-	-	-
Unsecured revolving credit	1,963	4.35	1,963	1,963	-	-	-
Unsecured trust receipt	475	3.61	475	475	-	-	-
Foreign currency trade loan	352	1.98	352	352	-	-	-
	87,776		88,201	78,733	4,583	4,054	831
Derivative financial liabilities							
Forward exchange contracts (gross settled):							
Outflow	3	-	92,708	92,708	-	-	-
Inflow	-	-	(92,705)	(92,705)	-	-	-
	87,779		88,204	78,736	4,583	4,054	831

22. Financial instruments (continued)

22.5 Liquidity risk (continued)

Maturity analysis (continued)

	Carrying amount RM'000	Contractual interest rate/ coupon %	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
Group							
2018							
Non-derivative financial liabilities							
Trade and other payables	55,192	-	55,192	55,192	-	-	-
Secured term loans	14,261	3.48 - 5.92	15,002	4,656	5,096	4,133	1,117
Secured finance lease liabilities	1,171	3.87 - 6.02	1,255	446	410	399	-
Secured bank overdraft	830	6.20 - 9.20	830	830	-	-	-
Secured bankers' acceptances	6,975	4.25	6,975	6,975	-	-	-
Unsecured export financing	2,161	3.22 - 3.29	2,161	2,161	-	-	-
Unsecured revolving credit	2,019	4.35	2,019	2,019	-	-	-
Unsecured trust receipt	414	3.41	414	414	-	-	-
	83,023		83,848	72,693	5,506	4,532	1,117
Derivative financial liabilities							
Forward exchange contracts (gross settled):							
Outflow	1,541	-	105,579	105,579	-	-	-
Inflow	-	-	(104,038)	(104,038)	-	-	-
	84,564		85,389	74,234	5,506	4,532	1,117
Company							
2019							
Non-derivative financial liabilities							
Trade and other payables	184	-	184	184	-	-	-
Secured term loans	1,985	3.48	2,052	1,211	841	-	-
Financial guarantee*	-	-	30,561	30,561	-	-	-
	2,169		32,797	31,956	841	-	-
2018							
Non-derivative financial liabilities							
Trade and other payables	130	-	130	130	-	-	-
Secured term loans	3,069	3.48	3,226	1,222	1,183	821	-
Financial guarantee*	-	-	25,147	25,147	-	-	-
	3,199		28,503	26,499	1,183	821	-

* The amount represents the outstanding banking facilities of the subsidiaries at the end of the reporting period.

Notes to the Financial Statements

22. Financial instruments (continued)

22.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates that will affect the Group's and the Company's financial position or cash flows.

Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Group. The currencies giving rise to this risk are primarily US Dollar ("USD"), Chinese Yuan ("CNY"), Euro ("EUR") and Great Britain Pound ("GBP").

Risk management objectives, policies and processes for managing the risk

The Group uses forward exchange contracts to hedge its foreign currency risk from time to time. Most of the forward exchange contracts have maturities of less than one year after the end of the reporting period. Where necessary, the forward exchange contracts are rolled over at maturity.

Exposure to foreign currency risk

The Group's exposure to foreign currency (a currency which is other than the functional currency of Group entities) risk, based on carrying amounts as at the end of the reporting period was:

	Denominated in			
	USD RM'000	CNY RM'000	EUR RM'000	GBP RM'000
Group				
2019				
Trade receivables	24,970	7,895	58	-
Intercompany receivables	38,996	-	-	-
Cash and cash equivalents	6,812	3	233	221
Trade payables	(2,445)	-	(8)	(1)
Other payables	(435)	-	-	-
Intercompany payables	(16,913)	-	-	-
Loans and borrowings	(11,604)	-	-	-
Forward exchange contracts	(92,705)	-	-	-
Net exposure	(53,324)	7,898	283	220
2018				
Trade receivables	60,036	4,450	113	194
Intercompany receivables	68,634	-	-	-
Cash and cash equivalents	3,722	3	171	45
Trade payables	(8,321)	-	(5)	-
Other payables	(2,470)	-	-	(4)
Intercompany payables	(39,301)	-	-	-
Loans and borrowings	(7,642)	-	-	-
Forward exchange contracts	(104,038)	-	-	-
Net exposure	(29,380)	4,453	279	235

22. Financial instruments (continued)

22.6 Market risk (continued)

Currency risk (continued)

	Denominated in USD RM'000
Company	
2019	
Loans and borrowings	(1,985)
2018	
Loans and borrowings	(3,069)

Currency risk sensitivity analysis

A 10% (2018: 10%) strengthening of the Ringgit Malaysia ("RM") against the following currencies at the end of the reporting period would have decreased post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases.

	Denominated in			
	USD RM'000	CNY RM'000	EUR RM'000	GBP RM'000
Group				
2019				
Profit or (loss)	4,053	(600)	(22)	(17)
2018				
Profit or (loss)	2,232	(338)	(21)	(18)

	Denominated in USD RM'000
Company	
2019	
Profit or (loss)	151
2018	
Profit or (loss)	233

A 10% (2018: 10%) weakening of the RM against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

The Group's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

There is no formal hedging policy with respect to interest rate exposure. Exposure to interest rate is monitored on an ongoing basis and the Group endeavours to keep the exposure at an acceptable level.

Notes to the Financial Statements

22. Financial instruments (continued)

22.6 Market risk (continued)

Interest rate risk (continued)

Exposure to interest rate risk

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Fixed rate instruments				
Financial assets	22,201	29,679	77,700	80,612
Financial liabilities	(17,916)	(12,740)	-	-
	4,285	16,939	77,700	80,612
Floating rate instruments				
Financial liabilities	(15,752)	(15,091)	(1,985)	(3,069)

Interest rate risk sensitivity analysis

(a) *Fair value sensitivity analysis for fixed rate instruments*

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

(b) *Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points ("bp") in interest rates at the end of the reporting period would have increased/(decreased) the Group and the Company post-tax results by RM120,000 (2018: RM115,000) and RM15,000 (2018: RM23,000) respectively. This analysis assumes that all other variables remained constant.

22.7 Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

The carrying amounts of the finance lease liabilities approximates their fair value as there is no material change in the interest charged on similar kind of borrowings in the market.

The carrying amount of the floating rate term loans approximates its fair values as its effective interest rate changes accordingly to movements in the market interest rate.

It was not practicable to estimate the fair value of the Company's investment in unquoted shares due to the lack of comparable quoted market prices in an active market and the fair value cannot be reliably measured.

22. Financial instruments (continued)

22.7 Fair value information (continued)

The table below analyses other financial instruments at fair value.

	Fair value of financial instruments carried at fair value Level 2 RM'000	Total fair value RM'000	Carrying amount RM'000
Group			
2019			
Financial liabilities			
Forward exchange contracts	(3)	(3)	(3)
2018			
Financial liabilities			
Forward exchange contracts	(1,541)	(1,541)	(1,541)

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

Derivatives

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the year (2018: no transfer in either directions).

