Ornapaper Berhad

(Incorporated in Malaysia)
Company No: 200201006032 (573695-W)

FINANCIAL REPORT
for the financial year ended 31 December 2019

Contents **Pages**

Ornapaper Berhad
(Incorporated in Malaysia)
Company No: 200201006032 (573695-W)

Directors' report

The directors hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2019.

Principal activities

The Company is principally engaged in the business of investment holding. The principal activities of the subsidiaries are set out in Note 15 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

Results

	The Group RM'000	The Company RM'000
Profit after taxation for the financial year	13,476	1,991
Attributable to:		
Owners of the Company	13,210	1,991
Non-controlling interest	266	-
	13,476	1,991

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

Dividends

Dividends paid or declared by the Company since 31 December 2018 was as follows:

	RM'000
<u>In respect of the financial year ended 31 December 2018:</u>	
Final single tier dividend of 2.5 sen per ordinary share, declared on 2 July 2019 and paid on 16 July 2019	1,854

Dividends (continued)

At the forthcoming Annual General Meeting, a final single tier dividend of 3 sen per ordinary share in respect of the current financial year ended 31 December 2019, will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2020.

Directors

The names of directors of the Company who served during the financial year and up to the date of this report are as follows:-

Sai Han Siong
Sai Chin Hock
Ang Kwee Teng
Sai Ah Sai
Datuk Adillah binti Ahmad Nordin
Siow Kee Yen
Tan Chin Hwee

The names of directors of the Company's subsidiaries who served during the financial year and up to the date of this report, not including those directors mentioned above, are as follows:-

Fong Yew Teck
Pong Hee Kit
Foo Chee Juin

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Directors' interests

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

	Number of ordinary shares			
	At 1.1.2019	**Bought**	**Sold**	**At 31.12.2019**
The Company				
Direct interest				
Sai Han Siong	15,000	-	-	15,000
Ang Kwee Teng	10,000	-	-	10,000
Siow Kee Yen	30,500	-	-	30,500
Datuk Adillah binti Ahmad Nordin	34,000	-	-	34,000
Sai Ah Sai	120,000	-	-	120,000
Indirect interest				
Sai Chin Hock #	23,152,198	-	-	23,152,198
Sai Han Siong #	23,275,198	-	-	23,275,198
Sai Ah Sai #	24,339,698	-	-	24,339,698

Deemed interested by virtue of shares held by companies in which the respective directors have significant influence and by virtue of the respective directors' spouse and son's shareholdings in the Company.

By virtue of their shareholdings in the Company, Sai Chin Hock, Sai Han Siong and Sai Ah Sai are deemed to have interests in shares in its related corporations during the financial year to the extent of the Company's interests, in accordance with Section 8 of the Companies Act 2016.

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

Directors' benefits

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivables by the directors shown in the financial statements or the fixed salary of a full-time employee of the Company or 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 any benefits which may be deemed to arise from transactions entered into the ordinary course of business with companies in which certain directors have substantial financial interests as disclosed in Note 32 to the financial statements.

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Directors’ remuneration

The details of the directors’ remuneration paid or payable to the directors of the Company during the financial year are disclosed in Note 33(a) to the financial statements.

Indemnity and insurance cost

The Company maintains a Directors’ and Officers’ Liability Insurance Policy on a group basis. During the financial year, the amount of indemnity coverage and insurance premium paid for the directors and certain officers of the Group were RM500,000 and RM3,000 respectively.

Issues of shares and debentures

During the financial year:-

(a) there were no changes in the issued and paid-up share capital of the Company; and

(b) there were no issues of debentures by the Company.

Treasury shares

As at 31 December 2019, the Company held as treasury shares a total of 1,098,445 of its 75,250,601 issued and fully paid-up ordinary shares. The treasury shares are held at a carrying amount of RM540,700. The details of the treasury shares are disclosed in Note 22(b) to the financial statements.

Options granted over unissued shares

During the financial year, no options were granted by the Company to any person to take up any unissued shares in the Company.

Subsidiaries

The details of the Company's subsidiaries are disclosed in Note 15 to the financial statements.

Other statutory information

(a) Before the financial statement of the Group and of the Company were made out, the directors took reasonable steps:

   (i) to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowances for impairment losses on receivables and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for impairment losses on receivables.

   (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

   (i) further writing off of bad debts or the additional allowance for impairment losses on receivables in the financial statements of the Group and of the Company are required; and

   (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

(c) At the date of this report, the directors are not aware of any circumstances 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.

Other statutory information (continued)

(d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

(e) The contingent liabilities are disclosed in Note 36 to the financial statements. At the date of this report, there does not exist:

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

(ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.

(f) In the opinion of the directors:

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may substantially affect the ability of the Group or of the Company to meet their obligations when they fall due; and

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

Auditors

The auditors, Crowe Malaysia PLT have expressed their willingness to continue in office.

The details of the auditors' remuneration are disclosed in Note 8 to the financial statements.

Signed in accordance with a resolution of the directors dated 19 May 2020

Sai Chin Hock **Sai Han Siong**

Ornapaper Berhad
(Incorporated in Malaysia)
Company No: 200201006032 (573695-W)

Statement by directors
Pursuant to Section 251(2) of the Companies Act 2016

We, Sai Han Siong and Sai Chin Hock, being two of the directors of Ornapaper Berhad, state that, in the opinion of the directors, the financial statements set out on pages 14 to 92 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 31 December 2019 and of their financial performance and cash flows for the financial year ended on that date.

Signed in accordance with a resolution of the directors dated 19 May 2020

Sai Chin Hock | **Sai Han Siong**

Statutory declaration
Pursuant to Section 251(1)(b) of the Companies Act 2016

I, Sai Han Siong, being the director primarily responsible for the financial management of Ornapaper Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 14 to 92 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 abovementioned
Sai Han Siong, NRIC Number: 700507-71-5425
at Melaka
in the State of Melaka
on this 19 May 2020

Sai Han Siong

Before me,

SHAHRIZAH BINTI YAHYA (NO. M084)
Commissioner for Oaths

Independent auditors' report to the members of
Ornapaper Berhad
(Incorporated in Malaysia)
Company No: 200201006032 (573695-W)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Ornapaper Berhad, which comprise the statements of financial position as at 31 December 2019 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 14 to 92.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

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

Independence and other ethical responsibilities

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

Key audit matters

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

Independent auditors' report to the members of
Ornapaper Berhad
(Incorporated in Malaysia)
Company No: 200201006032 (573695-W)

Key audit matters (continued)

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

Key Audit Matter Revenue Recognition (Refer to Page 45, Note 4 to the financial statements)	**How our audit addressed the key audit matter**
Consolidated revenue recorded by the Group during the year amounted to approximately RM332 million. We consider revenue recognition for sale of goods to be a potential cause for higher risk of material misstatement from the perspective of timing of recognition and the amount of revenue recognised. Accordingly, we regard revenue recognition to be a key audit matter.	Our procedures included, amongst others: ● testing the operating effectiveness of internal control over the completeness, accuracy, and timing of revenue recognised in the financial statements; ● reviewing the terms of material sales contracts and purchase order to determine the point of control transfer to the customers on a sampling basis; ● testing the recording of sales transactions, revenue cut-off and review of credit notes after year end; and ● obtaining confirmations from trade receivables as at the financial year end on sampling basis and reviewing collections relating to material trade receivables during and after the financial year end.

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 our auditors' report thereon.

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

Information other than the financial statements and auditors' report thereon (continued)

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

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 the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Auditors' responsibilities for the audit of the financial statements (continued)

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

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

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

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 15 to the financial statements.

Independent auditors' report to the members of
Ornapaper Berhad
(Incorporated in Malaysia)
Company No: 200201006032 (573695-W)

OTHER MATTERS

(1) The financial statements of the Company for the preceeding financial year were audited by another firm of chartered accountants whose report dated 5 April 2019, expressed an unqualified opinion on those financial statements.

(2) 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.

Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

Piong Yew Peng
03070/06/2021 J
Chartered Accountant

Melaka

19 May 2020

Ornapaper Berhad
(Incorporated in Malaysia)
Company No: 200201006032 (573695-W)

Statements of profit or loss and other comprehensive income
For the financial year ended 31 December 2019

	Note	Group 2019 RM'000	Group 2018 RM'000 (Restated)	Company 2019 RM'000	Company 2018 RM'000
Revenue	4	331,580	349,853	2,445	7,726
Cost of goods sold		(282,696)	(307,867)	-	-
Gross profit		48,884	41,986	2,445	7,726
Other income	5	1,225	1,446	91	88
Administrative expenses		(15,264)	(15,076)	(408)	(382)
Selling and marketing expenses		(5,370)	(4,918)	(7)	(5)
Other expenses		(7,248)	(6,784)	(110)	(129)
Operating profit		22,227	16,654	2,011	7,298
Finance costs	6	(3,564)	(3,557)	-	-
(Net impairment losses)/ Reversal of net impairment losses on financial assets	7	(513)	348	-	-
Profit before taxation	8	18,150	13,445	2,011	7,298
Income tax expense	10	(4,674)	(3,597)	(20)	-
Profit after taxation		13,476	9,848	1,991	7,298
Other comprehensive income		-	-	-	-
Total comprehensive income		13,476	9,848	1,991	7,298
Profit after taxation attributable to:					
Owners of the Company		13,210	9,429	1,991	7,298
Non-controlling interest		266	419	-	-
		13,476	9,848	1,991	7,298
Total comprehensive income attributable to:					
Owners of the Company		13,210	9,429	1,991	7,298
Non-controlling interest		266	419	-	-
		13,476	9,848	1,991	7,298
Earnings per share attributable to owners of the Company (sen)					
Basic	11	17.8	12.7		
Diluted	11	17.8	12.7		

The annexed notes form an integral part of these financial statements.

Ornapaper Berhad
(Incorporated in Malaysia)
Company No: 200201006032 (573695-W)

Statements of financial position
As at 31 December 2019

	Note	Group 2019 RM'000	Group 2018 RM'000 (Restated)	Company 2019 RM'000	Company 2018 RM'000 (Restated)
Assets					
Non-current assets					
Property, plant and equipment	12	89,782	96,848	-	-
Land use rights	13	-	6,529	-	-
Right-of-use-assets	14	22,159	-	-	-
Investment in subsidiaries	15	-	-	103,659	103,659
Goodwill	16	1,633	1,633	-	-
		113,574	105,010	103,659	103,659
Current assets					
Inventories	17	54,193	47,397	-	-
Right of return assets	18	217	110	-	-
Trade receivables	19	77,413	84,273	-	-
Other receivables, deposits and prepayments	20	6,586	4,550	29	22
Current tax assets		276	11	-	-
Deposits with licensed banks	21	6,652	6,436	3,149	3,066
Cash and bank balances		36,640	29,747	606	574
		181,977	172,524	3,784	3,662
Total assets		295,551	277,534	107,443	107,321
Equity and liabilities					
Equity attributable to owners of the parent					
Share capital	22(a)	86,407	86,407	86,407	86,407
Treasury shares	22(b)	(541)	(541)	(541)	(541)
Retained earnings		89,461	78,105	21,531	21,394
		175,327	163,971	107,397	107,260
Non-controlling interest	15	1,661	1,530	-	-
Total equity		176,988	165,501	107,397	107,260
Non-current liabilities					
Loans and borrowings	23	2,307	6,628	-	-
Lease liabilities	24	4,858	-	-	-
Deferred tax liabilities	25	10,137	9,109	-	-
		17,302	15,737	-	-

The annexed notes form an integral part of these financial statements.

Ornapaper Berhad
(Incorporated in Malaysia)
Company No: 200201006032 (573695-W)

Statements of financial position
As at 31 December 2019 (continued)

	Note	Group 2019 RM'000	Group 2018 RM'000 (Restated)	Company 2019 RM'000	Company 2018 RM'000 (Restated)
Current liabilities					
Trade payables	26	20,816	25,348	-	-
Other payables and accruals	27	13,276	13,015	45	60
Refund liabilities	18	762	828	-	-
Loans and borrowings	23	61,755	56,403	-	-
Bank overdrafts	28	1,493	-	-	-
Lease liabilities	24	2,256	-	-	-
Derivative liabilities	29	4	-	-	-
Current tax liabilities		899	702	1	1
		101,261	96,296	46	61
Total liabilities		118,563	112,033	46	61
Total equity and liabilities		295,551	277,534	107,443	107,321

The annexed notes form an integral part of these financial statements.

Ornapaper Berhad
(Incorporated in Malaysia)
Company No: 200201006032 (573695-W)

Statements of changes in equity
For the financial year ended 31 December 2019

	Note	|-- Non-distributable --| Share capital RM'000	Treasury shares RM'000	Distributable Retained earnings RM'000	Total equity attributable to owners of the parent RM'000	Non-controlling interest RM'000	Total equity RM'000
Group							
Balance at 1 January 2018		86,407	(541)	70,530	156,396	1,246	157,642
Profit after taxation representing total comprehensive income for the financial year		-	-	9,429	9,429	419	9,848
		86,407	(541)	79,959	165,825	1,665	167,490
Contributions by and distributions to owners of the Company:							
- Dividends:							
- by the Company	30	-	-	(1,854)	(1,854)	-	(1,854)
- by subsidiary to non-controlling interest		-	-	-	-	(135)	(135)
		-	-	(1,854)	(1,854)	(135)	(1,989)
Balance at 31 December 2018		86,407	(541)	78,105	163,971	1,530	165,501

The annexed notes form an integral part of these financial statements.

Ornapaper Berhad
(Incorporated in Malaysia)
Company No: 200201006032 (573695-W)

Statements of changes in equity
For the financial year ended 31 December 2019 (continued)

	Note	|-- Non-distributable --| Share capital RM'000	Treasury shares RM'000	Distributable Retained earnings RM'000	Total equity attributable to owners of the parent RM'000	Non-controlling interest RM'000	Total equity RM'000
Group (continued)							
Balance at 1 January 2019		86,407	(541)	78,105	163,971	1,530	165,501
Profit after taxation representing total comprehensive income for the financial year		-	-	13,210	13,210	266	13,476
		86,407	(541)	91,315	177,181	1,796	178,977
Contributions by and distributions to owners of the Company:							
- Dividends:							
- by the Company	30	-	-	(1,854)	(1,854)	-	(1,854)
- by subsidiary to non-controlling interest		-	-	-	-	(135)	(135)
		-	-	(1,854)	(1,854)	(135)	(1,989)
Balance at 31 December 2019		86,407	(541)	89,461	175,327	1,661	176,988

The annexed notes form an integral part of these financial statements.

Ornapaper Berhad
(Incorporated in Malaysia)
Company No: 200201006032 (573695-W)

Statements of changes in equity
For the financial year ended 31 December 2019 (continued)

	Note	Non-distributable Share capital RM'000	Treasury shares RM'000	Distributable Retained earnings RM'000	Total equity RM'000
Company					
Balance at 1 January 2018		86,407	(541)	15,950	101,816
Profit after taxation representing total comprehensive income for the financial year		-	-	7,298	7,298
Dividend	30	-	-	(1,854)	(1,854)
Balance at 31 December 2018/1 January 2019		86,407	(541)	21,394	107,260
Profit after taxation representing total comprehensive income for the financial year		-	-	1,991	1,991
Dividend	30	-	-	(1,854)	(1,854)
Closing balance at 31 December 2019		86,407	(541)	21,531	107,397

The annexed notes form an integral part of these financial statements.

