

annual report 2020



karex

Grand winner of our art against AIDS 2019 — Nurini binti Mohamad Hashim from Malaysian Institute of Art

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Our MISSION

We continuously aim to build an organisation that responds to the changing views and needs of sexual health and to develop products that inspire 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.





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Corporate Information

BOARD OF DIRECTORS

Tun Dato' Seri

Arshad 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

Wong Yien Kim

Independent
Non-Executive Director

Law Ngee Song

Independent
Non-Executive Director

Lam Jiuan Jiuan

Non-Independent
Non-Executive Director

Goh Yen Yen

Non-Independent
Non-Executive Director

Goh Leng Kian

Executive Director

Goh Miah Kiat

Executive Director
Chief Executive Officer

AUDIT COMMITTEE

Wong Yien Kim

Chairman
Independent
Non-Executive Director

Tun Dato' Seri

Arshad 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
Executive Director
Chief Executive Officer

Goh Chok Siang

Member
Chief Financial Officer

REMUNERATION COMMITTEE

Tun Dato' Seri

Arshad Ayub

Chairman
Independent
Non-Executive Director

Law Ngee Song

Member
Independent
Non-Executive Director

Goh Yen Yen

Member
Non-Independent
Non-Executive Director

Corporate Information



NOMINATION COMMITTEE

Law Ngee Song

Chairman
Independent
Non-Executive Director

Wong Yien Kim

Member
Independent
Non-Executive Director

Lam Jiu-an Jiu-an

Member
Non-Independent
Non-Executive Director

COMPANY SECRETARIES

Lim Lee Kuan

(SSM PC No. 202008001079)
(MAICSA 7017753)

Teo Mee Hui

(SSM PC No. 202008001081)
(MAICSA 7050642)

Elizabeth Allison De Silva

(SSM PC No. 202008002112)
(MAICSA 7030086)

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

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

SHARE REGISTRAR

Boardroom Share Registrars Sdn Bhd (378993-D)

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

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

BANKERS

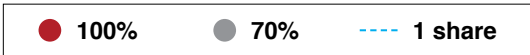
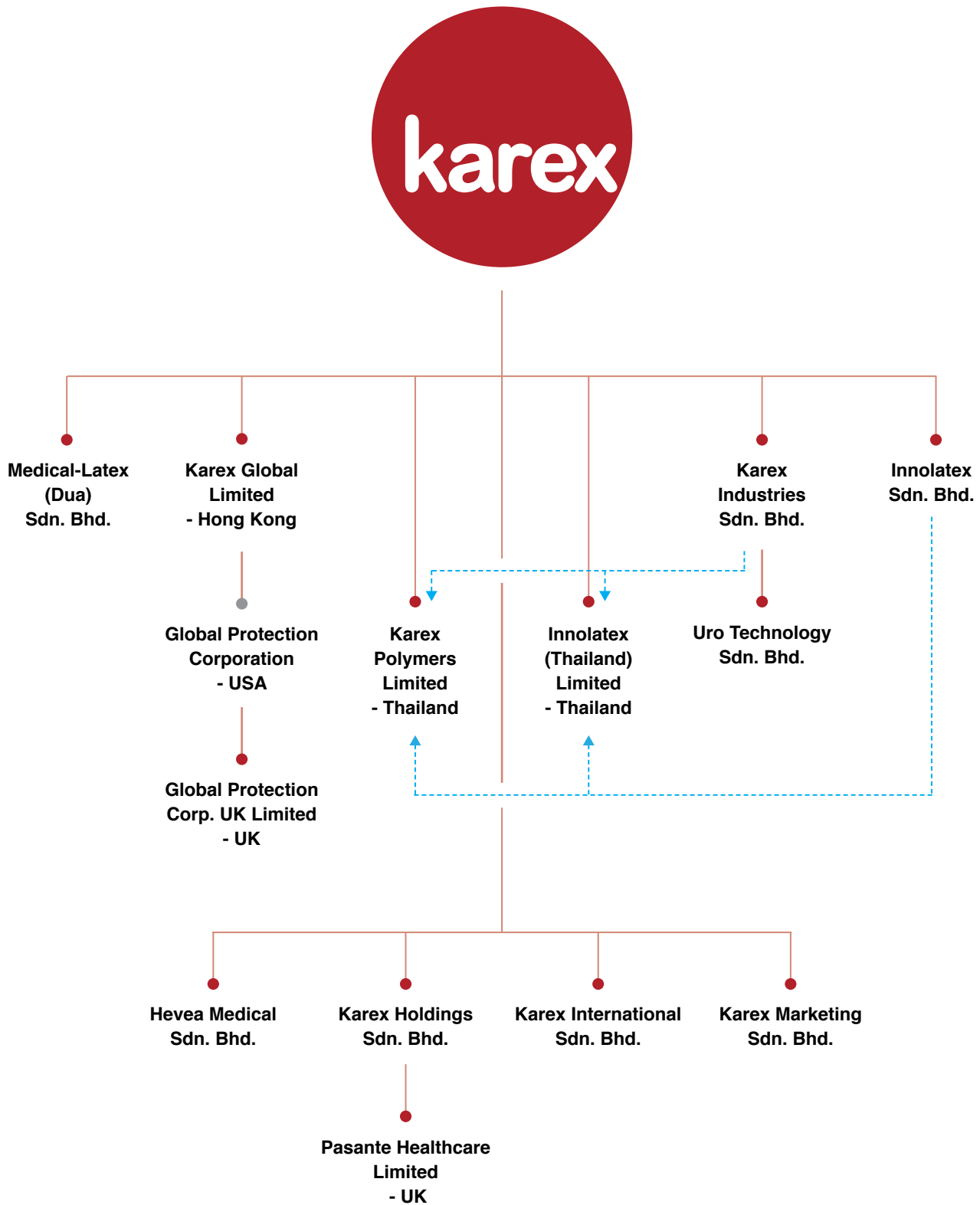
Bangkok Bank Public Company
Limited
CIMB Bank Berhad
Hong Leong Bank Berhad
HSBC Bank Malaysia Berhad
RHB Bank Berhad
United Overseas Bank (Malaysia)
Berhad

STOCK EXCHANGE LISTING

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

Corporate Structure

As at 30 September 2020



Key Strategies

CORE COMPETENCIES

We understand that in order to sustain higher growth and develop our capabilities, we must constantly invest back into what has enabled us to stand out from other manufacturers around the world. We constantly strive to improve our manufacturing and distribution processes in terms of safety, quality and efficiency, capitalising on the latest technology available in the market.

INNOVATION

Today, innovation is needed more than ever as we come to terms with new operating landscapes. As we adapt to respond to an unprecedented global crisis, we must think outside-the-box to devise creative solutions to challenges that were previously unimaginable.

BRANDING

We continuously work to ensure that we respond to our customers' desires and expectations. Building brands within our business requires us to integrate design, strategy, marketing and sustainability from the earliest stages of product development.

HUMAN CAPITAL

Our employees around the world are at the heart of everything we do. We aim to cultivate an environment where our employees are able to deliver outstanding results for the business. We promote diversity and encourage entrepreneurial spirit as we believe this will continue to give our Group greater agility and adaptability in an increasingly volatile environment.

Financial Highlights

FINANCIAL YEAR ENDED 30 JUNE					
	2016	2017	2018	2019	2020
Financial Performance (RM'000)					
(i) Revenue	343,617	361,452	409,591	378,484	395,067
(ii) Profit before tax	79,350	37,049	14,446	3,804	5,192
(iii) Profit attributable to owners of the Company	66,685	27,946	10,229	2,533	228
Financial Position (RM'000)					
Assets					
(i) Total tangible assets	525,509	496,841	488,984	498,534	524,299
(ii) Net assets	479,067	496,644	483,140	491,032	480,149
(iii) Current assets	344,328	294,840	277,500	275,885	273,577
Liabilities and Shareholders' Funds					
(i) Current liabilities	54,541	75,801	81,249	85,368	106,960
(ii) Paid-up share capital	250,594	281,980	281,980	281,980	281,980
(iii) Shareholders' funds	479,067	496,644	483,140	491,032	480,149
Per Share					
(i) Basic earning (sen) *	6.65	2.79	1.02	0.25	0.02
(ii) Net assets (RM) **	0.48	0.50	0.48	0.49	0.48
* Based on weighted average number of shares issued ('000)	1,002,375	1,002,375	1,002,375	1,002,375	1,002,375
** Based on number of shares issued ('000)	1,002,375	1,002,375	1,002,375	1,002,375	1,002,375
Financial Ratios					
(i) Return on total tangible assets (%)	12.69	5.62	2.06	0.51	0.04
(ii) Return on shareholders' funds (%)	13.92	5.63	2.09	0.52	0.05
(iii) Current ratio (times)	6.31	3.89	3.42	3.23	2.56
(iv) Gearing ratio (times)	0.05	0.04	0.06	0.07	0.11
(v) Gearing ratio net of cash (times)	N/A ^{a)}	N/A ^{a)}	N/A ^{a)}	N/A ^{a)}	N/A^{a)}

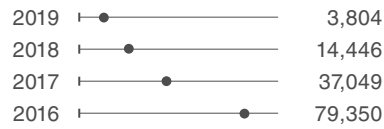
^{a)} No disclosure of gearing ratio net of cash (times) as the Group is in a net positive cash flow position.

Financial Highlights

PROFIT BEFORE TAX (RM'000)

5,192

2020



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

228

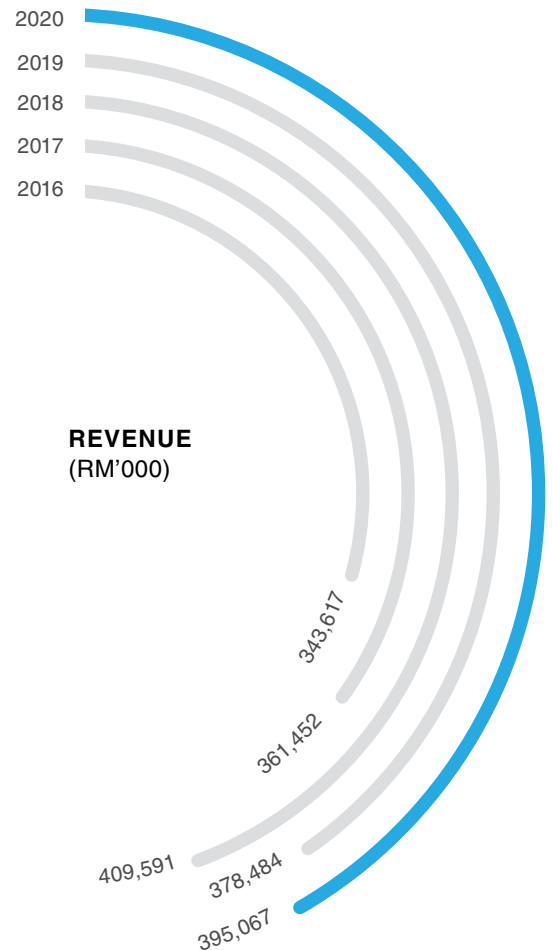
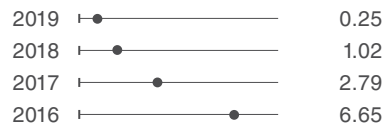
2020



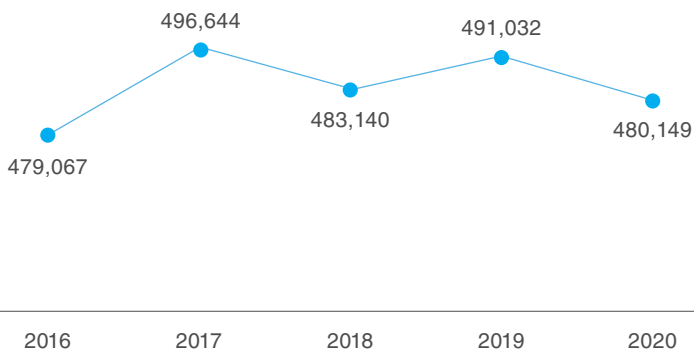
BASIC EARNING PER SHARE (Sen)

0.02

2020



NET ASSETS (RM'000)



NET ASSETS PER SHARE (RM)



Chairman's Statement

**DEAR
FELLOW SHAREHOLDERS,**

Our world is experiencing a period of unprecedented turmoil. The COVID-19 pandemic is a painful moment in history that is testing us not only as individuals, but also as families, communities, businesses, nations and as a global society.

How we respond to these challenges reflects who we are as individuals and as an organisation. I am particularly proud of Karex's response to the pandemic. Under our CEO, MK Goh's leadership, the resilience and fortitude that our employees have demonstrated prove that there is a strength of purpose that is rooted deep in our culture.

**TUN DATO' SERI
ARSHAD AYUB**

*Chairman
Independent
Non-Executive Director*



INTERIM DIVIDENDS PAID DURING
THE YEAR TOTALLING

RM5M

The COVID-19 pandemic and corresponding Movement Control Order implemented by the Malaysian government meant that our facilities were not able to operate for a period of 10 days during the year. The subsequent manpower restrictions and additional safety precautions also resulted in the Group incurring idle expenses and limited our operating capacity for a sustained period. Our teams are still till today having to navigate global supply chain disruptions making it an extremely challenging period for our Group.

Notwithstanding the above, our Group delivered a commendable performance, recording a revenue of RM395.1 million, representing an improvement from the previous financial year. Although profitability was affected, we continued to consolidate our position as an own brand manufacturer within the sexual wellness industry and position our business to service the commercial sector in response to changing patterns in government funded condom purchasing. We have also during the year expanded our catheter and lubricant manufacturing capacity at our Thailand facility and announced our intention to venture into medical gloves.

REVENUE OF

RM395.1M

PROPOSED FINAL DIVIDENDS TOTALLING
AN ADDITIONAL

RM5M



In spite of the challenging operating environment, we remain committed to delivering value to our shareholders. In addition to the interim dividend of 0.5 sen per share paid during the year, the Board has recommended a final dividend of 0.5 sen per share. If approved at our upcoming Annual General Meeting, the dividend will be paid to shareholders on 21 December 2020.

Law Ngee Song has informed the Board that he will not stand for re-election at our forthcoming Annual General Meeting. On behalf of the Board, I would like to thank him for his dedication and wish him well for the future.

As always, I am very grateful to my fellow Board members for their wisdom and guidance, especially during this period of uncertainty. I would also like to thank MK Goh and his entire Karex management team, our employees, our customers and the wider Karex community for their commitment and determination. Finally, on behalf of everyone at Karex, I hope that you, our shareholders, and your loved ones keep safe and healthy as we navigate these extraordinary times.

**TUN DATO' SERI
ARSHAD AYUB**

Chairman

CEO's Management Discussion & Analysis

**MK
GOH**

*Chief Executive
Officer*

INDUSTRY OVERVIEW

The COVID-19 pandemic represents one of the greatest challenges that humanity has faced in recent years. With over 30 million people infected at the time of writing, the outbreak has caused immeasurable disruption with almost all nations struggling to slow down transmission, develop new social protocols and fortify their public health systems. The resulting containment measures have caused unprecedented economic turmoil and the sexual wellness industry has not been spared.

The provision of condoms has long been a cornerstone of the global fight against HIV, however, during the pandemic, manufacturers like ourselves have faced extraordinary challenges to deliver condoms to key affected populations around the world. These disruptions coupled with volatile commodity prices and reduced humanitarian aid budgets have ushered in a period of unprecedented consolidation within the industry and threatened the world with a global condom shortage.



This is especially worrying as according to the UNAIDS Global AIDS Update 2020, 12.6 million people out of the 38.0 million people living with HIV around the world today are still awaiting life-saving treatment. Progress towards ending AIDS as a public health threat by 2030 was already off track before the COVID-19 outbreak. This crisis now has the potential to blow the world even further off course. They warn that a six-month disruption to medical supplies could result in an additional 500,000 AIDS-related deaths in sub-Saharan Africa alone by the end of 2021.

In order to avoid wasting decades of progress, it is critical that we continue to adapt our business and develop new routes-to-market that more effectively meet consumer needs. This requires evolving within a consumer goods space that has continuously transformed over the last few years with technology improvements and “new age” consumer behaviour changing the way that businesses interact with customers.

The severity of the COVID-19 pandemic also raised serious safety concerns for our own employees and communities. Safeguarding our Karex family has been a key priority amidst our ambitions to grow as an organisation during this period. We have undertaken several measures during this period that are aimed at reinforcing our commitment to building a sustainable business model for all our stakeholders. Further details on our sustainability efforts can be found in the Sustainability Statement on pages 16 to 29 of this Report.

OPERATIONAL HIGHLIGHTS

Much of our ability to respond quickly and appropriately to the challenges presented during the COVID-19 pandemic has been due to the investments in our core competencies and the efforts of our global teams. Our Group’s unique ability to blend cutting edge brand campaigns with market leading manufacturing capabilities is a testament to the quality of collaboration between our teams around the world.



We have continued to automate our manufacturing processes in an effort to reduce our dependency on labour and improve our quality controls during the year. We incorporated machinery designed to improve our packing processes in addition to several more state-of-the-art automatic electronic testing machines during the year. This has in turn allowed us to roll out a new manpower redeployment plan between our facilities to more efficiently utilise our existing pool of talent.

An improved inventory management system also yielded significant benefits during the year. The efficient planning and production of condom orders has become increasingly challenging as many manufacturers struggle to cope with the sheer variety of product variants, packaging and flavouring that consumers are demanding in the recent times.

CEO's Management Discussion & Analysis



Our efforts to expand our capacity and improve our processes have resulted in a slew of notable achievements at our Thailand facility during the year with an increase in overall production of ultrathin condoms and the award of the Industrial Estate Authority of Thailand's prestigious Eco-excellence award to name a few. Our Thailand facility is expected to continue to play an increasingly important role in our Group with the addition of additional catheter and personal lubricant lines completed during the year.

In a continued effort to explore new ways of making a positive impact on the health and wellbeing of our employees and other stakeholders, I am particularly proud of how we responded quickly to the developing crisis and re-tooled several of our lubricant manufacturing lines to produce hand sanitizers. The initial few production runs were reserved for our staff and donated to frontline healthcare workers. This experience contributed to us exploring the addition of new medical products to our portfolio, and eventually led to our decision to commence construction of our medical glove facility.

We have progressively increased the utilisation rate at our dedicated latex compounding facility. Aside from benefiting from improved quality consistency and cost efficiencies, we have also as a result of this venture been admitted as a member of the Fair Rubber Association. This provides our customers assurance that the products purchased from our Group will have been manufactured with latex that contributed to an improvement of the working and living conditions of the primary producers of natural latex.

In response to key public health site closures around the USA, Global Protection Corp launched ONE®@Home, a program to continue supplying condoms directly to individuals. This incorporated a partnership with some of our largest public sector customers, such as the Iowa Department of Public Health. The program was heralded as an innovative solution to pressing public health issues and was subsequently featured on the Colbert Report as well as media publications such as Time Out.