23. Capital management

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Directors monitor and are determined to maintain an optimal debt-to-equity ratio to operate effectively with minimal external borrowings.

During the financial year ended 30 June 2019, the Group's strategy was to maintain the debt-to-equity ratio at the lower end range within 0.5 to 1.0. The debt and equity position of the Group are as follows:

	Group 2019 RM'000	Group 2018 RM'000
Total borrowings (Note 12)	33,668	27,831
Less: Cash and cash equivalents (Note 10)	(63,635)	(48,222)
	(29,967)	(20,391)
Total equity	492,608	484,376

23. Capital management (continued)

No disclosure is made for debt-to-equity ratio as the Group is in a net positive cash position as at 30 June 2019.

There were no changes in the Group's approach to capital management during the financial year.

Under the requirement of Bursa Malaysia Practice Note No. 17/2005, the Company is required to maintain a consolidated shareholders' equity equal to or not less than the 25 percent of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM40 million. The Company has complied with this requirement.

24. Capital commitment

	Group	
	2019 RM'000	2018 RM'000
Capital expenditure commitments		
Property, plant and equipment		
Contracted but not provided for	4,942	5,532

25. Operating leases

Leases as lessee

	Group	
	2019 RM'000	2018 RM'000
Non-cancellable operating rentals are payable as follows:		
Within one year	3,900	3,051
Between one and five years	12,647	9,009
More than five years	10,093	7,754
	26,640	19,814

The Group leases a number of properties being used for its office, factory and warehouse under operating leases. The lease typically run for a period between 1 and 30 years. The Group has an option to renew the lease upon the expiry of the lease. Lease payments are of the amount and increasing rate stated in the lease agreements.

26. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group or the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly and entity that provides key management personnel services to the Group. The key management personnel include all the Directors of the Group, and certain members of senior management of the Group.

The Group has related party relationship with its subsidiaries and key management personnel.

26. Related parties (continued)

Significant related party transactions

Related party transactions have been entered into in the normal course of business under negotiated terms. The significant related party transactions of the Group and the Company, other than acquisitions (see Note 27), are shown below. The balances related to the below transactions are shown in Note 8.

		Group		Company	
		2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
A.	**Subsidiaries**				
	Dividend income	-	-	6,500	-
	Interest income	-	-	2,809	2,524
	Advance to	-	-	4,847	1,000
B.	**Entities in which certain Directors/Directors' close family members have substantial financial interest**				
	Sales of goods	346	234	-	-
	Purchases of raw materials	-	703	-	-
	Purchases of machines	32	-	-	-
C.	**Key management personnel**				
	Directors				
	- Fees	587	460	587	460
	- Remunerations	933	1,300	-	-
	- Benefits	32	46	-	-
	- Contributions to the state plans	100	215	-	-
		1,652	2,021	587	460
	Senior management				
	- Remunerations	2,783	2,868	-	-
	- Benefits	46	68	-	-
	- Contributions to the state plans	467	487	-	-
		3,296	3,423	-	-
	Total short-term employee benefits	4,984	5,444	587	460

Notes to the Financial Statements

27. Acquisition of non-controlling interest

For the financial year ended 30 June 2018

On 16 March 2018, the Group via a wholly-owned subsidiary, Karex Global Limited, acquired an additional 15% interest in Global Protection Corporation ("GPC") for RM7,569,000 in cash, increasing its ownership from 55% to 70%. The carrying amount of GPC's net assets in the Group's financial statements on the date of the acquisition was RM2,732,000. The Group recognised a decrease in non-controlling interests of RM434,000 and retained earnings of RM7,135,000.

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

	Group 2018 RM'000
Equity interest at 1 July 2017	1,833
Share of comprehensive income	127
Effect of increase in Group's ownership interest	434
	2,394

28. Significant changes in accounting policies

During the year, the Group and the Company adopted MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments* on their financial statements. The Group and the Company generally applied the requirements of these accounting standards retrospectively with practical expedients and transitional exemptions as allowed by the standards. As permitted by MFRS 15 and MFRS 9, the Group and the Company have elected not to restate the comparatives.

28. Significant changes in accounting policies (continued)

28.1 Impacts on financial statements

The following tables summarise the impacts arising from the adoption of MFRS 15 and MFRS 9 on the Group's financial statements.

a. Statement of financial position

Group 1 July 2018	As previously reported RM'000	MFRS 15 adjustments RM'000	MFRS 9 adjustments RM'000	Balance with adoption of MFRS 15 and 9 RM'000
Assets				
Property, plant and equipment	210,643	-	-	210,643
Intangible assets	95,221	-	-	95,221
Deferred tax assets	841	-	-	841
Total non-current assets	306,705	-	-	306,705
Inventories	122,277	(2,631)	-	119,646
Trade and other receivables	98,289	-	(436)	97,853
Contract assets	-	2,799	-	2,799
Current tax assets	8,980	-	-	8,980
Cash and cash equivalents	48,222	-	-	48,222
Total current assets	277,768	168	(436)	277,500
Total assets	584,473	168	(436)	584,205
Equity				
Share capital	281,980	-	-	281,980
Reserves	201,366	126	(332)	201,160
Equity attributable to owners of the Company	483,346	126	(332)	483,140
Non-controlling interest	1,030	-	-	1,030
Total equity	484,376	126	(332)	484,170
Liabilities				
Loans and borrowings	10,573	-	-	10,573
Deferred tax liabilities	8,275	42	(104)	8,213
Total non-current liabilities	18,848	42	(104)	18,786
Trade and other payables	61,053	-	-	61,053
Loans and borrowings	17,258	-	-	17,258
Derivative financial liabilities	1,541	-	-	1,541
Current tax liabilities	1,397	-	-	1,397
Total current liabilities	81,249	-	-	81,249
Total liabilities	100,097	42	(104)	100,035
Total equity and liabilities	584,473	168	(436)	584,205

Notes to the Financial Statements

28. Significant changes in accounting policies (continued)

28.1 Impacts on financial statements (continued)

a. Statement of financial position (continued)

Group 30 June 2019	As reported RM'000	MFRS 15 adjustments RM'000	Balance without adoption of MFRS 15 RM'000
Assets			
Property, plant and equipment	220,735	-	220,735
Intangible assets	96,562	-	96,562
Deferred tax assets	1,914	-	1,914
Total non-current assets	319,211	-	319,211
Inventories	119,628	383	120,011
Trade and other receivables	82,285	-	82,285
Contract assets	500	(500)	-
Current tax assets	9,837	-	9,837
Cash and cash equivalents	63,635	-	63,635
Total current assets	275,885	(117)	275,768
Total assets	595,096	(117)	594,979
Equity			
Share capital	281,980	-	281,980
Reserves	209,052	(89)	208,963
Equity attributable to owners of the Company	491,032	(89)	490,943
Non-controlling interest	1,576	-	1,576
Total equity	492,608	(89)	492,519
Liabilities			
Loans and borrowings	9,056	-	9,056
Deferred tax liabilities	8,064	(28)	8,036
Total non-current liabilities	17,120	(28)	17,092
Trade and other payables	60,339	-	60,339
Loans and borrowings	24,612	-	24,612
Derivative financial liabilities	3	-	3
Current tax liabilities	414	-	414
Total current liabilities	85,368	-	85,368
Total liabilities	102,488	(28)	102,460
Total equity and liabilities	595,096	(117)	594,979