Ornapaper Berhad
(Incorporated in Malaysia)
Company No: 200201006032 (573695-W)

Statements of cash flows
For the financial year ended 31 December 2019

	Group		Company	
	2019 RM'000	**2018 RM'000 (Restated)**	**2019 RM'000**	**2018 RM'000**
Operating activities				
Profit before tax	18,150	13,445	2,011	7,298
Adjustments for:				
Bad debts recovered	(7)	-	-	-
Bad debts written off	3	235	-	-
Depreciation and amortisation:				
- Property, plant and equipment	12,986	13,524	-	-
- Land use rights	-	157	-	-
- Right-of-use assets	1,503	-	-	-
Fair value changes on derivatives	4	-	-	-
Gain on disposal of property, plant and equipment	(121)	(210)	-	-
Property, plant and equipment written off	279	2	-	-
Allowance for impairment loss on trade receivables	528	-	-	-
Reversal of allowance for impairment loss on trade and other receivables	(15)	(348)	-	-
Unrealised gain on foreign exchange	-	(15)	-	-
Other interest expense	2,966	3,341	-	-
Interest expense on lease liabilities	359	-	-	-
Interest income	(595)	(331)	(91)	(88)
	17,890	16,355	(91)	(88)
Operating cash flows before changes in working capital	36,040	29,800	1,920	7,210
(Increase)/Decrease in inventories and right of return assets	(6,903)	5,889	-	-
Decrease/(Increase) in trade and other receivables	6,685	1,475	(7)	38
Decrease in refund liabilities	(66)	(628)	-	-
(Decrease)/Increase in trade and other payables	(4,189)	3,456	(15)	33
	(4,473)	10,192	(22)	71
Cash from operations	31,567	39,992	1,898	7,281
Income tax paid	(3,805)	(3,610)	(20)	(22)
Income tax refunded	91	705	-	1
Net cash from operating activities	27,853	37,087	1,878	7,260

The annexed notes form an integral part of these financial statements.

Statements of cash flows
For the financial year ended 31 December 2019 (continued)

		Group		Company	
	Note	2019 RM'000	2018 RM'000 (Restated)	2019 RM'000	2018 RM'000
Cash flows (for)/from investing activities					
Purchase of property, plant and equipment	31(a)	(21,180)	(8,484)	-	-
Purchase of right-of-use asset	31(b)	(335)	-	-	-
Interest received		595	331	91	-
Investment in a subsidiary		-	-	-	(3,499)
Proceeds from disposal of property, plant and equipment		279	291	-	-
Decrease/(Increase) in pledged fixed deposits with licensed banks		2,162	(2,350)	(83)	(1,350)
Net cash (for)/from investing activities		(18,479)	(10,212)	8	(4,849)
Cash flow for financing activities					
Interest paid		(2,966)	(3,341)	-	-
Interest paid on lease liabilities		(359)	-	-	-
Dividends paid		(1,854)	(1,854)	(1,854)	(1,854)
Dividend paid to non-controlling interest		(135)	(135)	-	-
Drawdown of term loans	31(e)	-	3,300	-	-
Drawdown of finance lease	31(e)	-	2,219	-	-
Net drawdown/(repayment) of bankers' acceptances	31(e)	6,609	(10,790)	-	-
Repayment of term loans	31(e)	(994)	(667)		-
Repayment of finance lease	31(e)	-	(954)		-
Repayment of lease liabilities	31(e)	(1,740)	-	-	-
Net repayment of charge card	31(e)	(157)	(14)	-	-
Net cash for financing activities		(1,596)	(12,236)	(1,854)	(1,854)
Net increase in cash and cash equivalents		7,778	14,639	32	557
Effect of exchange rate changes on cash and cash equivalents		-	15	-	-
Cash and cash equivalents at beginning of the financial year		29,747	15,093	574	17
Cash and cash equivalents at end of the financial year	31(c)	37,525	29,747	606	574

The annexed notes form an integral part of these financial statements.

Notes to the financial statements
For the financial year ended 31 December 2019

1. Corporate information

The Company is a public limited liability company and is incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad. The principal place of business is located at No. 8998, Kawasan Perindustrian Peringkat IV, Batu Berendam, 75350 Melaka, Malaysia.

The Company is principally engaged in the business of investment holding. The principal activities of the subsidiaries are set out in Note 15 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors dated 19 May 2020.

2. Basis of preparation

The financial statements of the Group are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

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

MFRSs and/or IC Interpretations (Including The Consequential Amendments)

MFRS 16 Leases

IC Interpretation 23 Uncertainty Over Income Tax Treatments

Amendments to MFRS 9: Prepayment Features with Negative Compensation

Amendments to MFRS 119: Plan Amendment, Curtailment or Settlement

Annual Improvements to MFRS Standards 2015 – 2017 Cycles

2. Basis of preparation (continued)

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

The adoption of the above accounting standards and/or interpretations (including the consequential amendments, if any) did not have any material impact on the financial statements of the Group except as follows:-

<u>MFRS 16: Leases</u>

MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. MFRS 16 requires a lessee to recognised right-of-use assets and lease liabilities for all leases with a term of more than 12 months whereby the right-of-use assets are subject to depreciation and the interest on lease liabilities are calculated using the effective interest method. For a lessor, MFRS 16 continues to allow the lessor to classify its leases as either operating leases or finance leases and account for these 2 types of leases differently. The impact on the financial statements of the Group upon its initial application of MFRS 16 are disclosed in Note 38 to the financial statements.

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

MFRSs and/or IC Interpretations (Including The Consequential Amendments)	Effective Date
Amendments to MFRS 3: Definition of a Business	1 January 2020
Amendments to MFRS 9, MFRS 139 and MFRS 7: Interest Rate Benchmark Reform	1 January 2020
Amendments to MFRS 101 and MFRS 108: Definition of Material	1 January 2020
Amendments to References to the Conceptual Framework in MFRS	1 January 2020
MFRS 17 Insurance Contracts	1 January 2021

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

3. Significant accounting policies

3.1 Critical accounting estimates and judgements

Key sources of estimation uncertainty

Management believes that there are no key assumptions made concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year other than as disclosed below:-

(a) Depreciation of property, plant and equipment

The estimates for the residual values, useful lives and related depreciation charges for the property, plant and equipment are based on commercial factors which could change significantly as a result of technical innovations and competitors' actions in response to the market conditions. The Group anticipates that the residual values of its property, plant and equipment will be insignificant. As a result, residual values are not being taken into consideration for the computation of the depreciable amount. Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

(b) Impairment of goodwill

The assessment of whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(c) Write-down of inventories

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

(d) Impairment of trade receivable

The Group uses the simplified approach to estimate a lifetime expected credit loss allowance for all trade receivables. The Group develops the expected loss rates based on the payment profiles of past sales and the corresponding historical credit losses, and adjusts for qualitative and quantitative reasonable and supportable forward-looking information. If the expectation is different from the estimation, such difference will impact the carrying value of trade receivables.

3. Significant accounting policies (continued)

3.1 Critical accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

(e) Income taxes

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

(f) Estimating variable consideration for returns and discounts

The Group estimates variable considerations to be included in the transaction price for the sale of goods with right of returns and discounts.

The Group developed a statistical model for forecasting sales returns and discounts. The model used the historical return and discount data of each product to come up with expected return and discount percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return and discount percentages estimated by the Group.

The Group updates its assessment of expected returns and discounts annually and the refund liabilities are adjusted accordingly. Estimates of expected returns and discounts are sensitive to changes in circumstances and the Group’s past experience regarding returns and discounts entitlements may not be representative of customers’ actual returns entitlements in the future.

Critical Judgements Made in Applying Accounting Policies

Management believes that there are no instances of application of critical judgement in applying the Group’s accounting policies which will have a significant effect on the amounts recognised in the financial statements other than as disclosed below:-

(a) Lease terms

Some leases contain extension options exercisable by the Group before the end of the non-cancellable contract period. In determining the lease term, management considers all facts and circumstances including the past practice and any cost that will be incurred to change the asset if an option to extend is not taken. An extension option is only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

3. Significant accounting policies (continued)

3.1 Critical accounting estimates and judgements (continued)

Critical Judgements Made in Applying Accounting Policies (continued)

(b) Contingent liabilities

The recognition and measurement for contingent liabilities are based on management's view of the expected outcome on contingencies after consulting legal counsel for litigation cases and experts, for matters in the ordinary course of business. Furthermore, the directors are of the view that the chances of the financial institutions to call upon the corporate guarantees issued by the Group and the Company are remote.