I AM PARTICULARLY PROUD OF HOW WE RESPONDED QUICKLY TO THE DEVELOPING CRISIS AND RE-TOOLED SEVERAL OF OUR LUBRICANT MANUFACTURING LINES TO PRODUCE HAND SANITIZERS.

With the pandemic affecting many of the routes to market in Europe, most significantly the National Health Service with clinic closures and redeployment of key personnel, Pasante Healthcare Limited leveraged on its online platforms to record encouraging sales growth during the year. Moreover, we strengthened our position as a medical product distributor and private label manufacturer with the addition of several key markets within the Europe region during the year.

In conjunction with our commitment to prioritising innovation within our Group, we completed the rebuilding of our dedicated research and development facility during the year. The new facility was outfitted with a full-fledged microbiological lab and particle analysis machinery to more closely scrutinise the quality of raw materials used in our production processes. These additional resources are also anticipated to assist with our efforts to develop new materials for the sexual health space.

CEO’s Management Discussion & Analysis

FINANCIAL REVIEW

For the financial year ended 30 June 2020 (“FY2020”), our Group recorded a revenue of RM395.1 million, representing a modest growth of 4.4% in comparison to the previous financial year. This result is encouraging as much of the second half of the financial year was characterised by disruptions to typical customer purchasing patterns and global supply chains.

During the initial stages of the COVID-19 pandemic, our Malaysian operations were fully suspended for a period of 10 days. We were subsequently allowed to resume operations in a limited capacity for the remainder of the Movement Control Order. In addition to the detrimental effect on our manufacturing output, this caused our Group to incur idle operations expenses that resulted in a reduction to the overall gross profit margin of 22.2% for the year.

Global logistic disruptions also resulted in an inability to deliver finished goods to certain customers during the second half of the financial year. This effect is registered by the build-up of inventories amounting to RM128.9 million at the end of FY2020, representing an increase of approximately 7.7% from the previous financial year.

In spite of the challenges posed in managing inventories during this period, improvements to credit controls and standardising payment terms lead to an improvement in the cash conversion cycle during the year. This helped us continue to preserve agility on our balance sheet with a sustainable cash balance of RM46.3 million and shareholders’ funds totaling RM480.1 million translating into a gearing ratio of 0.11x for the year.

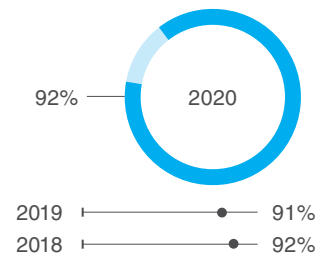
Capital expenditures for the year amounted to RM23.1 million as we incorporated greater degrees of automation into our production processes and invested in the expansion of the catheter and personal lubricant production capacity at our Thailand facility. This contributed to a total non-current asset base of RM348.2 million and a corresponding total asset base of RM621.8 million for the year.

Product Divisions

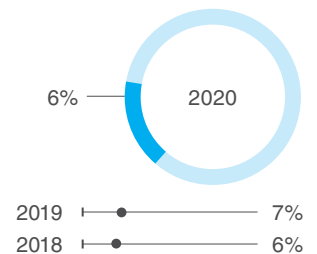
The Sexual Wellness division consisting mainly of sales of condoms and personal lubricants recorded an encouraging growth of approximately 5% compared to the previous year despite the complications presented above.

The Medical division consolidated its impressive performance from the previous year with our facilities running at full capacity for much of the year. Additional catheter production capacity was completed during the year that should galvanize the division looking ahead. The Medical division is expected to play a more integral role moving forward with the global emphasis on personal hygiene leading to an increase in demand for medical products worldwide.

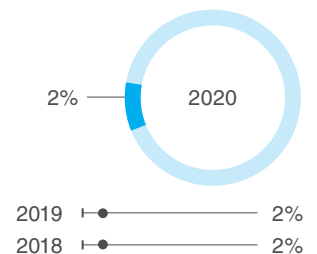
SEXUAL WELLNESS



MEDICAL

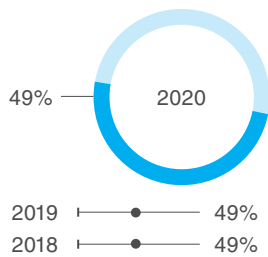


OTHERS

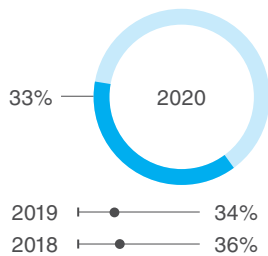


CEO’s Management Discussion & Analysis

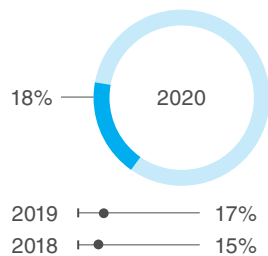
COMMERCIAL



TENDER



OBM



Market Segments

Sales to the Tender segment incurred another challenging year with many humanitarian aid programs turning their attention towards COVID-19 relief instead of sexual health issues. The immediate effect on stock levels and condom accessibility within key risk population areas prompted UNAIDS to issue a warning that the global response to reduce HIV, sexually transmitted infections (“STIs”) and unintended pregnancies over the past three decades stood to be wasted if condoms access was not prioritised during this period.

The Commercial segment continued to replace condoms typically supplied by governments and NGOs in the past. Sales from this segment constituted an ever-changing range of product varieties and packaging, testing our capabilities as a global manufacturer. During the year, we continued to develop our relationships with several rapidly growing brands, working alongside them to revamp their product offerings and optimise production schedules to suit their respective markets.

Our Own Branded Manufacturing (“OBM”) segment continued to build on previous year’s performance to post yet another all-time high revenue contribution during FY2020. ONE® Condoms continued to expand its footprint with a new launch in Thailand in addition to expanding it’s e-commerce presence. Moreover, the brand’s impressive performance across various direct-to-consumer sales channels underpinned the brand’s appeal to the younger generation that have turned to e-commerce during the pandemic.



Geographical Regions

Sales to the Africa and Asia regions, primarily from the Tender segment were impacted during the second half of the year as a consequence of global logistic disruptions. Many ports and distribution networks were unable to receive and process goods during this period leading to lower revenue recognition from these regions.

The Europe region recorded a sales increase of approximately 12% from the previous year triggered by a surge of demand for medical products from one of the worst affected regions by the pandemic. We continued to consolidate our position as a key sexual health distributor in the region with the addition of several new distribution channels during the year.

Record high sales to Americas region underlined our Group’s continued efforts to develop the OBM Segment. Sales to this region encompassed condom sales from all three market segments during the year. We remain optimistic that we will continue to strengthen our position in the region that is well-known for being extremely competitive in the past.

CEO's Management Discussion & Analysis

OUTLOOK

I echo the message shared by UNAIDS in urging the world to learn from our decades-long fight against HIV when formulating our responses to the COVID-19 pandemic. In an April 2020 brief, UNAIDS emphasised the need to ensure the continuity of condom supply, distribution, promotion by actively working with partners to sustain condom programming throughout the crisis. This has presented a unique challenge to both the sexual health and medical industry worldwide, with the consequences of further disruptions potentially leading to a shortage in supply and an increased incidence of HIV, STIs and unintended pregnancies especially for members of key populations who already face increased vulnerability in this crisis.

Although it is impossible to determine the precise course of the pandemic and its economic consequences, what we can takeaway is that condoms remain essential tools for family planning as well as preventing the spread of HIV and other STIs. The widespread disruption to supply chains and emphasis on social compliance has challenged manufacturers like never before and in the process caused consolidation in the industry.

It is more critical than ever that we leverage on our manufacturing experience, cost competitiveness and breadth of offerings as compelling competitive advantages to enable us to capture orders within the sexual wellness space that is poised for change.

On the branded side of the business, we have a strong set of brand initiatives in place to continue to excite and inspire our customers whilst maintaining our ambitious growth trajectory. Creating new ways of reaching our customers, such as through e-commerce platforms or social media, will remain critical over the next few months as lockdowns gradually ease and consumers slowly regain their confidence.

Though the threat to public health and economic recession is likely to persist for months to come, I am comforted by the fact that our Group continues to be driven by a culture of entrepreneurialism. I have witnessed first-hand the resourcefulness and creativity of our teams in recent months and I am convinced that this will ultimately distinguish us from our peers and enable us to seize opportunities during these uncertain times.

ACKNOWLEDGEMENTS

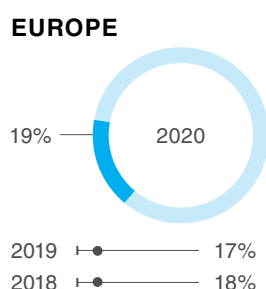
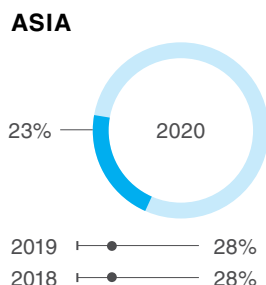
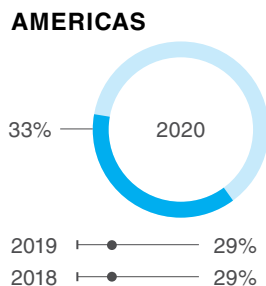
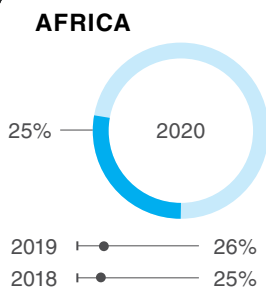
I would like to thank our teams worldwide for their dedication and resilience over the past year. It will take time to heal from this terrible pandemic but I believe now more than ever, our communities are looking to Karex to provide them a sense of inspiration during this period of hardship.

I am also grateful to the Board of Directors who have, as always, provided us invaluable guidance through these challenging times.

Having served on the Board of Directors at Karex since our listing in 2013, Law Ngee Song has decided not to seek for re-election during the upcoming AGM. I would like to express my sincere gratitude on behalf of our organisation for his invaluable insight and advice over the years. He has undoubtedly played an integral role in our growth and I wish him all the best with his future endeavours.

Finally, thank you - our shareholders, for your continued trust and support, and most especially for the privilege of leading our Group as we continue to execute bold strategies, develop innovative solutions and products, and above all, ensure that sexual health is within reach of everyone, everywhere.

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 2019 to 30 June 2020 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 the customers and communities we serve. We have attempted 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.

As a testament to our continued efforts to improve our sustainability initiatives, Karex Berhad was accredited as having met globally recognised standards and admitted as a constituent of the FTSE4Good Index in June 2020. Whilst appreciative of this accolade, we remain unwavering to our commitment to incorporate more responsible business practices to position our business for long-term growth that will be inclusive of all stakeholders.

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 Statement

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 shareholders 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	
1	CUSTOMERS Brand owners, governments, non-governmental organisations and retail purchasers around the world	<ul style="list-style-type: none"> • Campaigns • Customer service • Email and video conferencing 	<ul style="list-style-type: none"> • Customer surveys • Social networks • Online forums
2	INVESTORS AND MEDIA Institutional and retail investors, analysts, fund managers and potential investors	<ul style="list-style-type: none"> • Annual general meetings • Quarterly results briefings • Conferences and roadshows • Site visits • Interviews 	<ul style="list-style-type: none"> • One-to-one meetings and conference calls • Corporate website • Press releases
3	EMPLOYEES Our employees based in Malaysia, Thailand, USA and UK	<ul style="list-style-type: none"> • Online newsletters and emails • Employee surveys • Virtual meetings and conference calls • Email 	<ul style="list-style-type: none"> • Team building events • Annual performance appraisals • Townhalls
4	GOVERNMENT AGENCIES Regulators, health authorities and international medical device standard agencies	<ul style="list-style-type: none"> • Social and compliance audits • Industry and regulatory conferences • Meetings and briefings 	<ul style="list-style-type: none"> • Trade conventions • Charity events • Local council meetings
5	VENDORS AND SUPPLIERS Contractors that provide services and products pertaining to the entire manufacturing process chain	<ul style="list-style-type: none"> • Transactional dealings • Training conferences and workshops • Outreach programmes • Video conferencing 	<ul style="list-style-type: none"> • Annual dinners and company sponsored events • Supplier surveys • Email
6	COMMUNITY Local communities where we operate and conduct our businesses	<ul style="list-style-type: none"> • Charity functions • Sporting events • Dialogue and knowledge exchange events 	<ul style="list-style-type: none"> • Corporate Social Responsibility programmes

Sustainability Statement

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. 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 2020 ("FY2020"):

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, Medical and rubber products industries
- 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

ECONOMIC

- Procurement Practices
- Community

ENVIRONMENTAL

- Water
- Energy
- Supply Chain
- Materials

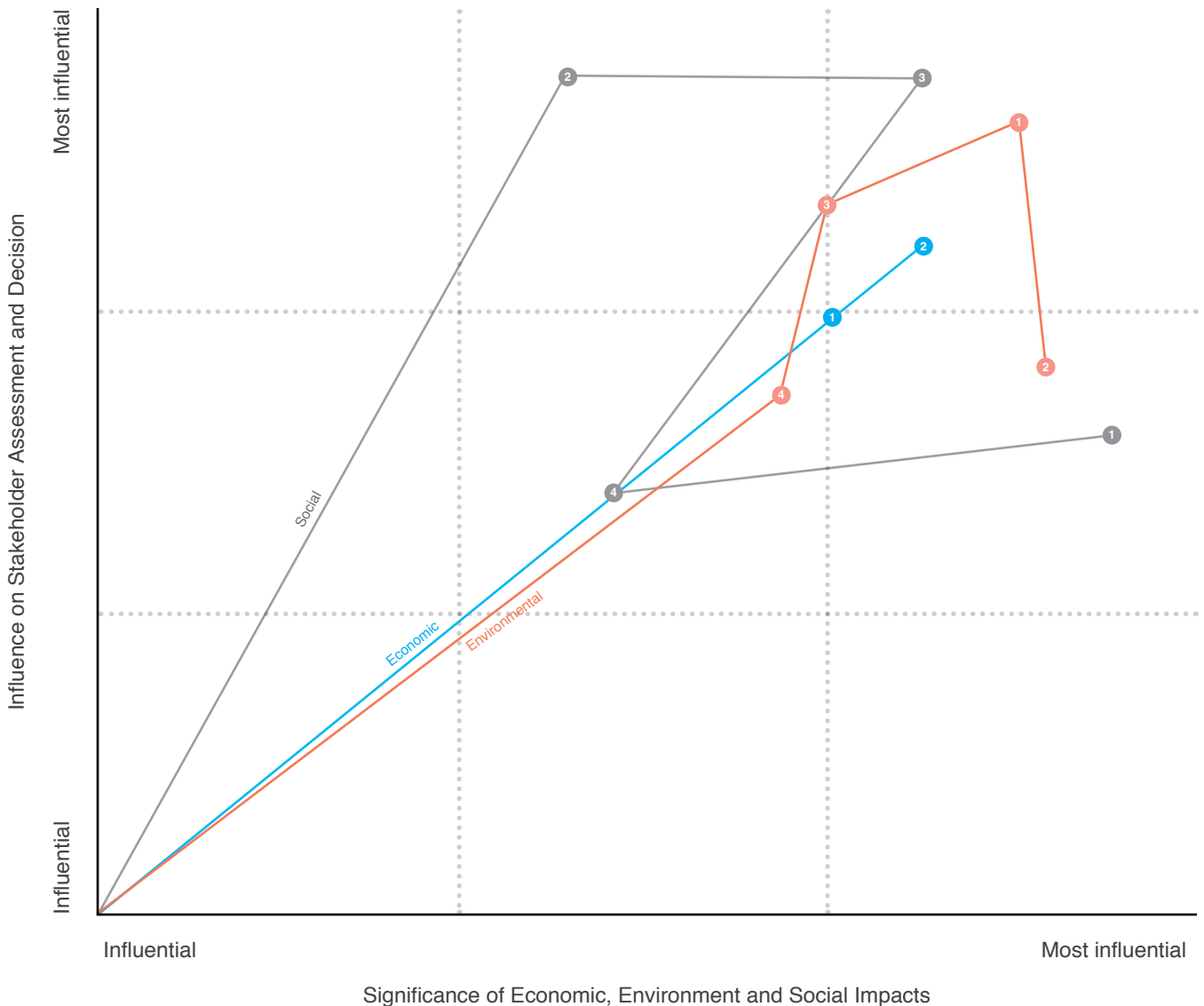
SOCIAL

- Diversity
- Health and Safety
- Labour Practices
- Product and Service Responsibility

Sustainability Statement

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.



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

Sustainability Statement

Mapping initiatives against top material issues

ECONOMIC

We aim to ensure that business decisions are made in a manner that will not compromise our values or mission as an organisation even if short-term benefits may be compelling. We have established a formal set of principles and practices that our Board and Management Team strictly adhere to in order to ensure that the interest of all stakeholders is safeguarded at all times.

1. Community

Governance Practices

A formal corporate governance structure has been established and communicated to all stakeholders in order to ensure that our business processes are run consistently, decisions are made transparently and any errors are able to be detected early so that they can be resolved. These policies are frequently being reviewed and revised in order to ensure that they remain relevant and effective.

All employees in our Group are guided by the principles in the Code of Conduct. These reflect practices concerning ethics and integrity and are communicated to all employees during the induction process. Frequent refresher courses are conducted by our human capital teams in order to ensure that all employees are made aware of their responsibilities and where they can reference them at all times.

We maintain a strict no-tolerance position regarding bribery and corruption. In order to encourage employees to report incidences of corruption along with any other breaches of the Code of Conduct, we have established an anonymous whistleblowing channel that is made known to all employees. This channel is handled by an independent party to ensure that all concerns are treated with seriousness and handled with care. We have during the past three years recorded no incidences of bribery or corruption via this channel.

Additional corporate governance policies are detailed in the Corporate Governance Overview Statement located on pages of 43 to 53 this Report and 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 accomplishment of those objectives.

Our risk management team made up of members from our Board and Senior Management Team then come up with strategies to guard against these risks in order to enable more informed decision making moving forward. We are also audited by an independent internal auditor, Moore Stephen Associates PLT to periodically evaluate our internal compliance and control systems. This ensures that strategic decisions are undertaken with careful deliberation so that the interests of all stakeholders are always being safeguarded.



Sustainability Statement

We have also established a formal Supplier Code of Conduct to ensure that suppliers, contractors and other businesses that we collaborate with are made aware of their own social, ethical and environmental responsibilities. These policies cover sourcing of materials, labour practices and safety protocols amongst others and are aimed at mutually helping all parties to ensure that risks are properly identified and mitigated.

Our risk management practices are detailed in the Statement of Risk Management and Internal Control located on pages of 58 to 61 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.

ENVIRONMENTAL

We aim to drive positive change through the entirety of our manufacturing processes as well as our marketing efforts. By improving our energy efficiency, waste management and emissions levels, we will become more efficient manufacturers. Supporting sustainable products and prudent resource management will not only help to conserve our environment but also facilitate long term partnerships.