28. Significant changes in accounting policies (continued)

28.1 Impacts on financial statements (continued)

b. Statement of profit or loss and other comprehensive income

Group For the year ended 30 June 2019	As reported RM'000	MFRS 15 Adjustments RM'000	Amounts without adoption of MFRS 15 RM'000
Revenue	378,484	2,299	380,783
Cost of sales	(289,296)	(2,248)	(291,544)
Gross profit	89,188	51	89,239
Other income	2,067	-	2,067
Distribution expenses	(36,590)	-	(36,590)
Administrative expenses	(49,315)	-	(49,315)
Other expenses	(1,140)	-	(1,140)
Results from operating activities	4,210	51	4,261
Finance income	1,018	-	1,018
Finance costs	(1,424)	-	(1,424)
Net finance costs	(406)	-	(406)
Profit before tax	3,804	51	3,855
Tax expense	(747)	(14)	(761)
Profit for the year	3,057	37	3,094

In addition to the above, the following table summarises the impact on the prior period Group's statement of profit or loss and other comprehensive income had the Group adopted the MFRS 15 using full retrospective approach.

Group For the year ended 30 June 2018	As reported RM'000	MFRS 15 Adjustments RM'000	Amounts with adoption of MFRS 15 RM'000
Revenue	406,792	2,799	409,591
Cost of sales	(300,882)	(2,631)	(303,513)
Gross profit	105,910	168	106,078
Other income	951	-	951
Distribution expenses	(45,371)	-	(45,371)
Administrative expenses	(44,383)	-	(44,383)
Other expenses	(3,058)	-	(3,058)
Results from operating activities	14,049	168	14,217
Finance income	1,480	-	1,480
Finance costs	(1,251)	-	(1,251)
Net finance income	229	-	229
Profit before tax	14,278	168	14,446
Tax expense	(4,090)	(42)	(4,132)
Profit for the year	10,188	126	10,314

Notes to the Financial Statements

28. Significant changes in accounting policies (continued)

28.1 Impacts on financial statements (continued)

c. Statement of cash flows

Group **For the year ended 30 June 2019**	**As reported** **RM'000**	**MFRS 15 Adjustments** **RM'000**	**Amounts without adoption of MFRS 15** **RM'000**
Cash flows from operating activities			
Profit before tax	3,804	51	3,855
Adjustments for:			
Depreciation and amortisation	15,653	-	15,653
Fair value loss on derivative instruments	3	-	3
Finance costs	1,424	-	1,424
Finance income	(1,018)	-	(1,018)
Reversal of impairment loss on trade receivables	(88)	-	(88)
Inventories:			
- Reversal of slow moving	(5)	-	(5)
- Written off	104	-	104
- Written down to net realisable value	818	-	818
Property, plant and equipment:			
- Gain on disposal	(217)	-	(217)
- Written off	157	-	157
Unrealised loss on foreign exchange	23	-	23
Operating profit before changes in working capital	20,658	51	20,709
Change in inventories	1,732	2,248	3,980
Change in trade and other receivables	16,386	(2,799)	13,587
Change in contract assets	(500)	500	-
Change in trade and other payables	(2,130)	-	(2,130)
Cash generated from operations	36,146	-	36,146
Tax paid	(3,871)	-	(3,871)
Net cash from operating activities	32,275	-	32,275

28. Significant changes in accounting policies (continued)

28.2 Accounting for revenue

In the adoption of MFRS 15, the following transitional exemption and practical expedients as permitted by the standard have been adopted:

(a) the Group has not restated the comparative information for prior years. The impact arising from the adoption of MFRS 15 is recognised in the retained earnings as at 1 July 2018. Accordingly, the information presented for 2018 does not generally reflect the requirement of MFRS 15, but rather those of MFRS 118, *Revenue*.

(b) the Group applies the practical expedient for exemption on disclosure of information on remaining performance obligation that have original expected durations of one year or less.

The following are the changes in revenue recognition from the adoption of MFRS 15:

Type of revenue	**Previous year's revenue recognition**	**Current year's revenue recognition**
Made-to-order products	Revenue is recognised at a point in time when the goods are delivered and accepted by customers at their premises.	Revenue is recognised over time as costs are incurred. These contracts would meet the no alternative use and the Group has rights to payment for work performed.

28.3 Accounting for financial instruments

a. Transition

In the adoption of MFRS 9, the following transitional exemptions as permitted by the standard have been adopted:

i) The Group has not restated comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of MFRS 9 are recognised in retained earnings and reserves as at 1 July 2018. Accordingly, the information presented for 2018 does not generally reflect the requirements of MFRS 9, but rather those of MFRS 139, *Financial Instruments: Recognition and Measurement*.

ii) The assessment has been made based on the facts and circumstances that existed at the date of initial application that the determination of the business model within which a financial asset is held.

iii) Loss allowance for receivables (other than trade receivables) is recognised at an amount equal to lifetime expected credit losses until the receivable is derecognised.

b. Classification of financial assets and financial liabilities on the date of initial application of MFRS 9

- Reclassification from loans and receivables to amortised cost

Trade receivables that were classified as loans and receivables under MFRS 139 are now reclassified at amortised cost. An increase of RM332,000 in allowance for impairment was recognised in opening retained earnings of the Group at 1 July 2018 on transition to MFRS 9.

Statement by Directors

Pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 64 to 129 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 30 June 2019 and of their financial performance and cash flows for the financial year then ended.

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

Wong Yien Kim
Director

Goh Leng Kian
Director

Kuala Lumpur

Date: 11 October 2019

Statutory Declaration

Pursuant to Section 251(1)(b) of the Companies Act 2016

I, **Goh Chok Siang**, the officer primarily responsible for the financial management of KAREX BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 64 to 129 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by the above named Goh Chok Siang, NRIC: 710621-04-5081, MIA CA 14638, at Kuala Lumpur in the Federal Territory on 11 October 2019.

Goh Chok Siang

Before me:
Samugam Vassoo (W 632)
Commissioner For Oaths

Independent Auditors' Report

To the members of Karex Berhad

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Karex Berhad, which comprise the statements of financial position as at 30 June 2019 of the Group and of the Company, and the statements of profit or loss, 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 64 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 30 June 2019, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current 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.

Goodwill and intangible assets impairment assessment - Group

Refer to Note 2(f) - Significant accounting policies: Intangible assets and Note 5 - Intangible assets.