3.2 Basis of consolidation

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

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

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

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

3. Significant accounting policies (continued)

3.2 Basis of consolidation (continued)

(a) Business combinations

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

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

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

(b) Non-controlling interests

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

(c) Changes in ownership interests in subsidiaries without change of control

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

3. Significant accounting policies (continued)

3.2 Basis of consolidation (continued)

(d) Loss of control

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

(i) the aggregate of the fair value of the consideration received and the fair value of any retained interest in the former subsidiary; and

(ii) the previous carrying amount of the assets (including goodwill), and liabilities of the former subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the former subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of (i.e. reclassified to profit or loss or transferred directly to retained profits). The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3.3 Goodwill

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

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

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

3. Significant accounting policies (continued)

3.4 Functional and foreign currencies

(a) Functional and presentation currency

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

The consolidated financial statements are presented in Ringgit Malaysia (“RM”), which is the Company’s functional and presentation currency and has been rounded to the nearest thousand.

(b) Foreign currency transactions and balances

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

3.5 Financial instruments

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

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

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

A financial instrument is recognised initially at its fair value (other than trade receivables without significant financing component which are measured at transaction price as defined in MFRS 15 – Revenue from Contracts with Customers at inception). Transaction costs that are directly attributable to the acquisition or issue of the financial instrument (other than a financial instrument at fair value through profit or loss) are added to/deducted from the fair value on initial recognition, as appropriate. Transaction costs on the financial instrument at fair value through profit or loss are recognised immediately in profit or loss.

3. Significant accounting policies (continued)

3.5 Financial instruments (continued)

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

(a) Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value (through profit or loss, or other comprehensive income), depending on the classification of the financial assets.

Debt instruments

(i) Amortised cost

The financial asset is held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset. When the asset has subsequently become credit-impaired, the interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset.

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

(ii) Fair value through other comprehensive income

The financial asset is held for both collecting contractual cash flows and selling the financial asset, where the asset's cash flows represent solely payments of principal and interest. Movements in the carrying amount are taken through other comprehensive income and accumulated in the fair value reserve, except for the recognition of impairment, interest income and foreign exchange difference which are recognised directly in profit or loss. Interest income is calculated using the effective interest rate method.

3. Significant accounting policies (continued)

3.5 Financial instruments (continued)

(a) Financial assets (continued)

Debt instruments (continued)

(iii) Fair value through profit or loss

All other financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.

The Group reclassifies debt instruments when and only when its business model for managing those assets change.

Equity instruments

All equity investments are subsequently measured at fair value with gains and losses recognised in profit or loss except where the Group has elected to present the subsequent changes in fair value in other comprehensive income and accumulated in the fair value reserve at initial recognition.

The designation at fair value through other comprehensive income is not permitted if the equity investment is either held for trading or is designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise.

Dividend income from this category of financial assets is recognised in profit or loss when the Group's right to receive payment is established unless the dividends clearly represent a recovery of part of the cost of the equity investments.

(b) Financial liabilities

(i) Financial liabilities at fair value through profit or loss

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. The changes in fair value of these financial liabilities are recognised in profit or loss.

3. Significant accounting policies (continued)

3.5 Financial instruments (continued)

(b) Financial liabilities (continued)

(ii) Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), through the expected life of the financial liability or a shorter period (where appropriate).

(c) Equity instruments

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

(i) Ordinary shares

Ordinary shares are classified as equity and recorded at the proceeds received, net of directly attributable transaction costs.

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

(ii) Treasury shares

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

3. Significant accounting policies (continued)

3.5 Financial instruments (continued)

(c) Equity instruments (continued)

(ii) Treasury shares (continued)

Where treasury shares are reissued by resale, the difference between the sales consideration received and the carrying amount of the treasury shares is recognised in equity.

Where treasury shares are cancelled, their costs are transferred to retained profits.

(d) 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 when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset measured at amortised cost, the difference between the carrying amount of the asset and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of a debt instrument classified as fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified from equity to profit or loss. In contrast, there is no subsequent reclassification of the fair value reserve to profit or loss following the derecognition of an equity investment.

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

3.6 Investments in subsidiaries

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

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

3. Significant accounting policies (continued)

3.7 Property, plant and equipment

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that are directly attributable to the acquisition of the asset and other costs directly attributable to bringing the asset to working condition for its intended use.

Subsequent to initial recognition, all property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

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

Leasehold land	Not applicable (2018 - 92 to 99 years)
Factory buildings	20 to 60 years
Plant and machinery	5 to 20 years
Other assets	5 to 10 years

Assets in progress included plant and equipment are not depreciated as these assets are not yet available for use.

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

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

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

3. Significant accounting policies (continued)

3.8 Land use rights

<u>Accounting policies applied until 31 December 2018</u>
Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised over their lease terms.

3.9 Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for low-value assets and short-term leases with 12 months or less. For these leases, the Group recognises the lease payments as an operating expense on a straight-line method over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use assets and the associated lease liabilities are presented as a separate line item in the statements of financial position.

The right-of-use asset is initially measured at cost. Cost includes the initial amount of the corresponding lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses, and adjustment for any remeasurement of the lease liability. The depreciation starts from the commencement date of the lease. If the lease transfers ownership of the underlying asset to the Group or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset 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 the right-of-use assets are determined as follows:-

Leasehold land	Over the lease period of 36 to 99
Plant and machinery	10 years
Motor vehicles	5 years
Factory buildings	4 years
Hostels	2 to 9 years

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

3. Significant accounting policies (continued)

3.9 Leases (continued)

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in the future lease payments (other than lease modification that is not accounted for as a separate lease) with the corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount has been reduced to zero.

<u>Accounting policies applied until 31 December 2018</u>

Group as lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statements of comprehensive income.

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

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statements of comprehensive income on a straight-line basis over the lease term.

3.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average cost method and comprises the purchase price production costs and incidentals incurred in bringing the inventories to their present location and condition. The cost of conversion includes cost directly related to the units of production, and a proportion of fixed production overheads based on the normal capacity of the production facilities.

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

3. Significant accounting policies (continued)

3.11 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances and demand deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value with original maturity periods of three months or less. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts.

3.12 Impairment

(a) Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at fair value through other comprehensive income and trade receivables.

The expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Group always recognises lifetime expected credit losses for trade receivables using the simplified approach. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience and are adjusted for forward-looking information (including time value of money where appropriate).

For all other financial instruments, the Group recognises lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at fair value through other comprehensive income, for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve, and does not reduce the carrying amount of the financial asset in the statements of financial position.

3. Significant accounting policies (continued)

3.12 Impairment (continued)

(b) Impairment of non-financial assets

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

An impairment loss is recognised in profit or loss immediately. Any impairment loss recognised in respect of a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

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

3. Significant accounting policies (continued)

3.13 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the provision is the present value of the estimated expenditure required to settle the obligation. The discount rate shall be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as interest expense in profit or loss.

3.14 Employee benefits

(a) Short-term benefits

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

(b) Defined contribution plans

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

3.15 Income taxes

(a) Current tax

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

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

3. Significant accounting policies (continued)

3.15 Income taxes (continued)

(b) Deferred tax

Deferred tax is recognised using the liability method for all temporary differences other than those that arise from goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

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

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

Current and deferred tax items are recognised in correlation to the underlying transactions either in profit or loss, other comprehensive income or directly in equity. Deferred tax arising from a business combination is adjusted against goodwill or negative goodwill.

Current tax assets and liabilities or deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxable entity (or on different tax entities but they intend to settle current tax assets and liabilities on a net basis) and the same taxation authority.