1. Water

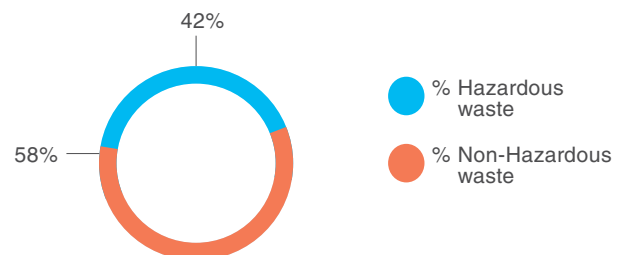
Water is one of the integral inputs in our manufacturing processes. Developing ways to use less water and recycle waste water will enable us to reap cost savings whilst conserving one of the world's most precious shared resources.

In addition to basic rain water harvesting systems throughout our facilities that yield water for basic functions such as cleaning the factory floors, we employ an industrial reverse osmosis system at our Pontian facility. In the FY2020, approximately 34% of the total water used in our Pontian facility was recovered and treated by the reverse osmosis system and subsequently reused in our production processes.

The treated waste water from manufacturing processes is collected and evaluated according to prescribed parameters before it can be discharged. All of our manufacturing facilities are operated in strict compliance with the relevant industrial effluent standards to ensure that the water that is discharged does not harm the surrounding environment and communities that depend on it.

The methods with which manufacturers handle waste management have also made a critical impact on the environment in recent years. Apart from waste water management initiatives detailed above, we have been very conscious about how we handle the remaining rubber waste that occurs as a consequence of our production processes. In addition to improving processes at our Benut scrapped rubber recycling center, we have collaborated with Heriot-Watt University to explore new methods of recycling and treating rubber waste.

Percentage of Hazardous Waste & Non Hazardous Waste Generated by all manufacturing plants in FY2020



We make sure to store hazardous waste generated from our manufacturing processes at specific locations designated at our facilities. This includes waste such as heavy metals, used solvents, spent lubricating oil, used chemicals containers and powder sludge containing contaminated plastic. Waste is properly segregated and controlled by specialist teams before it is disposed by licensed contractors.

DURING THE FY2020, WE RECYCLED A TOTAL OF 416 MT SCRAPPED RUBBER INTO CREPE RUBBER THAT WERE SOLD AND REUSED BY OTHER INDUSTRIES

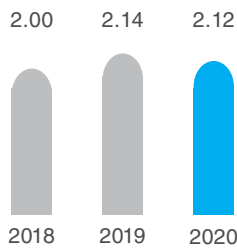
Non-hazardous waste comprising of recyclable plastics, metals and paper are either recycled or disposed of accordingly across all subsidiaries. Initiatives that we have implemented to reduce non-hazardous waste include a Document Management System to reduce the usage of paper across our Group as well as repurposing silicone oil tanks for material and product storage.

Sustainability Statement

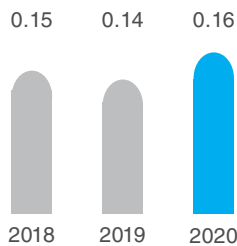
ENVIRONMENTAL

ELECTRICITY CONSUMPTION INTENSITY (KWH)

Condoms (per gross)



Catheters (per piece)

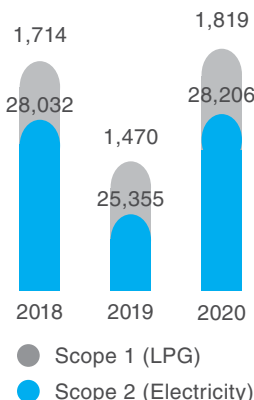


GROUPWIDE LPG CONSUMPTION (MJ)

29,173,918
2020



CONDOM MANUFACTURING PLANTS CO₂ - Equivalent Emissions, Metric Tonne

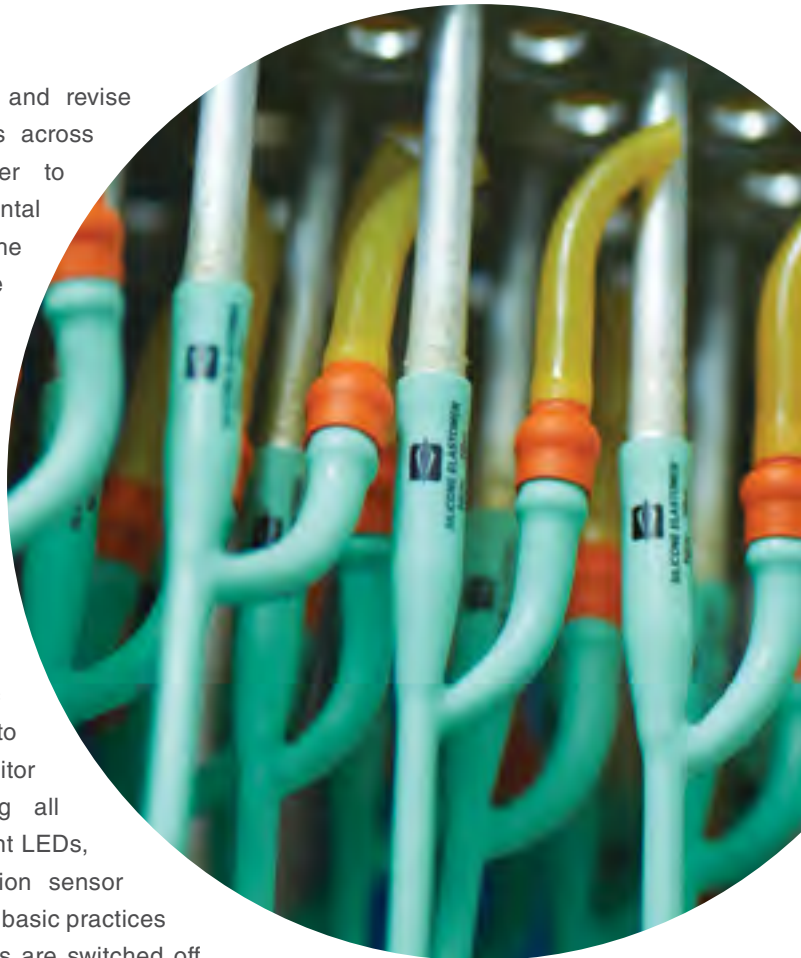


2. Energy

We continued to develop and revise energy management plans across all our facilities in order to minimise our environmental and social impact on the communities around us. We have during the year taken proactive steps to reduce electricity consumption, setting department specific plans across our manufacturing facilities and corporate offices.

These schemes involve a range of actions from installing sensors at specific production machinery to more accurately monitor consumption, to switching all light bulbs to energy efficient LEDs, to the installation of motion sensor lights. We also ensured that basic practices such as ensuring that lights are switched off in offices during break periods were adhered to. The collection of electricity data is intended to make staff more aware of our energy consumption on a year-to-year basis as well as to enable our planning teams to more accurately evaluate utility efficiencies.

We have continued to maintain the ISO 14001:2015 Environmental Management System certification across all of our manufacturing facilities, ensuring that each facility has in place an effective environmental management system. Our Thailand 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.



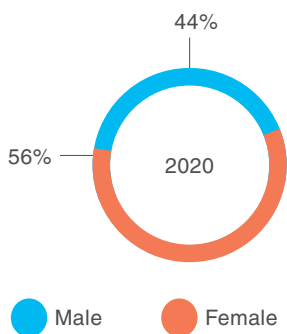
Our evaluation of our energy efficiencies also extended to considering our usage of liquified petroleum gas (“LPG”) during the year. We began tabulating our LPG usage with the same intention of evaluating the cost efficiencies that could be derived from minimising our usage of this resource over the next few years.

Sustainability Statement

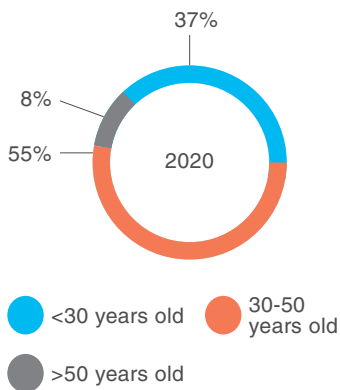
SOCIAL

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.

Employee Breakdown by Gender



Employee Breakdown by Age Group



1. DIVERSITY

Workplace

Our employees continue to remain our greatest assets and it is ultimately them who will determine if we are successful in achieving our ambitions. We continue to cultivate working environments and a culture that is inclusive, fair and above all, fosters mutual respect among employees. To fortify this resolve, we formally established a Diversity and Inclusion Policy during the year that can be accessed on our website.

We have continued to provide equal opportunities for staff regardless of their age, ethnicity, race, gender, sexual orientation or beliefs, but during the year, we also continued to implement initiatives aimed at dissipating stereotypes across our facilities. These include disabled toilets, removal of gender, religious and sexual preference data from recruitment criteria and the provision of free transportation for those employees living far away from our facilities that do not have access to public transport.

EMPLOYEES ATTENDED A TOTAL OF 14,255 TRAINING HOURS IN FY2020 WITH EACH EMPLOYEE AVERAGING APPROXIMATELY 5 HOURS OF TRAINING OVER THE COURSE OF THE YEAR

We believe in investing in our talent and frequently conduct training in related fields so that employees are able to broaden their skill bases and proficiencies from languages to technical knowledge. Some of the key training seminars attended by staff during the year included technical training with regards to medical devices regulations, quality assurance, safety in the workplace, supply chain management and waste management to name a few.

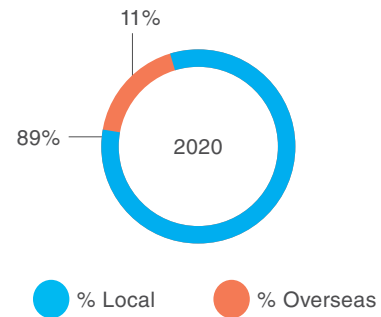
Sustainability Statement

We have also implemented several initiatives aimed at recognising the efforts and contributions of staff who have gone beyond their job scope to deliver extraordinary performances. These rewards include period spot awards, performance-based incentives, long service awards and the establishment of talent development programs as well as leadership training courses aimed at developing the next generation of management from within our Group. In order to continue to keep an open mind with regards to staff welfare, we have established suggestion boxes at our facilities to continue to consider new methods with which to improve our working environments.

During the year, we revamped communal spaces at our facilities in Malaysia and Thailand aimed at encouraging creative thinking and fostering more interaction amongst staff. The new space at our Klang facility was constructed from repurposed shipping containers. This creative and eco-conscious use of space has become a favourite co-working space amongst staff and even drew praise from several notable media publications.



Suppliers and Vendors for Manufacturing Facilities



Local Communities

In reviewing our business continuity processes and protocols during the year, we have made a concerted effort to work with suppliers and vendors from our local communities. We believe that constant interaction and the exchange of business ideas would foster mutually beneficial long-term business relationships. These include working with organisations such as the Ethical Trade Initiative to develop accountability for issues such as human rights and labour practices in order to ensure that proper risk management safeguards were implemented throughout the supply chain process. This would in-turn ensure that the communities in the vicinity of our businesses would not be excluded from the success of our business moving forward.

We continue to engage with the youth in our communities through various methods. Over the last 3 years, we have collaborated with the Malaysian Rubber Council and local universities to host over 50 graduates as interns in our facilities across our Malaysia and Thailand facilities to provide them with real-world working experiences within the rubber industry. Many of these graduates elected to join as full-time employees following the completion of their internships.

Sustainability Statement

SOCIAL



Corporate Social Responsibility Programs

Malaysian AIDS Foundation (“MAF”)

We continued working hand-in-hand with MAF as one of Malaysia’s leading non-profit organisation dedicated to the Support, Treatment & Care Programme for AIDS, Community Empowerment, HIV Education and Policy Works to protect the interest of People Living with HIV. Together with MAF, Karex’s efforts targeted potential parties needing support in marginalised communities – including single mothers and children, homeless, People Living with HIV (PLHIV) needing a second chance at life and other B40 communities.

Through our programs with MAF nationwide we have managed to provide education through roadshow and engagements throughout Malaysia on the importance of sexual wellness. By establishing as many engagements as possible with PLHIV and marginalised communities we are able to provide assistance aimed at improving quality of life.

Through these various activities and programs MAF and Karex have cultivated a pool of partnerships to facilitate the development of more support programs nationwide.

Malaysian Business Consortium on HIV/AIDS (“MBCH”)

MBCH is a coalition of business sectors collaborating to reduce the impact of stigma and discrimination of PLHIV in workplaces. HIV/AIDS has a negative impact on the overall economic growth and especially towards the profitability of small enterprises. Together with MBCH, Karex has piloted programs to inform employers and recruiters that this does not have to be the case.

Karex recognises although HIV/AIDS remains a serious public health problem, our revised employment policy on HIV/AIDS is aimed at creating a safe working environment without discrimination for all employees to achieve their potentials irrespective of health status. Whilst we have taken the necessary steps to prevent the transmission of HIV/AIDS, we still aim to provide affected employees a healthy and safe work environment at all operation levels.

MBCH is supported by the Department of Occupational Safety & Health (DOSH) of Ministry of Human Resources, Malaysia and Ministry of Health Malaysia in line with their National Strategic Plan for Ending AIDS 2016 - 2030.

“The initiative of MBCH at the Malaysian AIDS Foundation to have a regulation in place to protect the rights and manage HIV positive employees at the workplace in Malaysia should be given attention.” – Tun Dr. Mahathir Mohamad.

Sustainability Statement

The Body Shop

In order to combat the spreading of HIV/AIDS, Sexually Transmitted Infections (“STI”) and educate the general public in Malaysia on sexual wellness, ONE® Condoms created a special packaging and provided 12,000 packs of specially-packaged ONE® Condoms for the purpose of this partnership. The special packaging was made exclusively for Body Shop and is available in all outlets nationwide (except Sabah & Sarawak). Proceeds from sale are channeled into MAF’s general HIV presentation and treatment fund for various projects.

Datin Mina Cheah (Managing Director of Body Shop), Jasmin Jalil (Executive Director of MAF), Deborah Henry, Aaron Aziz, Fahrin Ahmad (all Red Ribbon Celebrities) with MK Goh (CEO of Karex) were present with media and invitees during the launch at SOGO, KL.

Community Healthcare Clinic (“CHCC”)

Working alongside the PT Foundation Community Health Care Clinic is a community healthcare clinic offering testing, treatment and counselling with sexual health concerns. Karex has constantly strived to break the barriers with testing and treatment of STI in Malaysia with a focus on improving the accessibility of HIV care for the most vulnerable and underserved populations in the Klang Valley. During the FY2020, Karex purchased a GeneXpert machine at a cost of RM107,500 for CHCC to enable their clinical services to improve their services offered and expand their testing methods. They are now able to provide same-day services for HIV positive clients and carry out confirmatory tests while quantifying a patients’ viral load within a span of a few hours of a positive screening test result. As such, clients at CHCC can expect an immediacy of care and treatment which is not possible in other clinics and hospitals in Malaysia today.

Pertubuhan Kebajikan dan Kesihatan Umum Malaysia (“PKKUM”)

Since PKKUM’s unfortunate fire in 2017, Karex relocated, refurbished and restored PKKUM’s operations to a new facility in a short span of time. Since the reopening of PKKUM’s facility, it has managed to run its drop-in clinic providing non-discriminatory support and day-time shelter for the homeless including mothers and children.

Other services include providing assistance to marginalised and underrepresented communities, organising health programs and activities with the aim of creating a more sexual health conscious community. They aim to provide assistance for those that require it in a manner that is non discriminating and non-judgmental. They have also utilised this platform to spread awareness on the need for self-care and promoted preventive approaches for HIV/AIDS, STI’s and other pertinent diseases.

To date Karex has donated a sum of more than RM200,000 for rental, amenities, refurbishment, renovations and the donation of condoms and personal lubricants.



Sustainability Statement

SOCIAL

Art Against AIDS (“AAA”)

Since its debut in 2015 – Art Against AIDS (fondly known as AAA) is an annual charity event hosted by Karex every December. In our efforts to combat the stigma of HIV/AIDS through education and awareness we have teamed up with prominent youth groups, NGO’s, corporations and universities including renowned gallery; Segaris Art Gallery in Publika, Kuala Lumpur to create a link between large corporations like Karex and various youth communities.

Raising close to RM1 million to date – AAA has gained nationwide attention by providing a platform for corporations and NGO’s, to interact with students and the art community. All funds raised during AAA are disseminated to identified bodies catering to those affected by HIV/AIDS and other pertinent sexual health issues. Encouragingly, AAA’s reputation as an event that promotes sexual health through the medium of art and design has spread to neighboring Singapore and Brunei lately as we have received requests from students to participate.

University Engagements

Karex takes pride in becoming the first condom company in Malaysia to begin establishing strong relationships with colleges throughout the nation. Our tertiary education partners today include the nation’s largest university – Universiti Teknologi MARA, Universiti Malaya, International Medical University, SAITO University College, Malaysian Institute of Art and many more. During the year, we conducted vigorous nationwide engagements with the universities that involved providing sexual health education workshops on sexual health. During workshops, students are informed of various scenarios of potentially risky sexual behavior as well as provided with education on sexual health. While education surrounding sexual wellness is still relatively taboo in Malaysian society especially, we have strived to construct a safe, yet engaging environment whereby participants do not incur any judgement and are encouraged to ask our speakers anything about the subject.



Kakak Kondom

In collaboration with MAF, Kakak Kondom is an animated character that was developed and inspired by university students providing educational content surrounding sexual wellness and health. Since her debut in February 2020, Kakak Kondom has engagement of 20,000 people on social media with the support of MAF’s platform and our tertiary partnerships.

Project Condom

ONE® Condoms helps student groups and non-profits in the USA host condom fashion shows through its Project CONDOM program. The goal of these events is to destigmatise conversations about sexual health. In FY2020, partnerships included Planned Parenthood, University of West Florida, and Clayton State University. During the COVID-19 pandemic, Global Protection Corporation donated thousands of condoms to health organisations in need, enabling them to in turn focus available funds for their sexual health programs and outreach.

Sustainability Statement

Global Protection Corporation also worked with advocates in the USA to educate people about the difference that proper condom fit makes to comfort, pleasure, and resultantly in helping increase condom use. This included providing free condom educational materials to over 300 organisations across the country, including donating more than 15,000 myONE® FitKit measuring tools and educational materials.

2.HEALTH AND SAFETY

Our Occupational Safety and Health Policy provides our employees with comfort that they are always able to operate within a safe and injury-free space. These guidelines extend not only to employees but also to visitors and contractors who conduct work at our facilities. Our safety programs cover a range of procedures including emergency response, first-aid, evacuation and fire-fighting.

As a result of the strict adherence to these policies, all our manufacturing plants in Malaysia comply to the Occupational Safety and Health Act 1994 (Act 514). Our Senai facility in particular is certified ISO18001 for its occupational health and safety management systems. These regulations require a safety committee to be established consisting of both employer and employee representatives, safety inspections to be carried out at fixed intervals and hazards to be identified and reviewed around the workplace. These help to ensure adequate health and safety programs are in place to reduce risk of injuries at all times.