The key audit matter

The Group has goodwill of RM27,230,000, brands of RM61,389,000 and other intangible assets of RM5,947,000 with indefinite useful life as at 30 June 2019 which are required to be tested for impairment on an annual basis. When a review of impairment is conducted, the recoverable amount is determined based on discounted future cash flow projections using the Group's assumptions and assessment of the future results and prospects of the business. The key assumptions applied by the Group in the cash flow projections are those relating to discount rates, revenue growth rates and profit margin.

We have identified this as a key audit matter because judgement is required in our assessment of the recoverable amount and the significance of the carrying amount of goodwill, brands and other intangible assets with indefinite useful life in the financial statements.

Key Audit Matters (Continued)

Goodwill and intangible assets impairment assessment - Group (Continued)

How the matter was addressed in our audit:

Our audit procedures performed in this area included, amongst others:

- We obtained the annual impairment assessment performed by the Group and agreed the cash flow projections to the approved business plans and budgets.

- We checked the mathematical accuracy of the cash flow projections.

- We evaluated the historical accuracy of the cash flow projections, by comparing the cash flow forecasts used in the prior year to the actual performance of the business in the current year.

- We assessed the appropriateness of key assumptions used in particular those relating to discount rates, revenue growth rates and profit margin applied to the cash flows, with reference to internally and externally derived sources and taking into account the Group's historical forecasting accuracy.

- We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflects the risks inherent in the valuation of goodwill, brands and other intangible assets.

Inventories valuation - Group

Refer to Note 2(g) - Significant accounting policies: Inventories and Note 7 - Inventories.

The key audit matter

The Group is primarily involved in manufacturing and selling of condoms based on the design specification prescribed by customers. As described in the significant accounting policies in Note 2(g) to the financial statements, inventories are measured at lower of cost and net realisable value. As at 30 June 2019, the Group has reported significant inventory balance of RM119,628,000.

The consumption of these pre-printed raw materials and the demand of finished goods depend on the likelihood of repeat orders and/or the ability of the Group to sell these items. Pricing has been more competitive in the financial year under review especially in the tender market. Hence, there is a high possibility that inventories, particularly those manufactured for the tender market, may be quoted at a lower selling price.

The inventories valuation is identified as a key audit matter because judgment involved in assessing the level of inventory write down required in order to ascertain that inventories are stated at the lower of cost and net realisable value.

How the matter was addressed in our audit:

Our audit procedures performed in this area included, amongst others:

- We assessed the appropriateness of the management's approach in adopting the Group's policy for slow-moving inventories.

- We assessed the accuracy and reliability of the inventory aging and evaluated whether the provisions are in-line with the Group's policy.

- We evaluated the net realisable values for finished goods as at 30 June 2019 by comparing the most recent selling prices of the finished goods to assess whether these exceeded the carrying value of inventories at year end.

Independent Auditors' Report

To the members of Karex Berhad

Key Audit Matters (Continued)

Adoption of MFRS 15 Revenue from Contracts with Customers - Group

Refer to Note 2(m) - Significant accounting policies: Revenue and other income and Note 15 - Revenue.

The key audit matter

MFRS 15 *Revenue from Contracts with Customers* became effective on 1 January 2018. Arising from the adoption of MFRS 15, the Group was required to change accounting policies on revenue recognition. Consequently, new processes and controls have been implemented to cater for the new policies. New judgements were required to evaluate contracts with customers, in particular the determination of whether revenue for each contract is to be recognised over time or at a point in time and new disclosures were made in the financial statements.

The accounting policy changes arising from adoption of MFRS 15 is a key audit matter because it required us to design new audit procedures to test new processes and controls implemented by the Group and involvement of more senior personnel to assess the evaluation of the contracts with customers performed by the Group.

How the matter was addressed in our audit:

Our audit procedures performed in this area included, amongst others:

- We evaluated the appropriateness of the accounting policies based on the requirements of MFRS 15, our business understanding and industry practice.

- We evaluated design and implementation of controls over identification of contract to ascertain that they are implemented and operated effectively.

- We obtained our understanding of the transition approach, practical expedients applied and the Group's new processes systems and control implemented.

- We assessed the appropriateness of the Group's revenue recognition under MFRS 15 across significant revenue streams for a sample of contracts and inspection of secured sales orders and sales invoices.

- We assessed the completeness, accuracy and appropriateness of disclosures by comparing to the requirements of MFRS 15.

Impairment on investment in subsidiaries - Company

Refer to Note 2(j)(ii) - Significant accounting policies: Impairment – other assets and Note 4 – Investments in subsidiaries.

The key audit matter

As at 30 June 2019, the carrying amount of the investments in subsidiaries of the Company amounted to RM283,675,000.

The Company is required to estimate the recoverable amount based on forecasting and discounting future cash flows and to recognise impairment loss if the recoverable amount is less than its carrying amount in accordance with MFRS 136 *Impairment of Assets*.

In view of the inherent uncertainties and level of judgement required in evaluating the Company's assumptions included within the cash flows projections, impairment on investments in subsidiaries is determined as a key audit matter.

Key Audit Matters (Continued)

Impairment on investment in subsidiaries - Company (Continued)

How the matter was addressed in our audit:

Our audit procedures performed in this area included, amongst others:

- We assessed the determination of CGUs and the indicators of impairment based on our understanding of the Group's business activities.

- Where indicators exist, we obtained the discounted cash flow projections of the CGUs identified for the recoverable amount estimated and considered whether there were material inconsistencies with the approved business plans and forecasts.

- We assessed the appropriateness of key assumptions used in particular those relating to revenue growth rates, profit margin, discount rates and terminal value applied to the cash flows projections, by comparing to the historical and current performance, internal business plans and forecasts and externally derived market data.

- We evaluated the Company's sensitivity analyses around the key assumptions including revenue growth rates, profit margin, discount rates and terminal value growth rates to the extent of the change that would result the assets to be impaired.

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 annual report 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 annual report and, in doing so, consider whether the annual report 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 the annual report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company 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 members of Karex Berhad

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Company.

- 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 ability of the Group or of the Company 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 gives a true and fair view.

- 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.

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

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 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 auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in Note 4 to the financial statements.