3.16 Contigent liabilities

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

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

3. Significant accounting policies (continued)

3.17 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. An operating segment's operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3.18 Earning per ordinary shares

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

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

3.19 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.

3.20 Fair value measurements

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

3. Significant accounting policies (continued)

3.20 Fair value measurements (continued)

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

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liability that the entity can access at the measurement date;

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

Level 3: Inputs are unobservable inputs for the asset or liability.

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

3.21 Revenue from contracts with customers

Revenue is recognised by reference to each distinct performance obligation in the contract with customer and is measured at consideration specified in the contract of which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, net of sales and service tax, returns, rebates and discounts.

The Group 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 that asset.

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

- The customer simultaneously receives and consumes the benefits provided as the Group performs.
- The Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- The Group’s performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

3. Significant accounting policies (continued)

3.21 Revenue from contracts with customers (continued)

(a) Sale of goods

Revenue is recognised when the Group has transferred control of the goods to the customer, being when the goods have been delivered to the customer and upon its acceptance. Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, and bears the risks of obsolescence and loss in relation to the goods.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

<u>Variable consideration</u>

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

<u>Right of return</u>

Certain sales of goods include a right of return. Revenue from these sales is recognised based on the price specified in the contract, net of estimated return. Past experience is used to estimate and provide for the return, using expected value method and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability is recognised for the expected return payable to customers in relation to sales made until the end of the reporting period.

<u>Volume and cash discounts</u>

The Group provided retrospective volume discounts to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. The Group also provides cash discounts to certain customers when early settlement made within credit term. Discount are offset against amounts payable by the customer. To estimate the variable consideration for the expected future discounts, the Group applies the most likely amount method for contracts with expected value method. The Group then recognised a refund liability for the expected future rebates.

3. Significant accounting policies (continued)

3.21 Revenue from contracts with customers (continued)

(a) Sale of goods (continued)

Right of return assets

Right of return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updated its estimated of refund liabilities (and the corresponding change in the transaction price) at the end of the financial year.

(b) Transportation fees

Transportation fees are recognised when services are rendered.

3.22 Revenue from other sources and other operating income

(a) Dividend Income

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

(b) Interest income

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

(c) Rental income

Rental income is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to leases are recognised as a reduction of rental income over the lease term on a straight-line basis.

(d) Commission income

Commission income is recognised when services are rendered.

4. Revenue

	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Revenue from contracts with customers:				
Sale of goods	331,159	349,772	-	-
Transportation fees	421	81	-	-
Revenue from other sources:				
Dividend income from subsidiaries	-	-	2,445	7,726
	331,580	349,853	2,445	7,726

The information on the disaggregation of revenue from contracts with customers are disclosed below:

	Group			
	Corrugated board and carton RM'000	Paper stationery product RM'000	Corporate segment and others RM'000	Total RM'000
2019				
Revenue recognised at a point of time				
Paper industry	68,208	22,128	-	90,336
Furniture, rubber, hardware and steel	85,783	-	-	85,783
Food based, beverage and tobacco	70,399	-	-	70,399
Electronic and electrical	51,226	-	-	51,226
Others	33,415	-	421	33,836
	309,031	22,128	421	331,580

	Group			
	Corrugated board and carton RM'000	Paper stationery product RM'000	Corporate segment and others RM'000	Total RM'000
2018				
Revenue recognised at a point of time				
Paper industry	71,260	30,543	-	101,803
Furniture, rubber, hardware and steel	80,648	-	-	80,648
Food based, beverage and tobacco	72,740	-	-	72,740
Electronic and electrical	56,965	-	-	56,965
Others	37,616	-	81	37,697
	319,229	30,543	81	349,853

5. Other income

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Bad debts recovered	7	-	-	-
Commission received	-	28	-	-
Gain on disposal of property, plant and equipment	121	210	-	-
Insurance claims	82	7	-	-
Interest income from:				
- bank balance	501	243	91	88
- deposits with licensed banks	94	88	-	-
Realised gain on foreign exchange	105	519	-	-
Sales of scrap materials	147	215	-	-
Unrealised gain on foreign exchange	-	15	-	-
Lease income:				
- right-of-use assets	30	-	-	-
Miscellaneous	138	121	-	-
	1,225	1,446	91	88

6. Finance costs

	Group	
	2019	**2018**
	RM'000	**RM'000**
Interest expense on:		
- bank overdrafts interest	59	9
- bankers' acceptances interest	2,665	2,952
- term loans interest	242	173
- obligation under finance lease	-	207
- lease liabilities (Note 24)	359	-
Bankers' acceptance commission	238	215
Commitment fee	1	1
	3,564	3,557

7. (Net impairment losses)/Reversal of net impairment losses on financial assets

	Group	
	2019	**2018**
	RM'000	**RM'000**
Impairment losses on:		
- trade receivables (Note 19)	(528)	-
Reversal of impairment losses on:		
- trade receivables (Note 19)	15	23
- other receivables (Note 20)	-	325
	(513)	348

8. Profit before taxation

	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Profit before taxation is arrived at after charging:-				
Auditors' remuneration:				
- Audit fees				
- Current year	188	208	40	44
- Underprovision in prior year	6	6	-	-
- Non-audit fees				
- member firm of the auditors of the Company	5	42	5	10
Bad debts written off	3	235	-	-
Carriage inwards and outwards	16,408	17,873	-	-
Depreciation and amortisation:				
- Property, plant and equipment (Note 12)	12,986	13,524	-	-
- Land use rights (Note 13)	-	157	-	-
- Right-of-use-assets (Note 14)	1,503	-	-	-
Employees benefit expense (Note 9)	33,554	31,468	-	-
Fair value changes on derivatives	4	-	-	-
Directors' remuneration (Note 33(a))	3,286	4,502	257	259
Lease expense:				
- Short-term lease	621	-	-	-
- Low-value assets	9	-	-	-
Property, plant and equipment written off	279	2	-	-
Realised loss on foreign exchange	103	-	-	-
Rental of land and buildings	-	710	-	-

9. Employees benefit expense

	Group 2019 RM'000	Group 2018 RM'000
Short-term employee benefits	30,449	28,514
Defined contributions benefits	2,550	2,421
Other benefits	555	533
Total employees benefit expense (Note 8)	33,554	31,468

Included in employees benefit expense are key management personnel compensation as disclosed in Note 33(b) to the financial statements.

10. Income tax expense

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Income tax:				
- Current year	3,728	3,343	20	21
- (Over)/underprovision in previous financial years	(82)	56	-	(21)
	3,646	3,399	20	-
Deferred tax (Note 25):				
- Origination and reversal of temporary differences	1,180	287	-	-
- Overprovision in previous financial years	(152)	(89)	-	-
	1,028	198	-	-
Total income tax expense	4,674	3,597	20	-

A reconciliation of income tax expense applicable to the profit before taxation at the statutory tax rate to income tax expense at the effective tax rate of the Group and of the Company is as follows:-

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Profit before tax	18,150	13,445	2,011	7,298
Taxation at 24% (2018: 24%)	4,356	3,227	483	1,752
Reduction in Malaysian income tax rate	-	(93)	-	-
Tax effect of:				
- Non-deductible expenses	523	450	124	115
- Non-taxable income	-	-	(587)	(1,854)
Deferred tax assets not recognised during the financial year	29	46	-	8
(Over)/Under provision in prior years:				
- Income tax	(82)	56	-	(21)
- Deferred tax	(152)	(89)	-	-
Income tax expense recognised in profit or loss	4,674	3,597	20	-

10. Income tax expense (continued)

The following amounts are available for offset against future taxable income:

	Group	
	2019	**2018**
	RM'000	**RM'000**
Unutilised capital allowances	662	425
Unutilised reinvestment allowances	-	2,549
	662	2,974

The unutilised reinvestment allowances are allowed to be carried forward for a maximum period of 7 consecutive years of assessment. The unutilised capital allowances do not expire under the current tax legislation and can be utilised against income from the same business source, subject to no substantial change in shareholders of the subsidiaries.