In a continued bid to prioritise the health and comfort of our employees, in addition to being provided the appropriate protective gear, we have ensured that ammonia detection meters have been installed at our facilities to safeguard the quality of air. This is an example of an initiative that was introduced following suggestions from our employees who work in these areas.

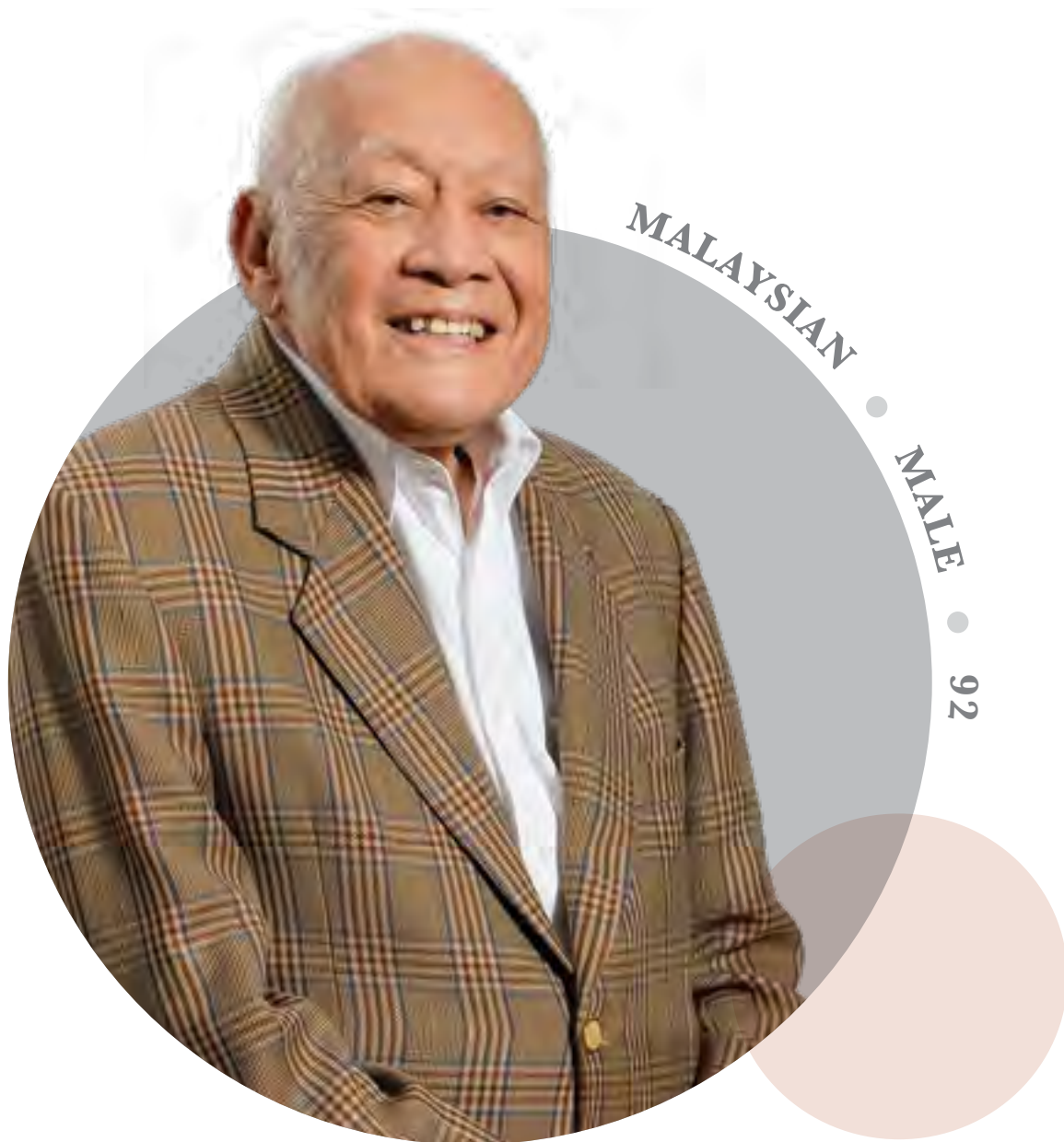
FOR THE FY2020, LOSS TIME INCIDENT FREQUENCY RATE WAS REGISTERED AT 0.15% ACROSS OUR CONDOM MANUFACTURING FACILITIES. THIS REFERS TO THE AMOUNT OF LOST TIME RESULTING FROM INJURIES OCCURRING IN THE WORKPLACE PER ONE MILLION MAN-HOURS WORKED.

Should accidents occur, we have always ensured that our staff are always afforded immediate access to medical attention and are adequately covered by health insurance and medical care in the event of emergencies. Health and safety notices are on all site notice boards in a multitude of languages so that employees are always made aware as to emergency protocols.

This Sustainability Statement is made in accordance with the resolution of the Board dated 9 October 2020.



Profile of Board of Directors



TUN DATO' SERI ARSHAD AYUB

*Chairman
Independent Non-Executive Director*

Profile of Board of Directors

Tun Dato' Seri Arshad Ayub 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.

Tun Dato' Seri Arshad Ayub 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.

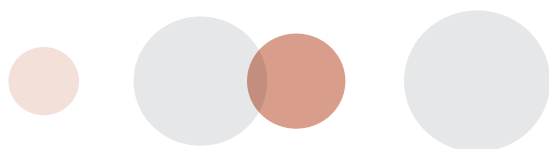
He has had a distinguished career in the Malaysian Civil Service, where he held various senior positions in various Ministries in the Malaysian Government from 1958 till 1983, including serving as Deputy Governor of Bank Negara Malaysia (1975-1977), Deputy Director General in the Economic Planning Unit 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.

Tun Dato' Seri Arshad Ayub is Pro Chancellor of Universiti Teknologi MARA, Chancellor of INTI International University and was formerly Chairman of the board of directors of University Malaya and Chancellor of KPJ Healthcare University College.

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 Berdaftar, Director of Lion Education Foundation, Patron of Arshad Ayub Foundation, Advisor of Yayasan Budiman and a member of Tun Razak Foundation, Pak Rashid Foundation, Lung Foundation of Malaysia and Advisor of Malaysian Malay Businessman And Industrialists Association.

Presently, Tun Dato' Seri Arshad Ayub 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 has attended all the Board Meetings held during the financial year ended 30 June 2020. 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 2020.



The particulars of his shareholdings are set out on page 147 of this Annual Report

Profile of Board of Directors



DATO' DR. ONG ENG LONG
@ ONG SIEW CHUAN

Senior Independent Non-Executive Director

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 of at the Rubber Research Institute of Malaysia ("RRIM") as a Senior Research Officer in 1973. He has held different 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 till Dec 2017 and the Chairman of ISO/TC 45 SC4 Rubber Products Other Than Hoses from 2005-till Dec 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 the Immediate Past President of the Malaysian Rubber Product Manufacturers' Association. He was the President of the Institute of Chemistry, Malaysia from March 2014 till March 2018.

He has attended all Board Meetings held during the financial year ended 30 June 2020. 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 2020.

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

The particulars of his shareholdings are set out on page 147 of this Annual Report

Profile of Board of Directors



**PROFESSOR DATO' DR. ADEEBA
BINTI KAMARULZAMAN**

Independent Non-Executive Director

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 in 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.

She has attended all Board Meetings held during the financial year ended 30 June 2020. 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 her by any relevant regulatory bodies, which were material and made public during the financial year ended 30 June 2020.

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

The particulars of her shareholdings are set out on page 147 of this Annual Report

Profile of Board of Directors

**WONG YIEN KIM***Independent Non-Executive Director*

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 2020. 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 2020.

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

The particulars of his shareholdings are set out on page 147 of this Annual Report

Profile of Board of Directors

**LAW NGEESONG***Independent Non-Executive Director*

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 2020. 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 2020.

The particulars of his shareholdings are set out on page 147 of this Annual Report

Profile of Board of Directors

**LAM JUAN JUAN***Non-Independent Non-Executive Director*

Lam Juan Juan 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 Juan Juan 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 Advisor.

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 2020. Goh Yen Yen and Goh Leng Kian are her siblings and Goh Miah Kiat is her nephew. 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 2020.

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

The particulars of her shareholdings are set out on page 147 of this Annual Report

Profile of Board of Directors

**GOH YEN YEN***Non-Independent Non-Executive Director*

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 2020. Goh Leng Kian and Lam Juan Juan are her siblings and Goh Miah Kiat is her nephew. 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 2020.

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

The particulars of her shareholdings are set out on page 147 of this Annual Report

Profile of Board of Directors

**GOH LENG KIAN**

Executive Director, Technical and R&D

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 2020. Goh Yen Yen and Lam Jiuan Jiuan are his siblings and Goh Miah Kiat is his nephew. 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 2020.

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

The particulars of his shareholdings are set out on page 147 of this Annual Report

Profile of Board of Directors

**GOH MIAH KIAT**

*Executive Director
Chief Executive Officer*

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. He was appointed to Board on 25 February 2020 as our Executive Director.

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:

- Global condom standard ISO4074
- MS ISO 16037:2010 in association with SIRIM, Malaysia
- ISCR/TC 8 - Non Systematic Contraceptives and STI Barrier Prophylactics

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 has attended all the Board meetings held during the financial year ended 30 June 2020. 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 2020.

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

The particulars of his shareholdings are set out on page 147 of this Annual Report

Profile of Key Senior Management



GOH CHOK SIANG

Chief Financial Officer

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 2020.

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

Profile of Key Senior Management

**LEONG WENG HONG***Chief Human Resources Officer*

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.

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 in China, USA, UK, Chile, Australia and Canada over the next 14 years. He returned to Malaysia under Talentcorp's, Returning Expert Programme.

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 2020.

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

Profile of Key Senior Management



WONG YOUR CAN

Chief Strategy Officer

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 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 2020.

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



CORPORATE GOVERNANCE OVERVIEW STATEMENT

Principle A
Board Leadership
And Effectiveness

Principle B
Effective Audit And
Risk Management

Principle C
Integrity In Corporate
Reporting And Meaningful
Relationship With
Stakeholders

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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 2020 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

28 October 2020. 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 2020, 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
- II. Board Composition
- III. Remuneration

B

EFFECTIVE AUDIT AND RISK MANAGEMENT

- I. Audit Committee
- II. Risk Management and Internal Control

C

INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

- I. Communication with Stakeholders
- II. Conduct of General Meetings

Corporate Governance Overview Statement

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 Tun Dato' Seri Arshad 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 Directors 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.

WHISTLEBLOWING POLICY

The Company has established a Whistleblowing 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 Tropicana Gardens Mall,
LG-21, Tropicana Gardens Mall,
Jalan 2A, Tropicana Indah,
47410 Petaling Jaya,
Selangor Darul Ehsan, Malaysia.

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

Corporate Governance Overview Statement

PRINCIPLE A BOARD LEADERSHIP AND EFFECTIVENESS

I. BOARD RESPONSIBILITIES

COMPANY SECRETARY

The Board is assisted by three (3) qualified and competent Company Secretaries. All Company Secretaries are members of Malaysian Institute of Chartered Secretaries and Administrators. The Company Secretaries advise the Board, particularly with regards to compliance with regulatory requirements, guidelines, legislations 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 Company's 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:

Director	Meeting Attendance
Tun Dato' Seri Arshad 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]	5/5
Wong Yien Kim [Independent Non-Executive Director]	5/5
Law Ngee Song [Independent Non-Executive Director]	5/5
Lam Jiuan Jiuan [Non-Independent Non-Executive Director]	5/5
Goh Yen Yen [Non-Independent Non-Executive Director]	5/5
Goh Leng Kian [Executive Director]	5/5
Goh Miah Kiat [Executive Director] (Appointed on 25 February 2020) [Chief Executive Officer]	1/1

Corporate Governance Overview Statement

I. BOARD RESPONSIBILITIES

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:

Director	Trainings Attended
Tun Dato' Seri Arshad Ayub [Chairman Independent Non-Executive Director]	<ul style="list-style-type: none"> Special Conference - Federalism in Malaysia Bursa Malaysia Thought Leadership Series Khazanah Mega Trends Forum
Dato' Dr. Ong Eng Long @ Ong Siew Chuan [Senior Independent Non-Executive Director]	<ul style="list-style-type: none"> IRRDB International Rubber Conference 2019 Corporate Liability Provision under Section 17A of the MACC Act 2009 – Option 3 Conference on Forced Labour - Issues and Mitigation Symposium on Scientific Development of Rubber, Areca and Coconut Industry of Hainan
Professor Dato' Dr. Adeeba binti Kamarulzaman [Independent Non-Executive Director]	<ul style="list-style-type: none"> Achieving 100:100:100 + Zero HIV Transmission is Warranted to #endAIDS Controversies in Infectious Disease The Asia Pacific and International Perspectives on Health Partnerships Leaders in Education - Innovation and Strategy for the Future of Higher Education Utopia Scientific Congress 2019 - Updates on Medical Ethics and Medical Law Australian Sexual Health and HIV and Aids Conference - Stigma and Discrimination: Overcoming Barriers to Healthcare in Our Region Asia Pacific Medical Education Conference - How to Nurture Values in a Fast Changing and Evolving Healthcare Landscape COVID-19: Serology for SARS-CoV2: Where Are We? Commonwealth Civil Society Policy Forum 2020 - Strengthening Health Systems with Digital Technologies in Midst of the COVID-19 Pandemic to Ensure Universal Health Coverage Virtual Programming with the U.S Embassy Kuala Lumpur: UM and Yale - The Race to COVID's End Prison Health and Drug Use Amidst COVID-19 in Malaysia
Wong Yien Kim [Independent Non-Executive Director]	<ul style="list-style-type: none"> Sustainability and Digitalisation – a New Normal Financial Markets Code of Conduct
Law Ngee Song [Independent Non-Executive Director]	<ul style="list-style-type: none"> COVID-19 Impact on Cross Border Transactions Corporate Liability Provision Under Section 17A of the MACC Act 2009
Lam Jiuan Jiuan [Non-Independent Non-Executive Director]	<ul style="list-style-type: none"> Women in Leadership Countering Bribery and Corruption Advanced Spear Phishing and General Data Protection BNP 2020 Investment Theme Webinar Whistleblowing with Confidence
Goh Yen Yen [Non-Independent Non-Executive Director]	<ul style="list-style-type: none"> How to be an Effective Non-Executive Director in a Disruptive World
Goh Leng Kian [Executive Director]	<ul style="list-style-type: none"> How to be an Effective Non-Executive Director in a Disruptive World
Goh Miah Kiat [Executive Director Chief Executive Officer]	<ul style="list-style-type: none"> Mandatory Accreditation Programme

Corporate Governance Overview Statement

PRINCIPLE A BOARD LEADERSHIP AND EFFECTIVENESS

II. BOARD COMPOSITION

The Board has nine (9) 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 two (2) Executive Directors, constituting majority independent directors. The present composition of the Board is in line with Practice 4.1 of the MCGG as more than half of its members are independent Directors.

Pursuant to the Constitution of the Company, an election of Directors shall take place each year at the Annual General Meeting of the Company, where one-third of the Directors for the time being, or nearest to one-third shall retire from office and be eligible for re-election.

Mr Law Ngee Song, an Independent Non-Executive Director, will retire by rotation in accordance with Clause 97 of the Constitution of the Company and had indicated he will not seek for re-election. Accordingly, he will retain in office until the close of the 8th Annual General Meeting.

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 MCGG 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 cumulative 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 33.33% 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, religious, sexual orientation and family status.

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

Corporate Governance Overview Statement

II. BOARD COMPOSITION

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

Member : Wong Yien Kim

Member : Lam Juan Juan

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.

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 two (2) meetings 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 individual 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 Audit Committee (“AC”) and each of its members; and
- Reviewed and assessed the performance of the Senior Management

Based on the NC’s assessment, 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.

Corporate Governance Overview Statement

PRINCIPLE A BOARD LEADERSHIP AND EFFECTIVENESS

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 : Tun Dato’ Seri Arshad Ayub

Member : Law Ngee Song

Member : Goh Yen Yen

The TOR sets out their 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 Management’s 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 respectively.

Subject to the shareholders’ approval at the forthcoming Annual General Meeting, the proposed Non-Executive Directors’ fee for the financial year ended 30 June 2020 is RM640,000 whilst their benefits, comprising of meeting allowances are proposed to be capped at RM61,000 for the period from 1 December 2020 to 30 November 2021.

Corporate Governance Overview Statement

III. REMUNERATION

Directors' Remuneration

The breakdown of the Directors' remuneration for the year ended 30 June 2020 are as follows:

Director	Group					Company		
	Fees ¹ RM	Salaries, Bonuses & Allowances ² RM	Benefits ³ RM	EPF RM	Total RM	Fees ¹ RM	Allowances RM	Total RM
Tun Dato' Seri Arshad Ayub	120,000	6,000	-	-	126,000	120,000	6,000	126,000
Dato' Dr. Ong Eng Long @ Ong Siew Chuan	90,000	6,500	-	-	96,500	90,000	6,500	96,500
Professor Dato' Dr. Adeeba binti Kamarulzaman	80,000	5,000	-	-	85,000	80,000	5,000	85,000
Wong Yien Kim	90,000	6,500	-	-	96,500	90,000	6,500	96,500
Law Ngee Song	90,000	6,500	-	-	96,500	90,000	6,500	96,500
Lam Jiuan Jiu	90,000	5,000	-	-	95,000	90,000	5,000	95,000
Goh Yen Yen	80,000	3,500	-	-	83,500	80,000	3,500	83,500
Goh Leng Kian	-	515,000	28,000	92,660	635,660	-	3,000	3,000
Goh Miah Kiat ⁴	-	246,000	9,333	46,550	301,883	-	500	500
	640,000	800,000	37,333	139,210	1,616,543	640,000	42,500	682,500

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 Appointed as Executive Director on 25 February 2020

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 55 to 56 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

: 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 58 to 61 of the Annual Report.

The Internal Audit Function is outsourced to Moore Stephens Associates PLT, a chartered accounting firm. The Internal Audit function is headed by an Executive Director, with the support of a manager to oversee the audit assignments and an average of two (2) executives to carry out the audit fieldworks. 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.

Corporate Governance Overview Statement

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 16 to 29 of this Annual Report.

II. CONDUCT OF GENERAL MEETINGS

It has always been the Company's practice to maintain good relationship 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 shareholders' participation. Shareholders have the opportunity to enquire and comment on the Company's performance and operations 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.

All the resolutions set out in the Notice of the Seventh AGM was 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.

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, participate, interact and vote on their behalf.

In view of the pandemic and movement control enforcement, the upcoming AGM for the year 2020 will be held virtually.

This Corporate Governance Overview Statement is made in accordance with a resolution of the Board dated 9 October 2020.

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 2020, unless otherwise stated:

1. Utilisation of Proceeds

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

2. Audit and Non-Audit Fees

For the financial year ended 30 June 2020, 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	
	2020	2019	2020	2019
Fees paid to external auditors and its affiliates	RM'000	RM'000	RM'000	RM'000
Audit fees	400	398	85	85
Non-audit fees	17	20	17	20

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 2020.