Other Matter

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

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Lam Shuh Siang
Approval Number: 03045/02/2021 J
Chartered Accountant

Johor Bahru

Date: 11 October 2019

List of Properties

No.	Address	Land area/ Build up area Sq ft	Description/ Existing use	Date of acquisition	Tenure	Year of expiry	Approximate age of buildings Years	Net book value at 30 June 2019 RM'000
1	PTD 7906, Taman Pontian Jaya, Batu 34 Jalan Johor, 82000 Pontian, Johor Darul Takzim	9,354/ 5,460	1 ½ storey semi-detached building which we use as office, factory and warehouse	05/04/2000	Freehold	-	26	494
2	PTD 7907, Taman Pontian Jaya, Batu 34 Jalan Johor, 82000 Pontian, Johor Darul Takzim	10,807/ 5,460	1 ½ storey semi-detached building which we use as office, factory and warehouse	05/04/2000	Freehold	-	26	494
3	Lot 1235, Benut, 82000 Pontian, Johor Darul Takzim	225,418/ -	Vacant Land	10/09/2002	Freehold	-	-	813
4	PTD 7915, Taman Pontian Jaya, Batu 34 Jalan Johor, 82000 Pontian, Johor Darul Takzim	9,720/ 5,460	1 ½ storey semi-detached building which we use as warehouse	22/02/2005	Freehold	-	26	534
5	Lot 2767, Jalan Johor, 82000 Pontian, Johor Darul Takzim	781,335/ -	Building under construction	21/10/2010	Freehold	-	-	10,508
6	Lot 1863, Batu 39 ½, Jalan Johor, 82000 Pontian, Johor Darul Takzim	18,241/ 7,798	Single Storey semi- detached building which we use as office, factory and warehouse	27/07/2015	Leasehold 99 years	October 2063	26	625
7	Lot 2491, Batu 39 ½, Jalan Johor, 82000 Pontian, Johor Darul Takzim	54,450/ 21,385	Single Storey semi- detached building which we use as office, factory and warehouse	27/07/2015	Leasehold 99 years	October 2063	26	1,867
8	Lot 2244, Batu 39 ½, Jalan Johor, 82000 Pontian, Johor Darul Takzim	39,204/ 6,439	Single Storey Semi- Detached building which we use as office, factory and warehouse	27/07/2015	Leasehold 99 years	October 2063	26	1,347

No.	Address	Land area/ Build up area Sq ft	Description/ Existing use	Date of acquisition	Tenure	Year of expiry	Approximate age of buildings Years	Net book value at 30 June 2019 RM'000
9	Lot 2256, Batu 39 ½, Jalan Johor, 82000 Pontian, Johor Darul Takzim	199,477/ 128,808	Single Storey semi-detached building which we use as office, factory and warehouse	27/07/2015	Freehold	-	26	8,579
10	Lot 1368, Batu 39 ½, Jalan Johor, 82000 Pontian, Johor Darul Takzim	37,598/ -	Vacant Land	27/07/2015	Agriculture Freehold	-	-	376
11	Lot 1369, Batu 39 ½, Jalan Johor, 82000 Pontian, Johor Darul Takzim	101,549/ -	Vacant Land	27/07/2015	Agriculture Freehold	-	-	1,015
12	Lot 2515, Batu 39 ½, Jalan Johor, 82000 Pontian, Johor Darul Takzim	37,026/ -	Vacant Land	27/07/2015	Agriculture Freehold	-	-	370
13	Lot 591, Persiaran Raja Lumu, Pandamaran Industrial Estate, 42000 Port Klang, Selangor Darul Ehsan	43,560/ 28,908	1 ½ storey building which we use as office, factory and warehouse	09/03/2012	Leasehold 99 years	September 2074	28	5,835
14	Lot 594, Persiaran Raja Lumu, Pandamaran Industrial Estate, 42000 Port Klang, Selangor Darul Ehsan	43,560/ 63,907	3-Storey building which we use as office, factory and warehouse	20/10/2003	Leasehold 99 years	September 2074	31	10,252
15	PTD 8746, Taman Perindustrian Pontian, 82000 Pontian, Johor Darul Takzim.	61,680/ -	Vacant Land	14/10/2005	Leasehold 60 years	November 2056	-	760
16	Land slot No: E1-6 Export Processing Zone, Southern Industrial Estate Village 4, Tumbol Chalung, Amphur Hat Yai, Songkhla, Thailand	64,446/ 37,835	1 ½ storey building which we use as office, factory and warehouse	30/04/2003	Leasehold 30 years	April 2033	14	2,370

List of Properties

No.	Address	Land area/ Build up area Sq ft	Description/ Existing use	Date of acquisition	Tenure	Year of expiry	Approximate age of buildings Years	Net book value at 30 June 2019 RM'000
17	Land slot No: E1-7 Export Processing Zone, Southern Industrial Estate Village 4, Tumbol Chalung, Amphur Hat Yai, Songkhla, Thailand	65,182/ 29,773	Single storey building which we use as office, factory and warehouse	09/02/2003	Leasehold 30 years	February 2036	14	2,111
18	Land slot No: E1-8 Export Processing Zone, Southern Industrial Estate Village 4, Tumbol Chalung, Amphur Hat Yai, Songkhla, Thailand	65,448/ 43,099	Single storey building which we use as warehouse	01/11/2012	Leasehold 30 years	October 2042	5	1,924
19	Land slot No: E1-9-11 Export Processing Zone, Southern Industrial Estate Village 4, Tumbol Chalung, Amphur Hat Yai, Songkhla, Thailand	194,394/ 105,092	Single storey factory	01/08/2014	Leasehold 30 years	July 2044	4	20,890
20	Land slot No: E14-15 Export Processing Zone, Southern Industrial Estate Village 4, Tumbol Chalung, Amphur Hat Yai, Songkhla, Thailand	137,778/ 69,406	1 ½ storey building, which we use as factory and warehouse	20/10/2016	Leasehold 30 years	October 2046	3	7,416
21	PTD 8780, PLO8, Jalan Perindustrian, Senai Industrial Estate 1, 81400 Senai, Johor Darul Takzim	174,235/ 76,844	Single storey building which we use as office, factory and warehouse	12/01/1983	Leasehold 60 years	January 2043	34	8,238
22	PTD 8786, PLO11, Jalan Perindustrian, Senai Industrial Estate 1, 81400 Senai, Johor Darul Takzim	87,123/ 1,956	Single storey building which we use as factory and warehouse	23/09/1985	Leasehold 60 years	September 2045	34	1,703

Analysis of Shareholdings

As at 27 September 2019

Total issued shares	:	RM281,980,000.00
Total number of issued shares	:	1,002,375,000 of Ordinary Shares
Class of shares	:	Ordinary Share
Voting rights	:	One vote per Ordinary Share
Number of shareholders	:	13,207

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
Less than 100	363	2.75%	14,984	0.00%
100 - 1,000	1,485	11.24%	949,800	0.09%
1,001 - 10,000	6,693	50.68%	34,638,672	3.46%
10,001 - 100,000	4,116	31.17%	130,461,144	13.02%
100,001 to less than 5% of issued shares	547	4.14%	505,936,474	50.47%
5% and above of issued shares	3	0.02%	330,373,926	32.96%
Total	**13,207**	**100.00%**	**1,002,375,000**	**100.00%**