11. Earnings per share

	Group	
	2019	**2018**
Profit attributable to owners of the parent (RM'000)	13,210	9,429
Weighted average number of ordinary shares in issue ('000)*	74,153	74,153
Basic earnings per share (sen)	17.8	12.7
Diluted earnings per share (sen) #	17.8	12.7

* The weighted arrange number of shares takes into account the weighted average effect of treasury shares.

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

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12. Property, plant and equipment

	1.1.2019 As previously reported RM'000	1.1.2019 Initial application of MFRS 16 RM'000	1.1.2019 As restated RM'000	Additions (Note 31(a)) RM'000	Disposals RM'000	Written off RM'000	Reclassification RM'000	Depreciation charges (Note 8) RM'000	At 31.12.2019 RM'000
The Group									
2019									
Carrying Amount									
Long term leasehold land	7,082	(7,082)	-	-	-	-	-	-	-
Factory buildings	29,865	-	29,865	750	-	-	-	(1,324)	29,291
Plant and machinery	53,042	(3,411)	49,631	15,361	(117)	(279)	1,727	(10,577)	55,746
Other assets	5,140	(1,878)	3,262	1,463	(41)	-	-	(1,085)	3,599
Assets in progress	1,719	-	1,719	1,154	-	-	(1,727)	-	1,146
	96,848	(12,371)	84,477	18,728	(158)	(279)	-	(12,986)	89,782

	At 1.1.2018 RM'000	Additions (Note 31(a)) RM'000	Disposals RM'000	Written off RM'000	Reclassification RM'000	Depreciation charges (Note 8) RM'000	At 31.12.2018 RM'000
2018							
Carrying Amount							
Long term leasehold land	7,176	-	-	-	-	(94)	7,082
Factory buildings	29,501	1,263	-	-	397	(1,296)	29,865
Plant and machinery	56,866	3,840	(72)	-	3,188	(10,780)	53,042
Other assets	3,774	2,731	(9)	(2)	-	(1,354)	5,140
Assets in progress	3,444	1,860	-	-	(3,585)	-	1,719
	100,761	9,694	(81)	(2)	-	(13,524)	96,848

12. Property, plant and equipment (continued)

The Group 2019	At Cost RM'000	Accumulated Depreciation RM'000	Carrying Amount RM'000
Factory buildings	49,254	(19,963)	29,291
Plant and machinery	149,973	(94,227)	55,746
Other assets	12,458	(8,859)	3,599
Assets in progress	1,146	-	1,146
	212,831	(123,049)	89,782

2018	At Cost RM'000	Accumulated Depreciation RM'000	Carrying Amount RM'000
Long term leasehold land	8,959	(1,877)	7,082
Factory buildings	48,504	(18,639)	29,865
Plant and machinery	142,609	(89,567)	53,042
Other assets	13,503	(8,363)	5,140
Assets in progress	1,719	-	1,719
	215,294	(118,446)	96,848

(a) The long term leasehold land, factory buildings and certain plant and machinery are pledged as securities for bank borrowings as disclosed in Note 23 to the financial statements.

(b) Other assets comprise motor vehicles, office equipment, furniture and fittings, electrical installations, fire fighting equipment, signboard, tools, utensils and office renovation.

(c) In the last financial year, included in the property, plant and equipment of the Group were motor vehicles and plant and machinery with a total carrying amount of RM4,110,000, which were acquired under hire purchase terms. These leased assets had been pledged as security for the finance lease of the Group as disclosed in Note 23 to the financial statements.

13. Land use rights

	Group 2019 RM'000	Group 2018 RM'000
Cost		
At 1 January/31 December	8,455	8,455
Initial application MFRS 16	(8,455)	-
	-	8,455
Accumulated amortisation		
At 1 January	1,926	1,769
Initial application MFRS 16	(1,926)	-
Amortisation (Note 8)	-	157
At 31 December	-	1,926
Carrying amount	-	6,529
Amount to be amortised:		
- Not later than one year	-	157
- Later than one year but not later than 5 years	-	629
- Later than 5 year	-	5,743

(a) The land use rights have been represented as right-of-use assets as shown in Note 14 to the financial statements following the application of MFRS 16 by the Group using the modified retrospective approach.

(b) In the last financial year, the above properties are pledged as securities for bank borrowings as disclosed in Note 23 to the financial statements.

14. Right-of-use assets

	1.1.2019					
Group	**As previously reported RM'000**	**Initial application of MFRS 16 RM'000**	**As restated RM'000**	**Additions (Note 31(b)) RM'000**	**Depreciation (Note 8) RM'000**	**At 31.12.2019 RM'000**
Carrying Amount						
Leasehold land	-	13,611	13,611	-	(204)	13,407
Plant and machinery	-	3,411	3,411	1,453	(398)	4,466
Motor vehicles	-	1,878	1,878	260	(423)	1,715
Factory buildings	-	618	618	1,259	(153)	1,724
Hostels	-	922	922	250	(325)	847
	-	20,440	20,440	3,222	(1,503)	22,159

	RM'000
Analysed by:-	
Cost	26,279
Accumulated depreciation	(4,120)
	22,159

The comparative information is not presented as the Group has applied MFRS 16 using the modified retrospective approach.

14. Right-of-use assets (continued)

(a) The Group leases certain leasehold land, plant and machinery, motor vehicles, factory buildings and hostels of which the leasing activities are summarised below:-

(i)	Leasehold land	The Group has entered into a number of non-cancellable operating lease agreements for the use of land. The unexpired leasehold period of the leasehold land as at 31 December 2019 ranges between 36 to 99 years and the Group does not have an option to purchase the leasehold land at the expiry of the lease period.
(ii)	Plant and machinery	The Group has leased certain plant and machinery under finance lease arrangements with lease terms ranges between 3 to 5 years. The leases bear effective interest rates ranging from 3.00% to 6.68% and are secured by the leased assets.
(iii)	Motor vehicles	The Group has leased certain motor vehicles under finance lease arrangements with lease terms ranges between 3 to 5 years. At the end of the lease term, the Group has the option to purchase the asset at an insignificant amount. The leases bear effective interest rates ranging from 3.00% to 7.25% and are secured by the leased assets.
(iv)	Factory building	The Group has leased a factory building that runs for 3 years, with an option to renew the lease after that date.
(v)	Hostels	The Group has leased a number of hostels that run between 1 to 9 years, with an option to renew the lease after that date.

15. Investment in subsidiaries

	Company	
	2019 RM'000	**2018 RM'000**
Unquoted shares, at cost		
At 1 January	103,659	100,159
Additions	-	3,500
At 31 December	103,659	103,659

15. Investment in subsidiaries (continued)

The details of the subsidiaries are as follows (continued):-

Name of subsidiary	Principal place of business /Country of incorporation	Percentage of issued shares capital held by 2019 %	2018 %	Principal activities
Ornapaper Industry (M) Sdn. Bhd.	Malaysia	100	100	Manufacturing and sale of corrugated boards and carton boxes
Ornapaper Industry (Batu Pahat) Sdn.Bhd.	Malaysia	100	100	Manufacturing and sale of corrugated boards and carton boxes
Ornapaper Industry (Perak) Sdn. Bhd.	Malaysia	100	100	Manufacturing and sale of corrugated boards and carton boxes
Quantum Rhythm Sdn. Bhd. [1]	Malaysia	100	100	Manufacturing of paper based stationery products
Tripack Packaging (M) Sdn. Bhd. [1]	Malaysia	100	100	Manufacturing and sale of carton boxes
Ornapaper Industry (Johor) Sdn. Bhd. [1]	Malaysia	80	80	Manufacturing and sale of carton boxes
Subsidiary of Ornapaper Industry (M) Sdn. Bhd.				
Ornapaper Logistics Sdn. Bhd.[1] ("OLSB")	Malaysia	100	100	Transportation service

[1] These subsidiaries were audited by another firm of chartered accountants.