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 2020 are as follows:

	Name of Directors	Meeting Attendance
Chairman:	Wong Yien Kim [Independent Non-Executive Director]	5/5
Members:	Tun Dato’ Seri Arshad 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]	5/5
	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 30 to 39 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:

- 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 Group’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
- Reviewed the audited financial statements for the financial year ended 30 June 2019 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 judgement 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:

- 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 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 Group 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 Group:

- (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 Moore Stephens Associates PLT, a chartered accounting firm. The outsourced Internal Auditors report directly to AC and assist the Board via 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 corporate strategy, sales and marketing, and regulatory affairs;
- (iii) Assessed the effectiveness and control procedures of production operation, quality assurance, health, safety and environment of a major subsidiary; and
- (iv) Conducted follow-up audits in every quarter with Management to ensure implementations of the agreed audit recommendations.

The fee for Internal Audit function of the Group for the financial year ended 30 June 2020 was RM90,000.

This report is made in accordance with the resolution of the Board dated 9 October 2020.

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 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 2020, the Directors of the Company have:

- Adopted suitable accounting policies and applied them consistently;
- Made judgements 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 and 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 2020. 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 faced 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]
	Goh Miah Kiat [Executive Director 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.

Statement on Risk Management and Internal Control

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	<ul style="list-style-type: none"> The Group's IT system is constantly being revised and upgraded in order to ensure that potential risks are detected and remediated efficiently at all times. Secured company information and data is backed-up and safeguarded on offsite servers. IT personnel are constantly providing Group employees updates regarding the latest scams and malware to ensure that users are kept informed about potential threats and scams.
Labour Dependency	<ul style="list-style-type: none"> Increased implementation of automation in production processes to reduce the overall Group headcount that is expected to result in cost savings as well as improved quality consistency. The recruitment of foreign labour has been suspended until the Group can be assured that recruitment practices are handled ethically and according to United Nations ("UN") standards and requirements. An operational dashboard has been developed and implemented to optimise staffing and headcount throughout the Group's facilities.
Management Succession	<ul style="list-style-type: none"> Human resource recruitment is aimed at attracting and hiring new employees that will be able to contribute value and alternative perspectives to the Group. Talent development program is organised annually to motivate and equip employees with the skills to eventually ascend to key management positions.
Supply Chain	<ul style="list-style-type: none"> Suppliers of raw materials and manufacturing inputs are constantly reviewed in order to ensure the Group is able to derive competitive costing. The Group maintains a diversified range of suppliers and has formulated a contingency plan in order to minimise the effect of potential disruptions from supplier downtimes. Requirement for suppliers to confirm compliance with prevailing UN standards and requirements so that international customers are in turn not affected by undue allegations. Enrolled as a member of the Fair Rubber International to ensure that all rubber utilised within the Group is sourced ethically and responsibly.
Crisis Management	<ul style="list-style-type: none"> Individual operations and management teams were briefed about how to take more pro-active measures to identify and mitigate risks within their business units in order to more effectively anticipate potential events of crisis. A Crisis Management team was set up and structured to more adequately equip the Group to respond to catastrophic events.
Foreign Exchange Risk	<ul style="list-style-type: none"> Foreign currency exposure is mitigated through continuous monitoring and utilising of forward exchange contracts. The conversion of foreign currency or purchase of derivatives is selected on a merit basis after procuring competitive quotations from multiple banks.
Health and Safety Risk	<ul style="list-style-type: none"> Increased efforts in promoting safety awareness/culture at all levels through additional safety briefings, hazardous warnings and provision of the necessary personal protective gears. As a result of the pandemic, additional preventive measures were implemented as follow: <ul style="list-style-type: none"> Restriction of site visits from external parties to all plants and offices; Enforcement of travel restriction to discourage employees to travel overseas; Screening of employees prior to entering all premises; and Providing employees with hand sanitizers, masks etc.
Production Cost Optimisation	<ul style="list-style-type: none"> Implementation of Operational Dashboard to continuously monitor and optimise production and cost efficiency, and at the same time, to identify the best practices proven by results to be replicated in all plants.

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.

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 Directors 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 whistleblowing channel for reporting of 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.

Statement on Risk Management and Internal Control

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 the Malaysian Institute of Accountants for inclusion in the Annual Report of the Group for the year ended 30 June 2020, 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:

- 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
- 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.

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Directors' Report

for the year ended 30 June 2020

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 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company consists of investment holding. The principal activities of the subsidiaries are disclosed in Note 5 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 5 to the financial statements.

RESULTS

	Group RM'000	Company RM'000
Profit for the year attributable to:		
Owners of the Company	228	5,819
Non-controlling interests	3,260	-
	3,488	5,819

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 amount of dividends paid by the Company were as follows:

- i) In respect of the financial year ended 30 June 2019:
 - a final single-tier dividend of 1.0 sen per ordinary share totalling RM10,023,750 declared on 11 October 2019 and paid on 23 December 2019.
- ii) In respect of the financial year ended 30 June 2020:
 - a interim dividend of 0.5 sen per ordinary share totalling RM5,011,875 declared on 25 February 2020 and paid on 25 March 2020.

The Directors proposed a final single-tier dividend of 0.5 sen per ordinary share totalling RM5,011,875 in respect of the year ended 30 June 2020 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 2021.

Directors' Report

for the year ended 30 June 2020

DIRECTORS OF THE COMPANY

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

Tun Dato' Seri Arshad Ayub
 Dato' Dr. Ong Eng Long @ Ong Siew Chuan
 Professor Dato' Dr. Adeeba binti Kamarulzaman
 Mr. Wong Yien Kim
 Mr. Law Ngee Song
 Ms. Lam Juan Juan
 Ms. Goh Yen Yen
 Mr. Goh Leng Kian
 Mr. Goh Miah Kiat (appointed on 25 February 2020)

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' 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 at financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings and Members are as follows:

Name of Directors	Interest	Number of ordinary shares			
		At 1 July 2019	Bought	Sold	At 30 June 2020
Company					
Directors of the Company					
Tun Dato' Seri Arshad Ayub	Direct	14,870,000	230,000	-	15,100,000
	Deemed ⁽¹⁾	4,460,000	740,000	-	5,200,000
Dato' Dr. Ong Eng Long @ Ong Siew Chuan	Direct	710,000	150,000	-	860,000
Mr. Law Ngee Song	Direct	258,750	-	-	258,750
Ms. Lam Juan Juan	Direct	19,087,456	-	-	19,087,456
	Deemed ⁽²⁾	64,312,456	-	-	64,312,456
	Deemed ⁽³⁾	197,075,000	1,014,600	-	198,089,600
Ms. Goh Yen Yen	Direct	71,562,456	500,000	-	72,062,456
Mr. Goh Leng Kian	Direct	40,468,865	900,000	-	41,368,865
	Deemed ⁽⁴⁾	184,250,000	-	-	184,250,000
	Deemed ⁽²⁾	573,750	-	-	573,750
Mr. Goh Miah Kiat	Direct	31,061,097	16,089,000	-	47,150,097
	Deemed ⁽⁴⁾	184,250,000	-	-	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 held by his/her spouse pursuant to Section 59 (11)(c) of the Companies Act 2016.

⁽³⁾ Deemed interested by virtue of her equity interest in AJNA Holdings Limited, Maharani Limited and Karex One Limited pursuant to Section 8 of the Companies Act 2016.

⁽⁴⁾ Deemed interested by virtue of his equity interest in Karex One Limited pursuant to Section 8 of the Companies Act 2016.

Directors' Report

for the year ended 30 June 2020

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

By virtue of their substantial interests in the shares of the Company, Ms. Lam Juan Juan, Ms. Goh Yen Yen, Mr. Goh Leng Kian 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 2020 do not have any interest in the ordinary shares of the Company and of its related corporations during the financial year.

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 firm 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 28 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 RM26,000 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.

Directors' Report

for the year ended 30 June 2020

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
- 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 2020 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.

Directors' Report
for the year ended 30 June 2020

AUDITORS

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

The auditors' remuneration is disclosed in Note 20 to the financial statements.

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

Goh Leng Kian
Director

Goh Miah Kiat
Director

Date: 9 October 2020

Statements of Financial Position

As at 30 June 2020

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Assets					
Property, plant and equipment	3	218,872	220,735	-	-
Right-of-use assets	4	30,125	-	-	-
Investments in subsidiaries	5	-	-	283,675	283,675
Intangible assets	6	97,525	96,562	-	-
Deferred tax assets	7	1,725	1,914	-	-
Total non-current assets		348,247	319,211	283,675	283,675
Inventories	8	128,884	119,628	-	-
Trade and other receivables	9	95,377	82,285	59,122	56,894
Contract assets	10	316	500	-	-
Current tax assets		2,378	9,837	-	-
Cash and cash equivalents	11	46,341	63,635	10,763	23,224
		273,296	275,885	69,885	80,118
Assets classified as held for sale	12	281	-	-	-
Total current assets		273,577	275,885	69,885	80,118
Total assets		621,824	595,096	353,560	363,793
Equity					
Share capital	13	281,980	281,980	281,980	281,980
Reserves	13	198,169	209,052	70,316	79,533
Equity attributable to owners of the Company		480,149	491,032	352,296	361,513
Non-controlling interest		4,951	1,576	-	-
Total equity		485,100	492,608	352,296	361,513
Liabilities					
Loans and borrowings	14	4,946	9,056	-	828
Lease liabilities		17,579	-	-	-
Deferred tax liabilities	7	7,239	8,064	-	-
Total non-current liabilities		29,764	17,120	-	828
Loans and borrowings	14	26,696	24,612	857	1,157
Lease liabilities		3,296	-	-	-
Trade and other payables	15	76,305	60,339	323	184
Derivative financial liabilities	16	361	3	-	-
Current tax liabilities		302	414	84	111
Total current liabilities		106,960	85,368	1,264	1,452
Total liabilities		136,724	102,488	1,264	2,280
Total equity and liabilities		621,824	595,096	353,560	363,793

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

Statements of Profit or Loss

For the year ended 30 June 2020

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Revenue	17	395,067	378,484	5,000	6,500
Cost of sales		(307,364)	(289,296)	-	-
Gross profit		87,703	89,188	5,000	6,500
Other income		3,710	2,067	337	35
Distribution expenses		(34,301)	(36,590)	-	-
Administrative expenses		(49,866)	(49,315)	(1,751)	(1,438)
Other expenses		(81)	(1,140)	(23)	-
Results from operating activities		7,165	4,210	3,563	5,097
Finance income		517	1,018	2,657	3,730
Finance costs	18	(2,490)	(1,424)	(51)	(117)
Net finance (costs)/income		(1,973)	(406)	2,606	3,613
Profit before tax		5,192	3,804	6,169	8,710
Tax expense	19	(1,704)	(747)	(350)	(466)
Profit for the year	20	3,488	3,057	5,819	8,244
Profit attributable to:					
Owners of the Company		228	2,533	5,819	8,244
Non-controlling interest		3,260	524	-	-
Profit for the year		3,488	3,057	5,819	8,244
Basic and diluted earnings per ordinary share (sen)	21	0.02	0.25		

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 2020

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Profit for the year	3,488	3,057	5,819	8,244
Other comprehensive income, net of tax Items that are or may be reclassified subsequently to profit or loss				
Foreign currency translation differences for foreign operations	4,040	10,393	-	-
Total comprehensive income for the year	7,528	13,450	5,819	8,244
Total comprehensive income attributable to:				
Owners of the Company	4,153	12,904	5,819	8,244
Non-controlling interest	3,375	546	-	-
Total comprehensive income for the year	7,528	13,450	5,819	8,244

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

Karex Berhad (Registration No: 201201034091 (1018579-U))

Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

Group	Note	← Attributable to owners of the Company →					Total RM'000	Non- controlling interest RM'000	Total equity RM'000
		Share capital RM'000	Merger reserve RM'000	Translation reserve RM'000	Other reserve RM'000	Retained earnings RM'000			
At 1 July 2018		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
<i>Contributions by and distributions to owners of the Company</i>									
Dividends to owners of the Company/ Total transactions with owners of the Company	22	-	-	-	-	(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.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2020

Note	← Attributable to owners of the Company →						Total RM'000	Non- controlling interest RM'000	Total equity RM'000
	Share capital RM'000	Merger reserve RM'000	Translation reserve RM'000	Other reserve RM'000	Retained earnings RM'000	Non-distributable → Distributable			
Group									
At 1 July 2019	281,980	63,511	14,024	718	130,799	491,032	1,576	492,608	
Foreign currency translation differences for foreign operations/ Total other comprehensive income for the year	-	-	3,925	-	-	3,925	115	4,040	
Profit for the year	-	-	-	-	228	228	3,260	3,488	
Total comprehensive income for the year	-	-	3,925	-	228	4,153	3,375	7,528	
<i>Contributions by and distributions to owners of the Company</i>									
Dividends to owners of the Company/ Total transactions with owners of the Company	22	-	-	-	(15,036)	(15,036)	-	(15,036)	
At 30 June 2020	281,980	63,511	17,949	718	115,991	480,149	4,951	485,100	

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

Statement of Changes in Equity

For the year ended 30 June 2020

	Note	← Attributable to owners of the Company →			Total equity RM'000
		← Non-distributable →		Distributable	
		Share capital RM'000	Merger reserve RM'000	Retained earnings RM'000	
Company					
At 1 July 2018		281,980	63,511	12,790	358,281
Profit and total comprehensive income for the year		-	-	8,244	8,244
<i>Contributions by and distributions to owners of the Company</i>					
Dividends to owners of the Company/ Total transactions with owners of the Company	22	-	-	(5,012)	(5,012)
At 30 June 2019/1 July 2019		281,980	63,511	16,022	361,513
Profit and total comprehensive income for the year		-	-	5,819	5,819
<i>Contributions by and distributions to owners of the Company</i>					
Dividends to owners of the Company/ Total transactions with owners of the Company	22	-	-	(15,036)	(15,036)
At 30 June 2020		281,980	63,511	6,805	352,296

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

Statements of Cash Flows

For the year ended 30 June 2020

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Cash flows from operating activities					
Profit before tax		5,192	3,804	6,169	8,710
Adjustments for:					
Depreciation and amortisation:					
- Property, plant and equipment		16,699	15,530	-	-
- Right-of-use assets		3,924	-	-	-
- Intangible assets		202	123	-	-
Dividend income		-	-	(5,000)	(6,500)
Fair value loss on derivative instruments		361	3	-	-
Finance costs	18	2,490	1,424	51	117
Finance income		(517)	(1,018)	(2,657)	(3,730)
Impairment loss/(Reversal of impairment loss) on trade receivables		46	(88)	-	-
Inventories:					
- Allowance for/(Reversal of) slow moving		2,233	(5)	-	-
- Written off		106	104	-	-
- Written down to net realisable value		975	818	-	-
Property, plant and equipment:					
- Gain on disposal		(23)	(217)	-	-
- Written off		81	157	-	-
Operating profit/(loss) before changes in working capital		31,769	20,635	(1,437)	(1,403)
Change in inventories		(12,570)	1,755	-	-
Change in trade and other receivables		(13,765)	16,386	(2,228)	(4,879)
Change in contract assets		184	(500)	-	-
Change in trade and other payables		17,398	(2,130)	139	54
Cash generated from/(used in) operations		23,016	36,146	(3,526)	(6,228)
Tax refunded/(paid)		5,007	(3,871)	(377)	(465)
Net cash from/(used in) operating activities		28,023	32,275	(3,903)	(6,693)

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

Statements of Cash Flows

for the year ended 30 June 2020

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Cash flows from investing activities					
Acquisition of:					
- property, plant and equipment	23	(24,186)	(18,244)	-	-
- intangible assets	6	(26)	(802)	-	-
Increase in investment in subsidiaries		-	-	-	(3,810)
Proceeds from disposal of property, plant and equipment		1,182	2,035	-	-
Dividend received		-	-	5,000	6,500
Interest received		517	1,018	2,657	3,730
Net cash (used in)/from investing activities		(22,513)	(15,993)	7,657	6,420
Cash flows from financing activities					
Interest paid		(2,490)	(1,619)	(51)	(117)
Change in pledged deposits		68	(334)	-	-
Dividends paid to owners of the Company	22	(15,036)	(5,012)	(15,036)	(5,012)
Repayments of:					
- hire purchase liabilities		(377)	-	-	-
- finance lease liabilities		-	(677)	-	-
- lease liabilities		(3,033)	-	-	-
- term loans		(4,122)	(2,366)	(1,128)	(1,084)
- export financing		-	(1,372)	-	-
- revolving credits		(1,428)	(56)	-	-
- foreign currency trade loan		(352)	-	-	-
Drawdown of:					
- bankers' acceptances		2,144	6,555	-	-
- export financing		1,600	-	-	-
- foreign currency trade loan		-	352	-	-
- term loans		-	3,857	-	-
- trust receipt		330	61	-	-
Net cash used in financing activities		(22,696)	(611)	(16,215)	(6,213)
Effect of exchange rate fluctuations on cash held		(40)	238	-	-
Net (decrease)/increase in cash and cash equivalents		(17,226)	15,909	(12,461)	(6,486)
Cash and cash equivalents at 1 July		62,243	46,334	23,224	29,710
Cash and cash equivalents at 30 June	11	45,017	62,243	10,763	23,224

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

Statements of Cash Flows

for the year ended 30 June 2020

Cash outflows for leases as a lessee

		Group	
	Note	2020 RM'000	2019 RM'000
Included in net cash from operating activities			
Payment relating to short-term leases	20	2,118	-
Payment relating to leases of low-value assets	20	71	-
Included in net cash from financing activities			
Payment of lease liabilities		3,033	-
Interest paid in relation to lease liabilities	18	1,007	-
Total cash outflows for leases		6,229	-

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 finance lease liabilities (Note 23) RM'000	At 30 June 2019 RM'000	Adjustment on initial application of MFRS 16 RM'000	At 1 July 2019 RM'000	Net changes from Acquisition of new leases cash flows RM'000	Acquisition of new hire purchase liabilities (Note 23) RM'000	At 30 June 2020 RM'000
Group									
Trust receipt	414	61	-	475	-	475	330	-	805
Bankers' acceptances	6,975	6,555	-	13,530	-	13,530	2,144	-	15,674
Finance lease liabilities	1,171	(677)	313	807	(807)	-	-	-	-
Hire purchase liabilities	-	-	-	-	807	807	(377)	179	609
Term loans	14,261	1,491	-	15,752	-	15,752	(4,122)	-	11,630
Export financing	2,161	(1,372)	-	789	-	789	1,600	-	2,389
Revolving credits	2,019	(56)	-	1,963	-	1,963	(1,428)	-	535
Foreign currency trade loan	-	352	-	352	-	352	(352)	-	-
Lease liabilities	-	-	-	-	23,400	23,400	(3,033)	508	20,875
Total liabilities from financing activities	27,001	6,354	313	33,668	23,400	57,068	(5,238)	508	52,517

	At 1 July 2018 RM'000	Net changes from financing cash flows RM'000	At 30 June 2019/ 2019 RM'000	Net changes from financing cash flows RM'000	At 30 June 2020 RM'000
Company					
Term loans/					
Total liabilities from financing activities	3,069	(1,084)	1,985	(1,128)	857

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 is 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 financial year ended 30 June 2020 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 2020 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 5.