LIST OF DIRECTORS' SHAREHOLDINGS AS PER THE REGISTER OF DIRECTORS' SHAREHOLDING AS AT 27 SEPTEMBER 2019

	Direct Interest		Indirect Interest	
Name of Directors	No of Shares	%	No of Shares	%
Tan Sri Dato' Seri Utama Arshad bin Ayub	15,000,000	1.50	5,000,000[(1)]	0.50
Dato' Dr. Ong Eng Long @ Ong Siew Chuan	710,000	0.07	-	-
Professor Dato' Dr. Adeeba binti Kamarulzaman	-	-	-	-
Goh Leng Kian	40,468,865	4.04	184,823,750 [(2)]	18.44
Goh Yen Yen	72,062,456	7.19	-	-
Lam Jiuan Jiuan	19,087,456	1.90	261,387,456 [(3)]	26.08
Wong Yien Kim	-	-	-	-
Law Ngee Song	258,750	0.03	-	-

CHIEF EXECUTIVE OFFICER'S (WHO IS NOT A DIRECTOR) SHAREHOLDING AS AT 27 SEPTEMBER 2019

	Direct Interest		Indirect Interest	
Name of Directors	No of Shares	%	No of Shares	%
Goh Miah Kiat	34,996,097	3.49	184,250,000[(4)]	18.38

Analysis of Shareholdings

As at 27 September 2019

LIST OF SUBSTANTIAL SHAREHOLDERS AS PER THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 27 SEPTEMBER 2019

Name of Substantial Shareholders	Direct Holdings		Indirect Holdings (excluding bare trustees)	
	No.	%	No.	%
Karex One Limited	184,250,000	18.38	-	-
Lam Yiu Pang Albert	64,312,456	6.42	216,162,456[5]	21.57
Goh Leng Kian	40,468,865	4.04	184,823,750[2]	18.44
Goh Yen Yen	72,062,456	7.19	-	-
Lam Jiuan Jiuan	19,087,456	1.90	261,387,456[3]	26.08
Goh Miah Kiat	34,996,097	3.49	184,250,000[4]	18.38
Goh Ai Noi	-	-	209,412,456[6]	20.89
Goh Yin	74,461,470	7.43	-	-

(1) Deemed interested by virtue of interest held by Zalaraz Sdn Bhd pursuant to Section 8 of the Companies Act 2016.

(2) Deemed interested by virtue of his interest in Karex One Limited pursuant to Section 8 of the Companies Act 2016 and interest held by his spouse pursuant to Section 59(11)(c) of the Companies Act 2016.

(3) Deemed interested by virtue of her interest in AJNA Holdings Limited and Karex One Limited pursuant to Section 8 of the Companies Act 2016 and interest held by her spouse pursuant to Section 59(11)(c) of the Companies Act 2016.

(4) Deemed interested by virtue of his interest in Karex One Limited pursuant to Section 8 of the Companies Act 2016.

(5) Deemed interested by his interest in AJNA Holdings Limited pursuant to Section 8 of the Companies Act 2016 and interest held by his spouse.

(6) Deemed interested by virtue of her interest in Karex One Limited and Jeyya Ltd pursuant to Section 8 of the Companies Act 2016.

Thirty Largest Shareholders

As at 27 September 2019

No.	Name of Shareholders	No. of Shares	%
1.	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR BNP PARIBAS SINGAPORE BRANCH (A/C CLIENTS-FGN)	184,250,000	18.38
2.	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB FOR GOH YIN (PB)	74,061,470	7.39
3.	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB FOR GOH YEN YEN (PB)	72,062,456	7.19
4.	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (HK BR-TST-ASING)	49,651,900	4.95
5.	CIMSEC NOMINEES (ASING) SDN BHD CIMB FOR JEYYA LIMITED (PB)	25,162,456	2.51
6.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (ABERDEEN)	24,673,200	2.46
7.	CIMSEC NOMINEES (ASING) SDN BHD CIMB FOR LAM YIU PANG ALBERT (PB)	24,312,456	2.43
8.	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB FOR GOH MIAH KIAT (PB)	21,500,097	2.14
9.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (ABERDEEN)	19,705,700	1.97
10.	CIMSEC NOMINEES (ASING) SDN BHD CIMB FOR LAM JIUAN JIUAN (PB)	19,087,456	1.90
11.	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB FOR GOH LENG KIAN (PB)	18,468,865	1.84
12.	HLIB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR GOH MIAH KIAT	13,396,000	1.34
13.	CIMSEC NOMINEES (ASING) SDN BHD CIMB FOR AJNA HOLDINGS LIMITED (PB)	12,825,000	1.28
14.	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR GOH SIANG (PBCL-0G0198)	12,500,000	1.25
15.	CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STANDARD CHARTERED BANK SINGAPORE BRANCH (BJSSSGBR-CL-FR)	11,670,050	1.16
16.	CGS-CIMB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ARSHAD BIN AYUB	9,000,000	0.90
17.	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR GOH LENG KIAN (PBCL-0G0199)	9,000,000	0.90
18.	MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK PRIVATE WEALTH MANAGEMENT FOR GOH LENG KIAN (PW-M00668) (419793)	9,000,000	0.90
19.	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING)	8,203,700	0.82
20.	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR GOH SIANG (PBCL-0G0200)	6,244,800	0.62

Thirty Largest Shareholders

As at 27 September 2019

No.	Name of Shareholders	No. of Shares	%
21.	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ARSHAD BIN AYUB	6,000,000	0.60
22.	CGS-CIMB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ZALARAZ SDN BHD (MY3113)	5,000,000	0.50
23.	CIMSEC NOMINEES (ASING) SDN BHD CIMB FOR ORBIS REX LIMITED (PB)	4,523,625	0.45
24.	QUEK SEE KUI	4,097,700	0.41
25.	HLIB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR GOH LENG KIAN	4,000,000	0.40
26.	AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR QUEK SEE KUI	3,076,600	0.31
27.	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR PLASMA CAPITAL SDN BHD	3,000,000	0.30
28.	CHOY WEE CHIAP	2,950,000	0.29
29.	HUANG HWA YONG	2,630,000	0.26
30.	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN TECK SOON	2,600,000	0.26
	TOTAL	**662,653,531**	**66.11**

Notice of Seventh Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Seventh Annual General Meeting ("7th AGM") of Karex Berhad ("Karex" or "Company") will be held at Premiere Hotel, Jalan Langat, Bandar Bukit Tinggi 1, 41200 Klang, Selangor Darul Ehsan on Friday, 29 November 2019 at 10:00 a.m. for the purpose of considering the following businesses:

AGENDA

Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 30 June 2019 together with the Reports of the Directors and the Auditors thereon.

(Refer to Explanatory Note (a))

2. To re-elect Ms Lam Jiuan Jiuan who is retiring in accordance with the Article 95 of the Company's Constitution, and being eligible, has offered herself for re-election.

(Ordinary Resolution 1)

3. To re-elect Ms Goh Yen Yen who is retiring in accordance with the Article 95 of the Company's Constitution, and being eligible, has offered herself for re-election.

(Ordinary Resolution 2)

4. To re-elect Professor Dato' Dr. Adeeba binti Kamarulzaman who is retiring in accordance with the Article 100 of the Company's Constitution, and being eligible, has offered herself for re-election.