(a) In the last financial year, the Company had subscribed for an additional 3,500,000 new ordinary shares in Quantum Rhythm Sdn. Bhd. for a cash consideration of RM3,500,000. The proportion of ownership interests of Quantum Rhythm Sdn. Bhd. held by the Company remains unchanged.

(b) In the last financial year, a subsidiary of the Company, Ornapaper Industry (M) Sdn. Bhd. had subscribed for an additional 250,000 ordinary shares in OLSB for a cash consideration of RM250,000. The proportion of ownership interests of OLSB held by the Company remains unchanged.

15. Investment in subsidiaries (continued)

(c) The non-controlling interest at the end of the reporting period comprise the following:-

	Effect equity interest		Group	
	2019	2018	2019	2018
	%	%	RM'000	RM'000
Ornarpaper Industry (Johor) Sdn. Bhd.	20	20	1,661	1,530

(d) Summarised financial information of non-controlling interests has not been presented as the non-controlling interest of the subsidiary is not individually material to the Group.

16. Goodwill

	Group	
	2019	2018
	RM'000	RM'000
Goodwill	1,633	1,633

The carrying amount of goodwill allocated to each cash-generating unit are as follows:-

	Group	
	2019	2018
	RM'000	RM'000
Ornapaper Industry (Perak) Sdn. Bhd. ("OIP")	1,574	1,574
Ornapaper Industry (Johor) Sdn. Bhd. ("OIJ")	59	59
	1,633	1,633

The Group has assessed the recoverable amounts of goodwill allocated and determined that no impairment is required. The recoverable amounts of the cash-generating units are determined using the value in use approach, and this is derived from the present value of the future cash flows from each cash-generating unit computed based on the projections of financial budgets approved by management covering a period of 5 years. The key assumptions used in the determination of the recoverable amounts are as follows:-

	OIP		OIJ	
	2019	2018	2019	2018
Budgeted gross margins	21%	16%	17%	15%
Discount rates (Pre-tax)	9%	10%	9%	10%

16. Goodwill (continued)

Budgeted gross margins - The budgeted gross margin is determined based on value achieved in the immediate year before the beginning of the budget period.

Discount rate (pre-tax) - Reflects specific risks relating to the relevant cash-generating unit.

The values assigned to the key assumptions represent management's assessment of future trends in the cash-generating units and are based on both external sources and internal historical data.

The directors believes that any reasonable possible change in the above key assumptions applied is unlikely to materially cause the recoverable amount to be lower than its carrying amount.

17. Inventories

	Group	
	2019	**2018**
	RM'000	**RM'000**
Raw materials and consumables	41,619	38,237
Work-in-progress	1,444	1,638
Finished goods	7,457	6,789
Goods-in-transit	3,673	733
	54,193	47,397
Recognised in profit or loss:-		
Inventories recognised as cost of sales	252,378	292,668

18. Right of return assets/(refund liabilities)

	Group	
	2019	**2018**
	RM'000	**RM'000**
Right of return assets	217	110
Refund liabilities		
- arising from right of return assets	319	216
- arising from discounts	443	612
	762	828

18. Right of return assets/(refund liabilities) (continued)

A right of return assets and the corresponding refund liabilities are recognised in relation to finished goods sold. These are measured by reference to the carrying amounts of finished goods sold less any expected costs to recover those inventories and any potential decrease in value.

19. Trade receivables

	Group 2019 RM'000	Group 2018 RM'000
Third parties	74,073	79,641
Companies in which a director has substantial financial interest	4,022	4,801
	78,095	84,442
Allowance for impairment losses:-		
At 1 January	169	406
Addition during the financial year (Note 7)	528	-
Reversal during the financial year (Note 7)	(15)	(23)
Written off during the financial year	-	(214)
	682	169
At 31 December	77,413	84,273

The Group's normal trade credit terms range from 30 to 150 (2018 - 30 to 150) days.

20. Other receivables, deposits and prepayments

	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Other receivables:-				
Third parties	466	728	17	8
Advance payments to supplier of property, plant and equipment	4,231	1,861	-	-
Advance payments to supplier	79	297	-	-
GST receivables	24	182	9	11
	4,800	3,068	26	19
Allowance for impairment losses	(400)	(400)	-	-
	4,400	2,668	26	19
Sundry deposits	307	295	2	2
Prepayments	1,879	1,587	1	1
	6,586	4,550	29	22

20. Other receivables, deposits and prepayments (continued)

	Group	
	2019	**2018**
	RM'000	**RM'000**
Allowance for impairment losses:-		
At 1 January	400	725
Reversal during the financial year (Note 7)	-	(325)
At 31 December	400	400

The advance payments to suppliers are unsecured and interest-free. The amount owing will be offset against future purchase from the suppliers.

21. Deposits with licensed banks

(a) The deposits with licensed banks of the Group and of the Company at the end of the reporting period bore weighted average effective interest rates of 3.13% and 2.75% (2018 - 3.10% and 2.75%) per annum respectively. The deposits of the Group and of the Company have maturity periods range from 3 to 12 and 5 to 12 (2018 - 12) months respectively.

(b) Included in the deposits with licensed banks of the Group and of the Company at the end of the reporting period was an amount of RM4,274,000 and RM3,149,000 (2018 - RM6,436,000 and RM3,066,000) respectively, which have been pledged to licensed banks as security for banking facilities granted to the Group as disclosed in Note 23 to the financial statements.

22. Share capital and treasury shares

(a) Share capital

	Group/Company			
	2019	**2018**	**2019**	**2018**
	Number of ordinary shares		**Amount**	
			RM'000	**RM'000**
Issued and fully paid-up				
Ordinary shares				
At 1 January/31 December	75,251	75,251	86,407	86,407

The holders of ordinary shares (except treasury shares) are entitled to receive dividends as and when declared by the Company, and are entitled to one vote per ordinary share at meetings of the Company. The ordinary shares have no par value.

22. Share capital and treasury shares

(b) Treasury shares

This amount relates to the acquisition cost of treasury shares net of the proceeds received on their subsequent sale or issuance.

Of the total 75,250,601 issued and fully paid-up ordinary shares as at the end of the reporting period, 1,098,445 (2018: 1,098,445) ordinary shares are held as treasury shares by the Company. None of the treasury shares were resold during the financial year.

23. Loans and borrowings

	Group	
	2019	**2018**
	RM'000	**RM'000**
Current		
Secured:		
Bankers' acceptances	60,820	54,211
Charge card	-	157
Term loans	935	992
Finance lease payables	-	1,043
	61,755	56,403
Non-current		
Secured:		
Term loans	2,307	3,244
Finance lease payables	-	3,384
	2,307	6,628
Total loans and borrowings	64,062	63,031

Finance lease payables

	Group
	2018
	RM'000
Minimum lease payments:	
- not later than 1 year	1,287
- later than 1 year and not later than 5 years	3,715
	5,002
Less: Future finance charges	(575)
Present value of minimum lease payables	4,427

23. Loans and borrowings (continued)

Finance lease payables (continued)

	Group 2018 RM'000
Analysed by:-	
Current liabilities	1,043
Non-current liabilities	3,384
	4,427

(a) The finance lease payables have been represented as 'lease liabilities' as shown in Note 24 to the financial statement following the application of MFRS 16 by the Group using the modified retrospective approach.

(b) In the last financial year, the finance lease payables of the Group were secured by the Group's motor vehicles and plant and machinery under finance leases as disclosed in Note 12(c) to the financial statements.

(c) In the last financial year, the finance lease payables of the Group at the end of the reporting period bore average discount rates of 3.85% per annum.

The weighted average effective interest rates per annum at the end of the reporting period of loans and borrowings except for finance lease payables, were as follows:-

	Group	
	2019 %	2018 %
Bankers' acceptances	4.01	4.33
Term loans	6.19	6.24

Charge card is denominated in RM, bears interest at minimum RM50 or 3.5% for late payment charge.