These financial statements were authorised for issue by the Board of Directors on 9 October 2020.

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 of the MFRSs 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 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*
- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

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

- Amendment to MFRS 16, *Leases – Covid-19-Related Rent Concessions*

Notes to the Financial Statements

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2022

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 3, *Business Combinations – Reference to the Conceptual Framework*
- Amendments to MFRS 9, *Financial Instruments (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to Illustrative Examples accompanying MFRS 16, *Leases (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 116, *Property, Plant and Equipment – Proceeds before Intended Use*
- Amendments to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*
- Amendments to MFRS 141, *Agriculture (Annual Improvements to MFRS Standards 2018–2020)*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2023

- MFRS 17, *Insurance Contracts*
- Amendments to MFRS 101, *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*

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 accounting standards, interpretations and amendments in the respective financial year when the above accounting standards, interpretations and amendments become effective, if applicable.

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 the Company upon their first adoption.

(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.

Notes to the Financial Statements

1. BASIS OF PREPARATION (CONTINUED)**(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 4 - extension options and incremental borrowing rate in relation to leases
- Note 6 - intangible assets
- Note 8 - measurement of allowance for slow-moving inventories
- Note 25.4 - measurement of expected credit loss ("ECL")

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 16, *Leases*, there are changes to the accounting policies applied to lease contracts entered into by the Group entities as compared to those applied in the previous financial statements. The impacts arising from the changes are disclosed in Note 29.

(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.

(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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(ii) Business combinations (continued)

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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(a) Basis of consolidation (continued)****(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.

(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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency (continued)

(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

(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.

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.

(ii) Financial instrument categories and subsequent measurement

Financial assets

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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(c) Financial instruments (continued)****(ii) Financial instrument categories and subsequent measurement (continued)*****Financial assets (continued)***

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(k)(i)) where the effective interest rate is applied to the amortised cost.

(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(k)(i)).

Financial liabilities

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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

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

Financial liabilities (continued)(a) *Fair value through profit or loss (continued)*

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.

(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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(c) Financial instruments (continued)****(iii) Regular way purchase or sale of financial assets (continued)**

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.

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.

(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.

(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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

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.

In prior financial year, renovation was depreciated on a straight-line basis over the estimated useful lives of 5 years.

During the year, the estimated useful lives of the renovation have been revised to 10 years.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(e) Leases**

The Group has applied MFRS 16 using the modified retrospective approach with no cumulative effect recognised in the retained earnings at 1 July 2019. Accordingly, the comparative information presented for 30 June 2019 has not been restated - i.e. it is presented, as previously reported under MFRS 117, *Leases* and related interpretations.

Current financial year**(i) Definition of a lease**

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

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

As a lessee**(i) Recognition and initial measurement**

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the respective Group entities' incremental borrowing rate. Generally, the Group entities use their incremental borrowing rate as the discount rate.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leases (continued)

Current financial year (continued)

As a lessee (continued)

(i) Recognition and initial measurement (continued)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments less any incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Group is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The Group excludes variable lease payments that linked to future performance or usage of the underlying asset from the lease liability. Instead, these payments are recognised in profit or loss in the period in which the performance or use occurs.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) Subsequent measurement

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a revision of in-substance fixed lease payments, or if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(e) Leases (continued)****Previous financial year****As a lessee****(i) Finance lease**

Leases in terms of which the Group or the Company assumed substantially all the risks and rewards of ownership were classified as finance leases. Upon initial recognition, the leased asset was 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 was accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases were apportioned between the finance expense and the reduction of the outstanding liability. The finance expense was 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 were accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment was confirmed.

Leasehold land which in substance was a finance lease was 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 did not assume substantially all the risks and rewards of ownership were classified as operating leases and, except for property interest held under operating lease, the leased assets were not recognised on the statement of financial position. Property interest held under an operating lease, which was held to earn rental income or for capital appreciation or both, was classified as investment property and measured using fair value model.

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Intangible assets

(i) Goodwill

Goodwill arising 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.

(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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(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) Non-current asset held for sale or distribution to owners

Non-current assets that are expected to be recovered primarily through sale or distribution to owners rather than through continuing use, are classified as held for sale or distribution.

Immediately before classification as held for sale or distribution, the assets are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less costs of disposal.

Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

(i) 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(k)(i)).

(j) 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)

(k) Impairment

(i) Financial assets

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 simplified approach.

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.

(ii) Other assets

The carrying amounts of other assets (except for inventories, contract assets, deferred tax assets, assets arising from employee benefits and non-current assets classified as held for sale) 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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(k) Impairment (continued)****(ii) Other assets (continued)**

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.

(l) 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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) 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.

(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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(o) Revenue and other income****(i) Revenue**

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.

(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.

(iv) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same period in which the expenses are recognised.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) 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.

(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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(q) 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.

(r) 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.

(s) 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 2018	95,392	153,489	21,921	27,328	8,044	25,063	331,237
Additions (see Note 23)	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, as previously reported	103,753	173,908	24,313	31,707	5,487	18,972	358,140
Adjustment on initial application of MFRS 16	(9,965)	-	-	-	-	-	(9,965)
At 1 July 2019, as restated	93,788	173,908	24,313	31,707	5,487	18,972	348,175
Additions (see Note 23)	1,138	7,824	1,778	1,693	336	10,314	23,083
Disposals	(13)	(900)	(5)	(214)	(51)	(169)	(1,352)
Written off	-	(119)	(5)	-	-	-	(124)
Transfers	105	9,388	162	2,413	-	(12,068)	-
Translation differences	1,119	2,026	152	558	37	154	4,046
At 30 June 2020	96,137	192,127	26,395	36,157	5,809	17,203	373,828
Accumulated depreciation							
At 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, as previously reported	15,232	89,984	14,798	13,799	3,592	-	137,405
Adjustment on initial application of MFRS 16	(388)	-	-	-	-	-	(388)
At 1 July 2019, as restated	14,844	89,984	14,798	13,799	3,592	-	137,017
Depreciation charge	2,132	9,618	2,480	1,940	529	-	16,699
Disposals	(1)	(113)	(5)	(28)	(46)	-	(193)
Written off	-	(41)	(2)	-	-	-	(43)
Translation differences	215	1,910	102	(782)	31	-	1,476
At 30 June 2020	17,190	101,358	17,373	14,929	4,106	-	154,956
Carrying amounts							
At 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
At 30 June 2020	78,947	90,769	9,022	21,228	1,703	17,203	218,872

Notes to the Financial Statements

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**Land and buildings**

Included in the carrying amounts of land and buildings are:

	Group	
	2020 RM'000	2019 RM'000
Land	19,899	28,350
Buildings	59,048	60,171
	78,947	88,521

3.1 Security

The land and buildings and plant and machinery of the Group with a carrying amount of RM48,884,000 (2019: RM51,448,000) are charged to licensed banks as security for banking facilities granted as disclosed in Note 14.

3.2 Leased motor vehicles

The carrying amount of motor vehicles of the Group acquired under hire purchase agreements is RM935,000 (2019: RM954,000).

3.3 Change in estimates

During the financial year ended 30 June 2020, the Group conducted a review on its depreciation policy for property, plant and equipment, which management has revised the estimated useful life of renovation from 5 years to 10 years to reflect the actual useful life. The effect of these changes on depreciation expense, recognised in cost of sales and administrative expenses, in current and future periods is as follows:

	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000	2024 RM'000	Later RM'000
(Decrease)/Increase in depreciation expense	(326)	(262)	(127)	3	161	551

Construction-in-progress

Construction-in-progress consists of assets relating to condom production facilities and other machineries which are in process of being built and assembled and are not ready for intended use.

Others

In prior year, included in buildings of the Group was finance cost capitalised of RM195,000 at 4.18% per annum.

Notes to the Financial Statements

4. RIGHT-OF-USE ASSETS

	Land RM'000	Buildings RM'000	Plant and equipment RM'000	Total RM'000
Group				
At 1 July 2019	16,497	17,055	137	33,689
Addition	-	514	-	514
Depreciation	(463)	(3,411)	(50)	(3,924)
Transfer to assets held for sale	(281)	-	-	(281)
Translation differences	202	(75)	-	127
At 30 June 2020	15,955	14,083	87	30,125

The Group leases a number of land, hostels, factory buildings and equipment that run between 1 year and 99 years, with an option to renew the lease after that date.

4.1 Extension options

Some leases of buildings contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where applicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

	Potential future Lease liabilities recognised (discounted) RM'000	Potential future lease payments not included in lease liabilities (discounted) RM'000	Historical rate of exercise of extension options %
Group			
Buildings	5,210	13,427	90

4.2 Significant judgements and assumptions in relation to lease

The Group assesses at lease commencement by applying significant judgement whether it is reasonably certain to exercise the extension options. Group entities consider all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

The Group also applied judgement and assumptions in determining the incremental borrowing rate of the respective leases. Group entities first determine the closest available borrowing rates before using significant judgement to determine the adjustments required to reflect the term, security, value or economic environment of the respective leases.

Notes to the Financial Statements

5. INVESTMENTS IN SUBSIDIARIES

	Company	
	2020 RM'000	2019 RM'000
Cost of investment	283,675	279,865
Amounts due from subsidiaries	-	3,810
	283,675	283,675

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.

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	
			2020 %	2019 %
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.	Manufacturing and sale of hand sanitizers, trading products and others	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

Notes to the Financial Statements

5. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of entity	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest	
			2020 %	2019 %
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

* Not audited by KPMG PLT

5.1 Non-controlling interests in subsidiaries

The Group's subsidiaries that have material non-controlling interests ("NCI") are as follows:

	Global Protection Corporation	
	2020	2019
NCI percentage of ownership interest and voting interest	30%	30%
	RM'000	RM'000
Carrying amount of NCI	4,951	1,576
Profit allocated to NCI	3,260	524
Total comprehensive income allocated to NCI	3,375	546
Summarised financial information before intra-group elimination		
As at 30 June		
Non-current assets	2,541	3,141
Current assets	37,517	27,166
Non-current liabilities	(3,240)	-
Current liabilities	(20,314)	(25,054)
Net assets	16,504	5,253
Year ended 30 June		
Revenue	86,445	65,569
Profit for the year	10,867	1,747
Total comprehensive income	11,250	1,820
Cash flows from operating activities	5,640	293
Cash flows used in investing activities	(48)	(402)
Cash flows used in financing activities	(1,499)	(103)
Net increase/(decrease) in cash and cash equivalents	4,093	(212)

Notes to the Financial Statements

6. 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 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 2019/1 July 2019	27,230	61,389	2,640	5,947	97,206
Addition	-	-	26	-	26
Effect of movements in exchange rates	-	984	181	-	1,165
At 30 June 2020	27,230	62,373	2,847	5,947	98,397
Accumulated amortisation					
At 1 July 2018	-	-	510	-	510
Amortisation charge	-	-	123	-	123
Effect of movements in exchange rates	-	-	11	-	11
At 30 June 2019/1 July 2019	-	-	644	-	644
Amortisation charge	-	-	202	-	202
Effect of movements in exchange rates	-	-	26	-	26
At 30 June 2020	-	-	872	-	872
Carrying amounts					
At 1 July 2018	27,230	60,755	1,289	5,947	95,221
At 30 June 2019/1 July 2019	27,230	61,389	1,996	5,947	96,562
At 30 June 2020	27,230	62,373	1,975	5,947	97,525

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

6. 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	
	2020 RM’000	2019 RM’000	2020 RM’000	2019 RM’000	2020 RM’000	2019 RM’000
Pasante Healthcare Limited (“Pasante”)	27,230	27,230	-	-	-	-
“ONE” brand manufacturing and distribution	-	-	27,425	26,471	-	-
“Trustex” brand manufacturing and distribution	-	-	34,100	34,100	-	-
“NüVo” brand manufacturing and distribution	-	-	848	818	-	-
Other intangible assets related to fitted condom	-	-	-	-	5,589	5,589
Other intangible assets related to former production	-	-	-	-	358	358
	27,230	27,230	62,373	61,389	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:

- Cash flows were projected based on 10-year plan and an estimated terminal value.
- Revenue were projected based on growth rate of 4.00% - 10.00% on historical sales performance.
- Profit margins were based on the historical performance of the distribution units and remain constant throughout the projected period.
- A pre-tax discount rate of 11.8% 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.

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:

- Cash flows were projected based on 10-year plan and an estimated terminal value.
- Revenue were projected based on adult population that uses condom of the target territories.
- Profit margins were based on the historical performance of the manufacturing and distribution units and remain constant throughout the projected period.
- Pre-tax discount rates of 12.3% to 12.7% 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.

Notes to the Financial Statements

6. INTANGIBLE ASSETS (CONTINUED)

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 12.6% 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	
	2020	2019	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Pasante	5,992	4,419	2,660	5,376	5,339	3,124
"ONE" brand manufacturing and distribution	2,025	1,008	6,008	7,726	13,479	14,151
"Trustex" brand manufacturing and distribution	2,526	3,462	1,129	1,182	5,378	5,717
"NüVo" brand manufacturing and distribution	153	225	117	117	283	302
Other intangible assets related to fitted condom	1,185	1,122	329	360	883	1,078

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.

The comparative figures for 1 percentage point change in revenue growth have been restated to conform with current year's presentation. Basis of calculation has been revised to a compounding year over year basis instead of straight-line basis.

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

7. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Group						
Property, plant and equipment	-	189	(11,336)	(10,934)	(11,336)	(10,745)
Unutilised business losses	3,093	1,637	-	-	3,093	1,637
Unutilised capital allowances	3,059	1,572	-	-	3,059	1,572
Inventories	1,361	689	-	-	1,361	689
Trade receivables	985	616	-	-	985	616
Assets and liabilities not currently deductible/taxable for tax purposes	5,378	-	(8,588)	-	(3,210)	-
Others	558	114	(24)	(33)	534	81
Tax assets/(liabilities)	14,434	4,817	(19,948)	(10,967)	(5,514)	(6,150)
Set off of tax	(12,709)	(2,903)	12,709	2,903	-	-
Net tax assets/(liabilities)	1,725	1,914	(7,239)	(8,064)	(5,514)	(6,150)

Movement in temporary differences during the year

	Recognised in		At 30 June 2020 RM'000
	At 1 July 2019 RM'000	profit or loss (Note 19) RM'000	
Group			
Property, plant and equipment	(10,745)	(591)	(11,336)
Unutilised business losses	1,637	1,456	3,093
Unutilised capital allowance	1,572	1,487	3,059
Inventories	689	672	1,361
Trade receivables	616	369	985
Assets and liabilities not currently deductible/taxable for tax purpose	-	(3,210)	(3,210)
Others	81	453	534
	(6,150)	636	(5,514)

Notes to the Financial Statements

7. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

Movement in temporary differences during the year (continued)

	At 1 July 2018 RM'000	Recognised in profit or loss (Note 19) 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)

The unutilised business losses are available for offsetting against future taxable profits of the respective entities within the Group, subject to guidelines issued by the respective tax authority as follows:

	Group	
	2020 RM'000	2019 RM'000
Within 5 years of recognition	988	1,637
Within 7 years of recognition	2,028	-
Within 20 years of recognition	77	-
	3,093	1,637

Unutilised capital allowances do not expire under respective tax authority.

8. INVENTORIES

	Group	
	2020 RM'000	2019 RM'000
Raw materials	39,623	30,685
Work-in-progress	33,664	33,017
Finished goods	53,543	54,435
Chemicals and factory supplies	2,054	1,491
	128,884	119,628
Carrying amount:		
- At cost	122,698	116,309
- At net realisable value	6,186	3,319
	128,884	119,628
Recognised in profit or loss:		
- Inventories recognised as cost of sales	304,050	288,379
- Allowance for/(Reversal of) slow-moving	2,233	(5)
- Written off	106	104
- Written down to net realisable value	975	818

Notes to the Financial Statements

9. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Trade				
Trade receivables	83,214	68,208	-	-
Non-trade				
Other receivables	3,897	5,076	-	3
Deposits	936	1,979	-	-
Prepayments	7,330	7,022	-	-
Due from subsidiaries	-	-	59,122	56,891
	12,163	14,077	59,122	56,894
	95,377	82,285	59,122	56,894

The amounts due from subsidiaries are unsecured, subject to interest at 5% (2019: 5%) per annum and repayable upon demand.

Included in prepayments is advance payment made to suppliers amounting to RM1,638,000 (2019: RM379,000).

10. CONTRACT ASSETS

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

11. CASH AND CASH EQUIVALENTS

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Cash and bank balances	40,253	41,434	5,999	2,415
Short-term deposits	6,088	22,201	4,764	20,809
Cash and cash equivalents in the statements of financial position	46,341	63,635	10,763	23,224
Less: Pledged deposits	(1,324)	(1,392)	-	-
Cash and cash equivalents in the statements of cash flows	45,017	62,243	10,763	23,224

Included in short-term deposits of the Group are RM1,324,000 (2019: RM1,392,000) pledged to bank as security for bank guarantee granted to the Group.

12. ASSETS CLASSIFIED AS HELD FOR SALE

The assets classified as held for sale consist of a piece of land with a carrying amount of RM281,000. The Group entered into an agreement to dispose the property for a consideration of RM617,000 on 23 January 2020. The disposal has yet to be completed as at year end.

Notes to the Financial Statements

13. CAPITAL AND RESERVES

Share capital

	Group/Company		Group/Company Number of ordinary shares	
	2020	2019	2020	2019
	RM'000	RM'000	'000	'000
Issued and fully paid shares with no par value classified as equity instruments:				
Ordinary shares	281,980	281,980	1,002,375	1,002,375

Reserves

	Group		Company	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Distributable				
Retained earnings	115,991	130,799	6,805	16,022
Non-distributable				
Merger reserve	63,511	63,511	63,511	63,511
Translation reserve	17,949	14,024	-	-
Other reserve	718	718	-	-
	198,169	209,052	70,316	79,533

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

14. LOANS AND BORROWINGS

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Non-current				
Secured				
Term loans	4,540	8,525	-	828
Finance lease liabilities	-	531	-	-
Hire purchase liabilities	406	-	-	-
	4,946	9,056	-	828
Current				
Secured				
Term loans	7,090	7,227	857	1,157
Bankers' acceptances	15,674	13,530	-	-
Finance lease liabilities	-	276	-	-
Hire purchase liabilities	203	-	-	-
	22,967	21,033	857	1,157
Unsecured				
Trust receipt	805	475	-	-
Export financing	2,389	789	-	-
Revolving credit	535	1,963	-	-
Foreign currency trade loan	-	352	-	-
	3,729	3,579	-	-
	26,696	24,612	857	1,157
	31,642	33,668	857	1,985

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.