(Ordinary Resolution 3)

5. To approve the payment of Directors' fees of RM586,667.00 for the financial year ended 30 June 2019.

(Ordinary Resolution 4)

6. To approve the payment of Directors' Benefits (excluding Directors' Fees) payable to the Directors of the Company and its subsidiaries up to an amount of RM56,000.00 for the financial period from 1 December 2019 to 30 November 2020.

(Ordinary Resolution 5)

7. To approve the payment of a final single-tier dividend of 1.0 sen per ordinary share for the financial year ended 30 June 2019.

(Ordinary Resolution 6)

8. To re-appoint Messrs KPMG PLT as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration.

(Ordinary Resolution 7)

Special Business

To consider and if thought fit, pass the following Ordinary/Special Resolutions with or without any modifications:

9. **Ordinary Resolution**
Authority to Issue and Allot Shares

"THAT subject always to the Companies Act 2016 ("the Act"), Constitution of the Company and approvals from Bursa Malaysia Securities Berhad and any other governmental/regulatory bodies, where such approval is necessary, authority be and is hereby given to the Directors pursuant to Section 75 of the Act to issue and allot not more than ten percent (10%) of the total number of issued shares (excluding treasury shares) of the Company at any time upon any such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit or in pursuance of offers, agreements or options to be made or granted by the Directors while this approval is in force until the conclusion of the next Annual General Meeting of the Company pursuant to Section 76 of the Act and that the Directors be and are hereby further authorised to make or grant offers, agreements or options which would or might require shares to be issued after the expiration of the approval hereof."

(Ordinary Resolution 8)

Notice of Seventh Annual General Meeting

10. **Special Resolution**
Proposed Adoption of the Company's New Constitution

"THAT the existing Memorandum and Articles of Association of the Company be hereby deleted in its entirety and a new Constitution, as set out in Appendix II of the Circular to Shareholders dated 31 October 2019 be replaced thereof and hereby adopted as the Company's Constitution.

THAT henceforth, the Constitution shall bind the Company, the members and the Directors to the same extent as if the Constitution had been signed and sealed by each member and contain covenants on the part of each member and Director to observe all the provisions of the Constitution.

AND THAT the Secretaries be authorised and instructed to do all the necessary and deemed fit to lodge the Constitution as adopted herewith with the Companies Commission of Malaysia on behalf of the Company in accordance with Section 36 of the Companies Act 2016."

(Special Resolution 1)

11. To transact any other business of which due notice shall have been given in accordance with the Act.

Notice of Dividend Entitlement and Payment

NOTICE IS HEREBY GIVEN THAT subject to the approval of the shareholders at the 7th AGM, a final single-tier dividend of 1.0 sen per ordinary share for the financial year ended 30 June 2019, if approved, will be paid on 23 December 2019 to holders of ordinary shares registered in the Record of Depositors of the Company at the close of business on 9 December 2019.

A depositor shall qualify for entitlement to the dividend only in respect of:

a) Securities transferred into the Depositor's Securities Account before 4.30 p.m. on 9 December 2019 in respect of transfers; and
b) Securities bought on the Bursa Malaysia Securities Berhad ("Bursa Securities") on a cum entitlement basis according to the Rules of the Bursa Securities.

BY ORDER OF THE BOARD
LIM LEE KUAN (MAICSA 7017753)
TEO MEE HUI (MAICSA 7050642)
Company Secretaries

Selangor Darul Ehsan
Dated this 31st day of October 2019

Notes:

1. *A member entitled to attend and vote at this meeting is entitled to appoint any person as his/her proxy or in the case of a corporation, to appoint a duly authorised representative to attend and vote in his/her/their place. A proxy may but need not be a member of the Company. There shall be no restriction as to the qualification of the proxy.*
2. *The Form of Proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing. If the appointer is a corporation, it must be executed under its common seal or under the hand of its officer or its attorney duly authorised on its behalf.*
3. *A member may appoint two or more proxies to attend and vote at the general meeting of the Company. Where a member appoints two or more proxies, the appointment of such proxies shall not be valid unless the Member specifies the proportion of his/her shareholding to be represented by each such proxy.*
4. *The Form of Proxy, together with the power of attorney (if any) under which it is signed or a duly notarial certified copy thereof, must be deposited at the registered office of the Company at 10th Floor, Menara Hap Seng, No. 1 & 3 Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia not less than forty-eight (48) hours before the time for holding this meeting or any adjournment thereof.*
5. *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account* ***("Omnibus Account")****, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds.*
6. *Depositors whose name appear in the Record of Depositors as at 22 November 2019 shall be regarded as members of the Company entitled to attend the 7th AGM or appoint proxies to attend and vote on his/her behalf in accordance with Article 55(6) of the Company's Constitution.*
7. *Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in this Notice will be put to vote by way of a poll.*

Explanatory notes on Ordinary and Special Business

a) *Item 1 of the Agenda*
Audited Financial Statements for the financial year ended 30 June 2019.

The Audited Financial Statements under 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 and hence this item is not put forward for voting.

b) Ordinary Resolutions 4 & 5
Payment of Directors' fees and benefits made payable to the Directors

Section 230(1) of the Act, provides amongst others, that the fees of the Directors and any benefits payable to the Directors of a listed company and its subsidiaries shall be approved at a general meeting.

In this respect, the Board wishes to seek shareholders' approval at the 7th AGM for the payment of Directors' fees and benefit payable to the Directors in two (2) separate resolutions as below:

(i) Resolution 4 on the proposed Directors' fees of RM586,667.00 in respect of the financial year ended 30 June 2019;
(ii) Resolution 5 on the payment of Directors' Benefits (excluding Directors' Fees) payable to the Directors of the Company and its subsidiaries up to an amount of RM56,000.00 for the financial period from 1 December 2019 to 30 November 2020. The benefits comprise the meeting allowance, which will only be accorded based on actual attendance of meetings by the Directors.

c) Ordinary Resolution 8
Authority to Issue and Allot Shares

The proposed Resolution 8 is primarily to seek for the renewal of a general mandate to give flexibility to the Board of Directors to issue and allot shares up to 10% of the issued share capital (excluding treasury shares) of the Company for the time being, at any time in their absolute discretion without convening a general meeting (hereinafter referred to as the "General Mandate").

The Company has been granted a general mandate by its shareholders at the last AGM held on 30 November 2018 (hereinafter referred to as the "Previous Mandate") and it will lapse at the conclusion of the 7th AGM.

As at the date of this Notice, the Previous Mandate granted by the shareholders had not been utilised and hence, no proceed was raised therefrom.

The purpose to seek the General Mandate is to enable the Directors to issue and allot shares at any time to such persons in their absolute discretion without convening a general meeting as it would be both time-consuming and costly to organise a general meeting. This General Mandate, unless revoked or varied by the Company in a general meeting, will expire at the conclusion of the next AGM of the Company.