Notes to the Financial Statements

14. LOANS AND BORROWINGS (CONTINUED)

Finance lease liabilities

Finance lease liabilities (secured) are payable as follows:

	← 2019 →		
	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
Between one and five years	565	34	531
	871	64	807

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Trade				
Trade payables	48,948	35,864	-	-
Non-trade				
Other payables and accrued expenses	27,357	24,475	323	184
	76,305	60,339	323	184

Included in other payables and accrued expenses of the Group are RM8,377,000 (2019: RM6,231,000) in respect of advances received from customers.

16. DERIVATIVE FINANCIAL LIABILITIES

	2020		2019	
	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	93,072	361	92,705	3

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.

Notes to the Financial Statements

17. REVENUE

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Revenue from contracts with customers	395,067	378,484	-	-
Other revenue				
- Dividend income	-	-	5,000	6,500
Total revenue	395,067	378,484	5,000	6,500

17.1 Disaggregation of revenue

	Reportable segments							
	Sexual wellness		Medical		Others		Total	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Group								
Primary geographical markets								
Asia	78,484	90,669	13,618	13,981	-	-	92,102	104,650
Africa	99,098	98,635	27	551	-	-	99,125	99,186
Americas	130,064	108,425	1,239	1,598	-	-	131,303	110,023
Europe	54,101	46,697	10,985	11,769	7,451	6,159	72,537	64,625
	361,747	344,426	25,869	27,899	7,451	6,159	395,067	378,484
Major products and service lines								
Condoms	351,665	329,932	-	-	-	-	351,665	329,932
Personal lubricants	6,769	11,697	-	-	-	-	6,769	11,697
Probe covers	-	-	7,358	7,725	-	-	7,358	7,725
Catheters	-	-	15,579	16,114	-	-	15,579	16,114
Other	3,313	2,797	2,932	4,060	7,451	6,159	13,696	13,016
	361,747	344,426	25,869	27,899	7,451	6,159	395,067	378,484
Timing and recognition								
At a point in time	357,679	338,730	25,869	27,899	7,451	6,159	390,999	372,788
Over time	4,068	5,696	-	-	-	-	4,068	5,696
	361,747	344,426	25,869	27,899	7,451	6,159	395,067	378,484

Notes to the Financial Statements

17. REVENUE (CONTINUED)

17.2 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. The work performed does not create an alternative use to the Group 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.

The revenue from contracts with customers of the Group are not subject to variable element in the consideration, obligation for returns or refunds and warranty.

18. FINANCE COSTS

	Group		Company	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Interest expense of financial liabilities that are not at fair value through profit or loss	1,483	1,424	51	117
Interest expenses on lease liabilities	1,007	-	-	-
	2,490	1,424	51	117

Notes to the Financial Statements

19. TAX EXPENSE

Recognised in profit or loss

Major components of income tax expense include:

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Current tax expense				
- Current year	2,481	2,568	349	528
- Prior years	(141)	(537)	1	(62)
	2,340	2,031	350	466
Deferred tax income				
- Origination and reversal of temporary differences	(822)	(1,316)	-	-
- Prior years	186	32	-	-
	(636)	(1,284)	-	-
	1,704	747	350	466
Reconciliation of tax expense				
Profit before tax	5,192	3,804	6,169	8,710
Income tax calculated using Malaysian tax rate of 24%	1,246	913	1,481	2,090
Non-deductible expenses	879	602	383	298
Non-taxable income	(603)	(313)	(1,515)	(1,860)
Effect of different tax rates in different jurisdictions	366	60	-	-
Tax incentives	(229)	(10)	-	-
	1,659	1,252	349	528
Prior years	45	(505)	1	(62)
Tax expense	1,704	747	350	466

Notes to the Financial Statements

20. PROFIT FOR THE YEAR

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Profit for the year is arrived at after charging/(crediting)					
Audit fees					
- KPMG PLT		292	290	85	85
- Overseas affiliate of KPMG PLT		108	108	-	-
- Other auditors		348	341	-	-
Non-audit fees					
- KPMG PLT		17	20	17	20
Depreciation and amortisation:					
- Property, plant and equipment		16,699	15,530	-	-
- Right-of-use assets		3,924	-	-	-
- Intangible assets		202	123	-	-
Expenses relating to short-term leases	a	2,118	-	-	-
Expenses relating to leases of low-value assets	a	71	-	-	-
Fair value loss on derivative instruments		361	3	-	-
Finance income		(517)	(1,018)	(2,657)	(3,730)
Net foreign exchange (gain)/loss		(2,393)	809	(315)	(35)
Impairment loss/(Reversal of impairment loss) on trade receivables		46	(88)	-	-
Inventories:					
- Allowance for/(Reversal of) slow moving		2,233	(5)	-	-
- Written off		106	104	-	-
- Written down to net realisable value		975	818	-	-
Personnel expenses (including key management personnel):					
- Contributions to state plans		4,544	3,731	-	-
- Wages, salaries and others		102,328	97,223	640	587
Property, plant and equipment:					
- Gain on disposal		(23)	(217)	-	-
- Written off		81	157	-	-
Rental expense		-	4,972	-	-

Note a

The Group leases a number of hostels and equipment with contract terms of 1 to 4 years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Notes to the Financial Statements

21. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share at 30 June 2020 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

	Group	
	2020 RM'000	2019 RM'000
Profit for the year attributable to owners of the Company	228	2,533
<i>Weighted average number of ordinary shares</i>		
Weighted average number of ordinary shares at 30 June ('000)	1,002,375	1,002,375
Basic earnings per ordinary share (sen)	0.02	0.25

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.

22. DIVIDENDS

Dividends recognised by the Company are:

	Sen per share	Total amount RM'000	Date of payment
2020			
Final dividend 2019	1.0	10,024	23 December 2019
Interim dividend 2020	0.5	5,012	25 March 2020
		15,036	
2019			
Dividend 2018	0.5	5,012	20 December 2018

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 2020	0.5	5,012

Notes to the Financial Statements

23. ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

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

	Group	
	2020 RM'000	2019 RM'000
Current year additions	23,083	18,977
Add/(Less):		
- Amount financed by hire purchase liabilities	(179)	-
- Amount financed by finance lease	-	(313)
- Balances in respect of acquisition of property, plant and equipment included in other creditors:		
- at end of year	(832)	(2,114)
- at beginning of year	2,114	1,889
- Interest capitalised	-	(195)
Cash from acquisition of property, plant and equipment	24,186	18,244

24. 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.

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.

Notes to the Financial Statements

24. OPERATING SEGMENTS (CONTINUED)

Segment capital expenditure (Continued)

	Sexual wellness RM'000	Medical RM'000	Others RM'000	Total RM'000
2020				
Segment profit	6,494	1,344	760	8,598
<i>Included in the measure of segment profit are:</i>				
Revenue from external customers	361,747	25,869	7,451	395,067
Inventories:				
- Allowance for slow moving	(2,163)	(70)	-	(2,233)
- Written off	(106)	-	-	(106)
- Written down to net realisable value	(975)	-	-	(975)
Depreciation and amortisation	(20,589)	(228)	(8)	(20,825)
<i>Not included in the measure of segment profit but provided to CEO:</i>				
Finance income	48	-	-	48
Finance costs	(2,405)	(32)	(2)	(2,439)
Segment assets	576,561	29,650	4,549	610,760
<i>Not included in the measure of segment assets are:</i>				
Additions to non-current assets other than financial instruments and deferred tax assets	22,720	363	-	23,083
2019				
Segment profit	2,551	2,954	239	5,744
<i>Included in the measure of segment profit are:</i>				
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)
<i>Not included in the measure of segment profit but provided to CEO:</i>				
Finance income	96	1	-	97
Finance costs	(1,268)	(34)	(5)	(1,307)
Segment assets	538,096	29,035	4,679	571,810
<i>Not included in the measure of segment assets are:</i>				
Additions to non-current assets other than financial instruments and deferred tax assets	18,712	265	-	18,977

Notes to the Financial Statements

24. OPERATING SEGMENTS (CONTINUED)

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

	Group	
	2020 RM'000	2019 RM'000
Profit or loss		
Total profit for reportable segments	8,598	5,744
Finance costs	(2,439)	(1,307)
Finance income	48	97
Unallocated items:		
- Corporate expenses	(1,433)	(1,534)
- Finance income from deposits with licensed banks and other corporation	469	921
- Finance costs	(51)	(117)
Consolidated profit before tax	5,192	3,804
Total assets		
Total assets for reportable segments	610,760	571,810
Other non-reportable segments	11,064	23,286
Consolidated total assets	621,824	595,096

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 17.1.

Major customers

There is no significant concentration of sales to a customer exceeding 10% of the Group's revenue for year 2020 and 2019.

Notes to the Financial Statements

25. FINANCIAL INSTRUMENTS

25.1 Categories of financial instruments

The table below provides an analysis of financial instruments 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			
2020			
Financial assets			
Trade and other receivables	88,047	88,047	-
Contract assets	316	316	-
Cash and cash equivalents	46,341	46,341	-
	134,704	134,704	-
Financial liabilities			
Trade and other payables	(67,928)	(67,928)	-
Loans and borrowings	(31,642)	(31,642)	-
Derivative financial liabilities	(361)	-	(361)
	(99,931)	(99,570)	(361)
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	(54,108)	(54,108)	-
Loans and borrowings	(33,668)	(33,668)	-
Derivative financial liabilities	(3)	-	(3)
	(87,779)	(87,776)	(3)

Notes to the Financial Statements

25. FINANCIAL INSTRUMENTS (CONTINUED)

25.1 Categories of financial instruments (continued)

	Carrying amount RM'000	AC RM'000	Mandatorily at FVTPL RM'000
Company			
2020			
Financial assets			
Trade and other receivables	59,122	59,122	-
Cash and cash equivalents	10,763	10,763	-
	69,885	69,885	-
Financial liabilities			
Trade and other payables	(323)	(323)	-
Loans and borrowings	(857)	(857)	-
	(1,180)	(1,180)	-
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)	-

25.2 Net gains and losses arising from financial instruments

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Net (losses)/gains on:				
Financial liabilities at amortised cost	(1,483)	(1,424)	(51)	(117)
Financial assets at amortised cost	2,864	297	2,972	3,765
Financial liabilities at fair value through profit or loss				
- Mandatorily required by MFRS 9	(361)	(3)	-	-
	1,020	(1,130)	2,921	3,648

Notes to the Financial Statements

25. FINANCIAL INSTRUMENTS (CONTINUED)

25.3 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

25.4 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 and contract assets, the Group manages its debtors and takes appropriate actions (including but not limited to legal actions) to recover long overdue balances.

The Group assessed the risk of loss of the customer individually based on their financial information, past trend of payments and external credit ratings, where applicable. Invoices which are aged more than 365 days will be considered as credit impaired.

The following table provides information about the exposure to credit risk and expected credit losses ("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.

Notes to the Financial Statements

25. FINANCIAL INSTRUMENTS (CONTINUED)

25.4 Credit risk (continued)

Trade receivables and contract assets (continued)

Recognition and measurement of impairment loss (continued)

	Gross carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
Group			
2020			
Current (not past due)	49,701	-	49,701
1 - 30 days past due	8,490	-	8,490
31 - 60 days past due	7,217	-	7,217
61 - 90 days past due	1,878	-	1,878
More than 90 days past due	16,244	-	16,244
	83,530	-	83,530
Credit impaired			
Individually impaired	201	201	-
	83,731	201	83,530
Trade receivables	83,415	201	83,214
Contract assets	316	-	316
	83,731	201	83,530
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

Notes to the Financial Statements

25. FINANCIAL INSTRUMENTS (CONTINUED)

25.4 Credit risk (continued)

Trade receivables and contract assets (continued)*Recognition and measurement of impairment loss (continued)*

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

	Group	
	2020 RM'000	2019 RM'000
Credit impaired		
Balance as at 1 July	591	679
Net remeasurement of loss allowance	46	(88)
Amounts written off	(436)	-
Balance as at 30 June	201	591

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.

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.

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.

Notes to the Financial Statements

25. FINANCIAL INSTRUMENTS (CONTINUED)**25.4 Credit risk (continued)****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 RM27,444,000 (2019: RM30,561,000) 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.

Notes to the Financial Statements

25. FINANCIAL INSTRUMENTS (CONTINUED)

25.5 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 and lease liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount RM'000	Contractual interest rate/ coupon/ Discount rate %	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							
2020							
<i>Non-derivative financial liabilities</i>							
Trade and other payables	67,928	-	67,928	67,928	-	-	-
Secured term loans	11,630	2.41 - 5.94	11,998	7,187	3,396	856	559
Secured hire purchase liabilities	609	2.90 - 4.39	651	226	328	97	-
Secured bankers' acceptances	15,674	3.00 - 4.25	15,674	15,674	-	-	-
Unsecured export financing	2,389	3.47	2,389	2,389	-	-	-
Unsecured revolving credit	535	4.35	535	535	-	-	-
Unsecured trust receipt	805	3.73	805	805	-	-	-
Lease liabilities	20,875	3.70 - 4.50	27,429	4,236	4,199	6,619	12,375
	120,445		127,409	98,980	7,923	7,572	12,934
<i>Derivative financial liabilities</i>							
Forward exchange contracts (gross settled):							
Outflow	361	-	93,433	93,433	-	-	-
Inflow	-	-	(93,072)	(93,072)	-	-	-
	120,806		127,770	99,341	7,923	7,572	12,934

Notes to the Financial Statements

25. FINANCIAL INSTRUMENTS (CONTINUED)

25.5 Liquidity risk (continued)

Maturity analysis (continued)

	Carrying amount RM'000	Contractual interest rate/ coupon/ Discount rate %	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							
<i>Non-derivative financial liabilities</i>							
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
<i>Derivative financial liabilities</i>							
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

Notes to the Financial Statements

25. FINANCIAL INSTRUMENTS (CONTINUED)

25.5 Liquidity risk (continued)

Maturity analysis (continued)

	Carrying amount RM'000	Contractual interest rate/ coupon/ Discount rate %	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
Company							
2020							
<i>Non-derivative financial liabilities</i>							
Trade and other payables	323	-	323	323	-	-	-
Secured term loans	857	2.41	871	871	-	-	-
Financial guarantee*	-	-	27,444	27,444	-	-	-
	1,180		28,638	28,638	-	-	-
2019							
<i>Non-derivative financial liabilities</i>							
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	-	-

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

25.6 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.

Notes to the Financial Statements

25. FINANCIAL INSTRUMENTS (CONTINUED)

25.6 Market risk (continued)

Currency risk (continued)

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				
2020				
Trade receivables	55,310	4,396	282	-
Intercompany receivables	53,500	-	37	4,217
Cash and cash equivalents	8,560	3	392	154
Trade payables	(10,514)	-	(1,000)	(27)
Other payables	(1,455)	-	(89)	-
Intercompany payables	(32,786)	-	-	(14)
Loans and borrowings	(10,262)	-	-	-
Forward exchange contracts	(93,072)	-	-	-
Net exposure	(30,719)	4,399	(378)	4,330
2019				
Trade receivables	36,275	7,895	58	-
Intercompany receivables	54,599	-	-	6,522
Cash and cash equivalents	9,481	3	233	221
Trade payables	(6,085)	-	(8)	(1)
Other payables	(1,993)	-	-	-
Intercompany payables	(34,689)	-	-	-
Loans and borrowings	(12,079)	-	-	-
Forward exchange contracts	(92,705)	-	-	-
Net exposure	(47,196)	7,898	283	6,742

	Denominated in USD	
	2020 RM'000	2019 RM'000
Company		
Intercompany receivables	10,111	2,339
Loans and borrowings	(857)	(1,985)
Net exposure	9,254	354

Notes to the Financial Statements

25. FINANCIAL INSTRUMENTS (CONTINUED)

25.6 Market risk (continued)

Currency risk (continued)

Currency risk sensitivity analysis

A 10% (2019: 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				
2020				
Profit or (loss)	2,335	(334)	29	(329)
2019				
Profit or (loss)	3,587	(600)	(22)	(512)

	Denominated in USD	
	2020 RM'000	2019 RM'000
Company		
Profit or (loss)	(703)	(27)

A 10% (2019: 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

25. FINANCIAL INSTRUMENTS (CONTINUED)

25.6 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 and lease liabilities, based on carrying amounts as at the end of the reporting period was:

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Fixed rate instruments				
Financial assets	6,088	22,201	63,886	77,700
Financial liabilities	(20,012)	(17,916)	-	-
Lease liabilities	(20,875)	-	-	-
	(34,799)	4,285	63,886	77,700
Floating rate instruments				
Financial liabilities	(11,630)	(15,752)	(857)	(1,985)

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 RM88,000 (2019: RM120,000) and RM7,000 (2019: RM15,000) respectively. This analysis assumes that all other variables remained constant.

Notes to the Financial Statements

25. FINANCIAL INSTRUMENTS (CONTINUED)

25.7 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 hire purchase 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.

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			
2020			
Financial liabilities			
Forward exchange contracts	(361)	(361)	(361)
2019			
Financial liabilities			
Forward exchange contracts	(3)	(3)	(3)

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 (2019: no transfer in either directions).

Notes to the Financial Statements

26. 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 2020, 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	
	2020 RM'000	2019 RM'000
Total borrowings (Note 14)	31,642	33,668
Less: Cash and cash equivalents (Note 11)	(46,341)	(63,635)
	(14,699)	(29,967)
Total equity	485,100	492,608

No disclosure is made for debt-to-equity ratio as the Group is in a net positive cash position as at 30 June 2020.

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.

27. CAPITAL COMMITMENT

	Group	
	2020 RM'000	2019 RM'000
Capital expenditure commitments		
Property, plant and equipment		
Contracted but not provided for	2,932	4,942

28. 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.

Notes to the Financial Statements

28. RELATED PARTIES (CONTINUED)

Identity of related parties (continued)

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.

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 are shown below. The balances related to the below transactions are shown in Note 9.

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
A. Subsidiaries				
Dividend income	-	-	5,000	6,500
Interest income	-	-	2,212	2,809
Advance to	-	-	6,033	4,847
B. Entities in which certain Directors/Directors' close family members have substantial financial interest				
Sales of goods	282	346	-	-
Purchases of machines	-	32	-	-
C. Key management personnel				
Directors				
- Fees	640	587	640	587
- Remunerations	800	933	43	38
- Benefits	37	32	-	-
- Contributions to the state plans	139	100	-	-
	1,616	1,652	683	625
Senior management				
- Remunerations	2,150	2,783	-	-
- Benefits	19	46	-	-
- Contributions to the state plans	400	467	-	-
	2,569	3,296	-	-
Total short-term employee benefits	4,185	4,948	683	625

Notes to the Financial Statements

29. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

During the year, the Group adopted MFRS 16.

As a lessee

Where the Group is a lessee, the Group applied the requirements of MFRS 16 retrospectively with no cumulative effect recognised in the retained earnings at 1 July 2019.

At 1 July 2019, for leases that were classified as operating lease under MFRS 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019. The weighted-average rate applied is 4.5%. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying MFRS 16 to leases previously classified as operating lease under MFRS 117:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term as at 1 July 2019;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Hire purchase arrangements previously classified as finance lease liabilities under MFRS 117 are now classified as hire purchase liabilities at 1 July 2019.

Impacts on financial statements

Since the Group applied the requirements of MFRS 16 retrospectively with the cumulative effect of initial application at 1 July 2019, there are no adjustments made to the prior period presented.

The following table explains the difference between the operating lease commitments applying MFRS 117 at 30 June 2019, and lease liabilities recognised in the statement of financial position at 1 July 2019.

	RM'000
Operating lease commitments at 30 June 2019	26,640
Discounted using the incremental borrowing rate at 1 July 2019	21,060
Extension and termination options reasonably certain to be exercised	2,473
Recognition exemption for short-term leases	(133)
Lease liabilities recognised at 1 July 2019	23,400

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 68 to 135 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 2020 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:

Goh Leng Kian

Director

Goh Miah Kiat

Director

Date: 9 October 2020

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 68 to 135 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 9 October 2020.

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 2020 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 year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 68 to 135.

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 2020, and of their financial performance and their cash flows for the 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' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("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 6 - Intangible assets.

The key audit matter

The Group has goodwill of RM27,230,000, brands of RM62,373,000 and other intangible assets of RM5,947,000 with indefinite useful life as at 30 June 2020 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.

Independent Auditors' Report

To the members of Karex Berhad

Key Audit Matters (continued)

Goodwill and intangible assets impairment assessment - Group (continued)

The key audit matter (continued)

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.

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 8 - 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 2020, the Group has reported significant inventory balance of RM128,884,000.

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.

Independent Auditors' Report

To the members of Karex Berhad

Key Audit Matters (continued)

Inventories valuation - Group (continued)

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 2020 by comparing the most recent selling prices of the finished goods to assess whether these exceeded the carrying value of inventories at year end.

Impairment on investment in subsidiaries - Company

Refer to Note 2(k)(ii) - Significant accounting policies: Impairment – other assets and Note 5 - Investments in subsidiaries.

The key audit matter

As at 30 June 2020, 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.

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.

Independent Auditors' Report

To the members of Karex Berhad

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, actions taken to eliminate threats or safeguards applied.

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.

Independent Auditors' Report

To the members of Karex Berhad

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 5 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: 9 October 2020

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 2020 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	-	27	487
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	-	27	487
3	Lot 1235, Benut, 82000 Pontian, Johor Darul Takzim	225,418/ -	Vacant Land	10/09/2002	Freehold	-	-	853
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	-	27	526
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	27	611
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	27	2,282
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	27	1,692

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 2020 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	-	27	9,903
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	-	-	1,387
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	29	5,756
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	32	10,011
15	PTD 8746, Taman Perindustrian Pontian, 82000 Pontian, Johor Darul Takzim.	61,680/ -	Vacant Land	14/10/2005	Leasehold 60 years	November 2056	-	281
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	15	2,074

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 2020 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	15	3,243
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	6	3,843
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	5	22,728
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	4	8,875
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	35	7,250
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	35	1,640

Analysis of Shareholdings

As at 30 September 2020

Total Issued Share (RM)	:	RM281,980,000.00
Total Issued Share	:	1,002,375,000 of Ordinary Shares
Class of Shares	:	Ordinary Share
Voting Rights	:	One vote per Ordinary Share
Number of Shareholders	:	16,183

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
Less than 100	433	2.67%	17,791	0.00%
100 - 1,000	2,173	13.43%	1,433,861	0.14%
1,001 - 10,000	8,528	52.70%	44,235,185	4.41%
10,001 - 100,000	4,493	27.76%	142,341,539	14.20%
100,001 to less than 5% of issued shares	553	3.42%	488,567,398	48.75%
5% and above of issued shares	3	0.02%	325,779,226	32.50%
Total	16,183	100.00%	1,002,375,000	100.00%

LIST OF DIRECTORS' SHAREHOLDINGS AS PER THE REGISTER OF DIRECTORS' SHAREHOLDING AS AT 30 SEPTEMBER 2020

Name of Directors	Direct Interest		Indirect Interest	
	No of Shares	%	No of Shares	%
Tun Dato' Seri Arshad Ayub	15,100,000	1.51	5,200,000 ⁽¹⁾	0.52
Dato' Dr. Ong Eng Long @ Ong Siew Chuan	860,000	0.09	-	-
Prof. Dato' Dr. Adeeba Binti Kamarulzaman	-	-	-	-
Wong Yien Kim	-	-	-	-
Law Ngee Song	258,750	0.03	-	-
Lam Jiuan Jiu	19,087,456	1.90	262,402,056 ⁽²⁾	26.18
Goh Yen Yen	72,062,456	7.19	-	-
Goh Leng Kian	41,368,865	4.13	184,823,750 ⁽³⁾	18.44
Goh Miah Kiat	47,350,097	4.72	184,250,000 ⁽⁴⁾	18.38

Analysis of Shareholdings

As at 30 September 2020

LIST OF SUBSTANTIAL SHAREHOLDERS AS PER THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 30 SEPTEMBER 2020

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	217,177,056 ⁽⁵⁾	21.67
Lam Jiuan Jiu	19,087,456	1.90	262,402,056 ⁽²⁾	26.18
Goh Yen Yen	72,062,456	7.19	-	-
Goh Ai Noi	-	-	209,412,456 ⁽⁶⁾	20.89
Goh Yin	78,452,170	7.83	-	-
Goh Leng Kian	41,368,865	4.13	184,823,750 ⁽³⁾	18.44
Goh Miah Kiat	47,350,097	4.72	184,250,000 ⁽⁴⁾	18.38

⁽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 her interest in AJNA Holdings Limited, Maharani 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.

⁽³⁾ 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.

⁽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 and Maharani 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 30 September 2020

No.	Name of Shareholders	No. of Shares	%
1.	HSBC NOMINEES (ASING) SDN. BHD. EXEMPT AN FOR BNP PARIBAS SINGAPORE BRANCH (A/C CLIENTS-FGN)	175,264,600	17.48
2.	CIMSEC NOMINEES (TEMPATAN) SDN. BHD. CIMB FOR GOH YIN (PB)	78,452,170	7.83
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)	46,300,000	4.62
5.	CIMSEC NOMINEES (ASING) SDN BHD CIMB FOR JEYYA LIMITED (PB)	25,162,456	2.51
6.	CIMSEC NOMINEES (ASING) SDN BHD CIMB FOR LAM YIU PANG ALBERT (PB)	24,312,456	2.43
7.	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR GOH MIAH KIAT	22,000,000	2.19
8.	CIMSEC NOMINEES (ASING) SDN BHD CIMB FOR LAM JIUAN JIUAN (PB)	19,087,456	1.90
9.	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB FOR GOH LENG KIAN (PB)	18,468,865	1.84
10.	HLIB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR GOH MIAH KIAT	16,350,000	1.63
11.	MAYBANK INVESTMENT BANK BERHAD IVT (10)	15,117,200	1.51
12.	CIMSEC NOMINEES (ASING) SDN BHD CIMB FOR AJNA HOLDINGS LIMITED (PB)	12,825,000	1.28
13.	CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STANDARD CHARTERED BANK SINGAPORE BRANCH (BJSSSGBR-CL-FR)	11,670,050	1.16
14.	CIMSEC NOMINEES (ASING) SDN BHD CIMB FOR KAREX ONE LIMITED (PB)	10,000,000	1.00
15.	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB FOR GOH MIAH KIAT (PB)	9,000,097	0.90
16.	CGS-CIMB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ARSHAD BIN AYUB (MY1393)	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 PLEDGED SECURITIES FOR GOH LENG KIAN	9,000,000	0.90
19.	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR GOH SIANG (PBCL-0G0200)	8,250,000	0.82

Thirty Largest Shareholders

As at 30 September 2020

No.	Name of Shareholders	No. of Shares	%
20.	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING)	7,750,000	0.77
21.	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ARSHAD BIN AYUB	6,100,000	0.61
22.	CGS-CIMB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ZALARAZ SDN BHD (MY3113)	5,200,000	0.52
23.	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ANITHA BINTI MOHAMED HANIFFA	5,000,000	0.50
24.	AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR QUEK SEE KUI	4,971,100	0.50
25.	HLIB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR GOH LENG KIAN	4,950,000	0.49
26.	CIMSEC NOMINEES (ASING) SDN BHD CIMB FOR ORBIS REX LIMITED (PB)	4,523,625	0.45
27.	UOB KAY HIAN NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TEH CHAN SHERNG	4,200,000	0.42
28.	HUANG HWA YONG	4,093,400	0.41
29.	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN TECK SOON (E-SS2)	3,800,000	0.38
30.	CHEW CHENG CHUAN	3,398,000	0.34
	TOTAL	645,308,931	64.38

Notice of 8th Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Eighth Annual General Meeting ("8th AGM") of Karex Berhad ("Karex" or "Company") will be conducted on a fully virtual and live-stream from the broadcast venue at Meeting Room TR-12-R02, 12th Floor, Menara Symphony, No. 5, Jalan Prof. Khoo Kay Kim, Seksyen 13, 46200 Petaling Jaya, Selangor, Malaysia on Friday, 27 November 2020 at 10:00 am 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 2020 together with the Reports of the Directors and the Auditors thereon.
(Refer to Explanatory Note (a))
2. To re-elect Tun Dato' Seri Arshad Ayub who is retiring in accordance with the Clause 97 of the Company's Constitution, and being eligible, has offered himself for re-election.
(Ordinary Resolution 1)
3. To re-elect Dato' Dr. Ong Eng Long @ Ong Siew Chuan who is retiring in accordance with the Clause 97 of the Company's Constitution, and being eligible, has offered himself for re-election.
(Ordinary Resolution 2)
4. To re-elect Mr Goh Miah Kiat who is retiring in accordance with the Clause 104 of the Company's Constitution, and being eligible, has offered himself for re-election.
(Ordinary Resolution 3)
5. To approve the payment of Directors' fees of RM640,000.00 for the financial year ended 30 June 2020.
(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 RM61,000.00 for the financial period from 1 December 2020 to 30 November 2021.
(Ordinary Resolution 5)
7. 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 6)

Special Business

To consider and if thought fit, pass the following Ordinary Resolutions with or without any modifications:

8. Ordinary Resolution Final Single Tier Dividend

To approve the payment of a final dividend of 0.5 sen per ordinary share for the financial year ended 30 June 2020.

(Ordinary Resolution 7)

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)

10. To transact any other business of which due notice shall have been given in accordance with the Act.

Notice of 8th Annual General Meeting

Notice of Dividend Entitlement and Payment

NOTICE IS HEREBY GIVEN THAT subject to the approval of the shareholders at the 8th AGM, a final dividend of 0.5 sen per ordinary share for the financial year ended 30 June 2020, if approved, will be paid on 21 December 2020 to holders of ordinary shares registered in the Record of Depositors of the Company at the close of business on 4 December 2020.

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 pm on 4 December 2020 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 (SSM PC NO. 202008001079) (MAICSA 7017753)

TEO MEE HUI (SSM PC NO. 202008001081) (MAICSA 7050642)

ELIZABETH ALLISON DE ZILVA (SSM PC NO. 202008002112) (MAICSA 7030086)

Company Secretaries

Selangor Darul Ehsan

Dated this 28th day of October 2020

Notes:

1. *In support of the Government of Malaysia's (the Government) ongoing efforts to contain the spread of the Coronavirus (Covid-19) and the Government's advice of social distancing and not having mass gatherings, the Company would like to leverage on technology advancement by conducting the Eighth Annual General Meeting of the Company (the Meeting or AGM) on a fully virtual basis through electronic live streaming and online remote voting, pursuant to Section 327(2) of the Companies Act 2016 and Clause 59 of the Company's Constitution. The Company will be using Boardroom's LUMI AGM solution at <https://web.lumiagm.com/> or you may download the free "Lumi AGM" app from the Apple App Store or Google Play Store. Please follow the procedures as stipulated in the Administrative Details for the Meeting in order to register, participate and vote virtually via the Boardroom's LUMI AGM solution.*
2. *The main and only venue of the virtual Meeting is strictly to serve as the broadcast venue where the chairman of the Meeting is physically present and no shareholders/proxies shall be physically present at the broadcast venue. The Meeting will be in compliance with Section 327(2) of the Companies Act 2016 which provides that the main venue of the AGM shall be in Malaysia and the chairperson must be present at the main venue of the AGM. The electronic means of conducting the AGM on a fully virtual basis will facilitate and enable all shareholders to participate fully in the proceedings by audio and/or video capabilities without the need to be physically present at the Meeting venue, which is advantageous given the current circumstances relating to Covid-19 and best health practices.*
3. *A member entitled to virtually attend and vote at the above Meeting is entitled to appoint a proxy or proxies to exercise all or any of his rights to virtually attend, participate, interact and vote in his/her stead, in accordance with the Administrative Details.*
4. *Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy.*
5. *Where a member is an authorised nominee as defined in the Securities Industry (Central Depositories) Act, 1991, it may appoint not more than two (2) proxies in respect of each Securities Account it holds in ordinary shares of the Company standing to the credit of the said Securities Account.*
6. *Where a member 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. Where the Exempt Authorised Nominee appoints two (2) or more proxies to attend and vote at the same meeting, such appointment shall be invalid unless the Exempt Authorised Nominee specifies the proportion of his holdings to be represented by each proxy.*
7. *The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.*
8. *The instrument appointing a proxy 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 or via electronic means through the Boardroom Smart Investor Online Portal at <http://www.boardroomlimited.my> (please refer to the Administrative Details) not less than forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.*
9. *Shareholders/proxies/corporate representatives are encouraged to refer to the procedures set out in the Administrative Details in order to participate remotely.*
10. *Date of Record of Depositors for the purpose of determining Members' entitlement to attend, vote and interact at the Annual General Meeting is 20 November 2020.*

Notice of 8th Annual General Meeting

EXPLANATORY NOTES ON ORDINARY AND SPECIAL BUSINESS:

- a) *Item 1 of the Agenda*
Audited Financial Statements for the financial year ended 30 June 2020

This Agenda item is meant for discussion only, as the provisions of Section 248 and Section 340 (i)(a) of the Companies Act 2016 does not require a formal approval of the shareholders for the Audited Financial Statements. Hence, this Agenda item is not put forward for voting.

- b) *Retirement of Director*
Mr Law Ngee Song who was appointed as an Independent Non-Executive Director of the Company on 30 November 2012 will retire in accordance with Clause 97 of the Company's Constitution. He has informed the Board of his intention to retire as a Director and therefore would not be seeking for re-election at this Annual General Meeting. Hence, he will retire from his office upon the conclusion of the 8th AGM.

- c) *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 8th 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 RM640,000.00 in respect of the financial year ended 30 June 2020;
- (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 RM61,000.00 for the financial period from 1 December 2020 to 30 November 2021. The benefits comprise the meeting allowance, which will only be accorded based on actual attendance of meetings by the Directors.

- d) *Ordinary Resolutions 8*
Authority to Issue and Allot Shares

The proposed Ordinary Resolution, if approved, will give flexibility to the Directors of the Company to issue shares up to a maximum of ten per centum (10%) of the issued share capital of the Company at the time of such issuance of shares and for such purposes as they consider would be in the best interest of the Company without having to convene separate general meetings. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

This is the renewal of the mandate obtained from the shareholders at the last Annual General Meeting ("the previous mandate"). The previous mandate was not utilised and no proceeds were raised. The purpose of this general mandate sought will provide flexibility to the Company for any possible fund-raising activities but not limited for further placement of shares for purpose of funding current and/or future investment projects, working capital, repayment of borrowings and/or acquisitions.

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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	E Mail 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 Eighth Annual General Meeting ("8th AGM") of the Company to be conducted virtually and live-stream from the broadcast area at Meeting Room TR-12-R02, 12th Floor, Menara Symphony, No. 5, Jalan Prof. Khoo Kay Kim, Seksyen 13, 46200 Petaling Jaya, Selangor, Malaysia on Friday, 27 November 2020 at 10:00 am or at any adjournment thereof and to vote as indicated below:

Ordinary Resolutions		For	Against
	Ordinary Business		
1.	To re-elect Tun Dato' Seri Arshad Ayub as a Director of the Company		
2.	To re-elect Dato' Dr. Ong Eng Long @ Ong Siew Chuan as a Director of the Company		
3.	To re-elect Mr Goh Miah Kiat 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 re-appoint Messrs KPMG PLT as Auditors of the Company		
	Special Business		
7.	To approve a Final Dividend		
8.	Authority to issue and allot shares		

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 _____ 2020

Signature/Common Seal of Shareholder

Notes:

1. In support of the Government of Malaysia's (the Government) ongoing efforts to contain the spread of the Coronavirus (Covid-19) and the Government's advice of social distancing and not having mass gatherings, the Company would like to leverage on technology advancement by conducting the Eighth Annual General Meeting of the Company (the Meeting or AGM) on a fully virtual basis through electronic live streaming and online remote voting, pursuant to Section 327(2) of the Companies Act 2016 and Clause 59 of the Company's Constitution. The Company will be using Boardroom's LUMI AGM solution at <https://web.lumiagm.com/> or you may download the free "Lumi AGM" app from the Apple App Store or Google Play Store. Please follow the procedures as stipulated in the Administrative Details for the Meeting in order to register, participate and vote virtually via the Boardroom's LUMI AGM solution.
2. The main and only venue of the virtual Meeting is strictly to serve as the broadcast venue where the chairman of the Meeting is physically present and no shareholders/proxies shall be physically present at the broadcast venue. The Meeting will be in compliance with Section 327(2) of the Companies Act 2016 which provides that the main venue of the AGM shall be in Malaysia and the chairperson must be present at the main venue of the AGM. The electronic means of conducting the AGM on a fully virtual basis will facilitate and enable all shareholders to participate fully in the proceedings by audio and/or video capabilities without the need to be physically present at the Meeting venue, which is advantageous given the current circumstances relating to Covid-19 and best health practices.
3. A member entitled to virtually attend and vote at the above Meeting is entitled to appoint a proxy or proxies to exercise all or any of his rights to virtually attend, participate, interact and vote in his/her stead, in accordance with the Administrative Details.
4. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy.
5. Where a member is an authorised nominee as defined in the Securities Industry (Central Depositories) Act, 1991, it may appoint not more than two (2) proxies in respect of each Securities Account it holds in ordinary shares of the Company standing to the credit of the said Securities Account.
6. Where a member 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. Where the Exempt Authorised Nominee appoints two (2) or more proxies to attend and vote at the same meeting, such appointment shall be invalid unless the Exempt Authorised Nominee specifies the proportion of his holdings to be represented by each proxy.
7. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.
8. The instrument appointing a proxy 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 or via electronic means through the Boardroom Smart Investor Online Portal at <http://www.boardroomlimited.my> (please refer to the Administrative Details) not less than forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.
9. Shareholders/proxies/corporate representatives are encouraged to refer to the procedures set out in the Administrative Details in order to participate remotely.
10. Date of Record of Depositors for the purpose of determining Members' entitlement to attend, vote and interact at the Annual General Meeting is 20 November 2020.

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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
Malaysia

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