The General Mandate will provide flexibility to the Company for any possible fund-raising activities, including but not limited to further placing of shares, for purpose of funding future investment project(s), acquisitions, working capital and/or settlement of banking facilities.

d) Special Resolution 1
Proposed Adoption of the Company's New Constitution

The proposed Special Resolution 1 is to seek shareholders' approval to adopt a new Constitution to align with the provisions of the Act, the Main Market Listing Requirements of Bursa Securities and Corporate Governance Requirements ("Proposed New Constitution"). Please refer to the Appendix I of the Circular to Shareholders dated 31 October 2019 for detailed information on the Proposed New Constitution.

The Proposed New Constitution shall take effect once the proposed Special Resolution 1 has been passed by a majority of not less than 75% of members who are entitled to vote and do vote in person or by proxy at the 7th AGM.

7th AGM of Karex Berhad Administrative Details

Date	Friday, 29 November 2019
Time	10:00 a.m.
Venue	Grand Ballroom, Ground Floor Premiere Hotel Jalan Langat, Bandar Bukit Tinggi 1 41200 Klang, Selangor, Malaysia

Registration

1. The registration will only commence at 8.30 a.m. at Grand Ballroom on the Ground Floor of Premiere Hotel.
2. Kindly produce your original MyKad/Passport at the registration counter for verification. Please ensure that you collect your MyKad/Passport thereafter.
3. No person will be allowed to register on behalf of another person even with the original MyKad/Passport of the other person.
4. No person will be allowed to enter the meeting hall without wearing the identification wristband and there will be no replacement in the event you lose or misplace the wristband.
5. Upon registration, you will be given the following items:
   i. An identification wristband.
   ii. One (1) door gift which consist of 1x Karex Tote Bag, 1x pack of ONE® Zerothin 12's and 1x Karex Berhad Annual Report.
   iii. A shareholder or a proxy-holder is only entitled for one (1) door gift. In the event that the shareholder is also an appointed proxy/proxies; or if there is any subsequent appointment(s) to an already appointed proxy, he/she will be entitled for another one (1) door gift. Henceforth, any one (1) shareholder/proxy may be entitled to a maximum of two (2) door gifts.

Proxy

1. If you are a shareholder and are unable to attend the AGM and wish to appoint a proxy to vote on your behalf, please submit your Form of Proxy in accordance with the notes and instructions printed therein.
2. If you have submitted your Form of Proxy prior to the AGM and subsequently decided to attend the AGM yourself, please proceed to the registration counter to revoke the appointment of your proxy.

Parking

Parking is free, subject to ticket validation at the 7th AGM. Kindly produce your parking ticket for validation at the registration counter. This is only valid for parking at Premiere Hotel.

Breakfast and Lunch

Buffet breakfast and lunch will be provided at the following times only:

Buffet Breakfast : 8.45 a.m. onwards.
Buffet Lunch : Upon the conclusion of the AGM.

Form of Proxy

KAREX BERHAD
(Registration No: 201201034091 (1018579-U))
(Incorporated in Malaysia)

Number of Shares Held	
CDS Account No.	

* I/We ____________________
NRIC/No./Passport/No./Company No. ____________________
of ____________________
____
____________________ being a Member(s) of KAREX BERHAD (Registration No: 201201034091 (1018579-U)), hereby appoint

Name	Address	NRIC/Passport No.	Proportion of Shareholdings (%)
*And/or (delete as appropriate)			

or failing him/her, #THE CHAIRMAN OF THE MEETING as *my/our proxy to vote for *me/us on *my/our behalf at the Seventh Annual General Meeting ("7th AGM") of the Company to be held at Premiere Hotel, Jalan Langat, Bandar Bukit Tinggi 1, 41200 Klang, Selangor Darul Ehsan on Friday, 29 November 2019 at 10.00 a.m. or at any adjournment thereof and to vote as indicated below:

Ordinary Resolutions		**For**	**Against**
1.	To re-elect Ms Lam Jiuan Jiuan as a Director of the Company		
2.	To re-elect Ms Goh Yen Yen as a Director of the Company		
3.	To re-elect Professor Dato' Dr. Adeeba binti Kamarulzaman as a Director of the Company		
4.	To approve the payment of Directors' fees		
5.	To approve the payment of Directors' benefits (excluding Directors' fees)		
6.	To approve a final single-tier dividend		
7.	To re-appoint Messrs KPMG PLT as Auditors of the Company		
8.	**Special Business** Authority to issue and allot shares		
Special Resolution		**For**	**Against**
1.	Proposed adoption of the Company's new Constitution		

Note: Please note that the short descriptions given above of the Resolutions to be passed do not in any way whatsoever reflect the intent and purpose of the Resolutions. The short descriptions have been inserted for convenience only. Shareholders are encouraged to refer to the Notice of Annual General Meeting for the full purpose and intent of the Resolutions to be passed.

Mark either box if you wish to direct the proxy how to vote. If no mark is made the proxy may vote on the resolution or abstain from voting as the proxy thinks fit. If you appoint two proxies and wish them to vote differently this should be specified.

\# *If you wish to appoint other person(s) to be your proxy/proxies, kindly delete the words "The Chairman of the Meeting" and insert the name(s) of the person(s) desired.*
* *Delete if not applicable.*

Signed this _______ day of ________________ 2019

____
Signature/Common Seal of Shareholder

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint any person as his/her proxy or in the case of a corporation, to appoint a duly authorised representative to attend and vote in his/her/their place. A proxy may but need not be a member of the Company. There shall be no restriction as to the qualification of the proxy.
2. The Form of Proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing. If the appointer is a corporation, it must be executed under its common seal or under the hand of its officer or its attorney duly authorised on its behalf.
3. A member may appoint two or more proxies to attend and vote at the general meeting of the Company. Where a member appoints two or more proxies, the appointment of such proxies shall not be valid unless the Member specifies the proportion of his/her shareholding to be represented by each such proxy.
4. The Form of Proxy, together with the power of attorney (if any) under which it is signed or a duly notarial certified copy thereof, must be deposited at the registered office of the Company at 10th Floor, Menara Hap Seng, No. 1 & 3 Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia not less than forty-eight (48) hours before the time for holding this meeting or any adjournment thereof.
5. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account **("Omnibus Account")**, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds.
6. Depositors whose name appear in the Record of Depositors as at 22 November 2019 shall be regarded as members of the Company entitled to attend the 7th AGM or appoint proxies to attend and vote on his/her behalf in accordance with Article 55(6) of the Company's Constitution.
7. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the Notice of 7th AGM will be put to vote by way of a poll.
8. Any alteration in this form must be initialled.

Fold here

Affix Stamp

The Company Secretary
KAREX BERHAD
(Registration No: 201201034091 (1018579-U))
10th Floor, Menara Hap Seng,
No. 1 & 3 Jalan P. Ramlee
50250 Kuala Lumpur

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KAREX BERHAD
(Registration No: 201201034091 (1018579-U))
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42000 Port Klang,
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