The loans and borrowings except finance lease payables were secured by way of the following:-

(i) legal charge of the Group's leasehold land and factory buildings as disclosed in Notes 12, 13 and 14 to the financial statements;

(ii) pledged of the fixed deposits of the Group as disclosed in Note 21 to the financial statements;

(iii) negative pledged on certain property, plant and equipment of the Group as disclosed in Note 12 to the financial statements;

23. Loans and borrowings (continued)

The loans and borrowings except finance lease payables were secured by way of the following (continued):-

(iv) specific debenture for RM2,700,000 over the Group's certain machinery as disclosed in Note 12 to the financial statements;

(v) registered debenture for RM12,000,000 over the Group's fixed and floating assets both present and future as disclosed in Note 12 to the financial statements; and

(vi) corporate guarantee by the Company.

24. Lease liabilities

	Group 2019 RM'000
At 1 January	
- As previous reported	-
- Initial application of MFRS 16	5,967
- As restated	5,967
Additional during the year	2,887
Interest expense recognised in profit or loss	359
Repayment of principal	(1,740)
Repayment of interest expenses (Note 6)	(359)
At 31 December	7,114
Analysed by:-	
Current liabilities	2,256
Non-current liabilities	4,858
	7,114

The comparative information is not presented as the Group has applied MFRS 16 using the modified retrospective approach.

Certain lease liabilities of the Group are secured by the Group’s motor vehicles under the finance lease arrangements as disclosed in Note 14(a)(iii) to the financial statements, with lease terms ranging from 3 to 5 years and bear effective interest rates rangning from 3.00% to 7.25%.

25. Deferred tax liabilities

Group	← 1.1.2019 As previously reported RM'000	Initial application of MFRS 16 RM'000	As restated RM'000 →	Recognised in profit or loss (Note 10) RM'000	At 31.12.2019 RM'000
2019					
Deferred tax liabilities					
Property, plant and equipment	10,254	(296)	9,958	583	10,541
Right-of use assets	-	534	534	672	1,206
	10,254	238	10,492	1,255	11,747
Deferred tax assets					
Lease liabilities	-	(238)	(238)	(883)	(1,121)
Provision	(321)	-	(321)	21	(300)
Unutilised capital allowance	(111)	-	(111)	(78)	(189)
Unabsorbed business losses	(102)	-	(102)	102	-
Unutilised reinvestment allowances	(611)	-	(611)	611	-
	(1,145)	(238)	(1,383)	(227)	(1,610)
	9,109	-	9,109	1,028	10,137

	At 1.1.2018 RM'000	Recognised in profit or loss (Note 10) RM'000	At 31.12.2018 RM'000
2018			
Deferred tax liabilities			
Property, plant and equipment	10,565	(311)	10,254
Deferred tax assets			
Provision	(96)	(225)	(321)
Unutilised capital allowances	(227)	116	(111)
Unabsorbed business losses	(283)	181	(102)
Unutilised reinvestment allowances	(1,048)	437	(611)
	(1,654)	509	(1,145)
	8,911	198	9,109

26. Trade payables

	Group	
	2019 RM'000	2018 RM'000
Third parties	20,754	25,283
Companies in which a director has substantial financial interest	62	65
	20,816	25,348

The normal trade credit term granted to the Group is 30 to 120 (2018 - 30 to 120) days.

27. Other payables and accruals

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Accrued operating expenses	8,099	8,346	45	60
Other payables	3,710	3,025	-	-
Sales and services tax payables	444	539	-	-
Goods and services tax payables	1	1	-	-
Amount payable to property, plant and equipment suppliers	1,022	1,104	-	-
	13,276	13,015	45	60

28. Bank overdrafts

(a) The bank overdrafts of the Group are secured by corporate guarantee of the Company and deposits with licensed banks as disclosed in Note 21 to the financial statements.

(b) The bank overdrafts of the Group at the end of the reporting period bore weighted average effective interest rate of 7.78% (2018 - Nil) per annum.

29. Derivative liabilities

	Contract/Notional Amount		Group	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Forward currency contracts	417	-	4	-

The Group does not apply hedge accounting.

Forward currency contracts are used to manage some of the Group's transactions exposures for which firm commitments existed at the end of the reporting period. The settlement dates of the forward currency contracts are one months after the end of the reporting period.

30. Dividends

	Group/Company	
	2019 RM'000	2018 RM'000
Final single tier dividend of approximately 2.5 sen (2018 - 2.5sen) per ordinary share in respect of the previous financial year	1,854	1,854

At the forthcoming Annual General Meeting, a final single tier dividend of 3 sen per ordinary share in respect of the current financial year ended 31 December 2019, will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an approprition of retained profits in the financial year ending 31 December 2020.

31. Cash flow information

(a) The cash disbursed for the purchase of property, plant and equipment is as follows:-

	Group	
	2019 RM'000	2018 RM'000
Cost of property, plant an equipment purchased (Note 12)	18,728	9,694
Amount financed through finance lease (Note (e) below)	-	(1,673)
Other payables - amounts not yet due for payment	82	(1,104)
Payment made for future purchase	2,370	1,567
Cash disbursed for purchase of property, plant and equipment	21,180	8,484

31. Cash flow information

(b) The cash disbursed for the purchase of right-of-use assets is as follows:-

	Group 2019 RM'000	Group 2018 RM'000
Cost of right-of-use assets purchased (Note 14)	3,222	-
Amount under new lease acquired	(2,887)	-
Cash disbursed for purchase of right-of-use assets	335	-

(c) The cash and cash equivalents comprise the following:-

	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Deposits with licensed banks	6,652	6,436	3,149	3,066
Cash and bank balances	36,640	29,747	606	574
Bank overdrafts	(1,493)	-	-	-
	41,799	36,183	3,755	3,640
Less: Deposits pledged to licensed banks (Note 21)	(4,274)	(6,436)	(3,149)	(3,066)
	37,525	29,747	606	574

(d) The total cash outflows for leases as a lessee are as follows:-

	Group 2019 RM'000
Payment of short-term leases	621
Payment of low-value assets	9
Interest paid on lease liabilities	359
Payment of lease liabilities	1,740
	2,729

31. Cash flow information (continued)

(e) The reconciliations of liabilities arising from financing activities are as follows:-

Group	Bank overdrafts RM'000	Bankers' acceptances RM'000	Charge card RM'000	Term loans RM'000	Finance lease payables RM'000	Lease liabilities RM'000	Total RM'000
2019							
At 1 January, as previously reported	-	54,211	157	4,236	4,427	-	63,031
Effects on adoptions of MFRS 16	-	-	-	-	(4,427)	5,967	1,540
At 1 January, as restated	-	54,211	157	4,236	-	5,967	64,571
Changes in financing cash flows							
Net proceeds from drawdown	*	6,609	-	-	-	-	6,609
Repayment of principal	*	-	(157)	(994)	-	(1,740)	(2,891)
Repayment of interests	(59)	(2,665)	-	(242)	-	(359)	(3,325)
	(59)	3,944	(157)	(1,236)	-	(2,099)	393
Non-cash changes							
Acquisition of new lease	-	-	-	-	-	2,887	2,887
Interest expenses recognised in profit or loss	59	2,665	-	242	-	359	3,325
	59	2,665	-	242	-	3,246	6,212
At 31 December	-	60,820	-	3,242	-	7,114	71,176

31. Cash flow information (continued)

(e) The reconciliations of liabilities arising from financing activities are as follows (continued):-

	Bank overdrafts RM'000	Bankers' acceptances RM'000	Charge card RM'000	Term loans RM'000	Finance lease payables RM'000	Total RM'000
Group						
2018						
At 1 January	-	65,001	171	1,603	1,489	68,264
Changes in financing cash flows						
Proceeds from drawdown	*	-	-	3,300	-	3,300
Net repayment of principal	-	(10,790)	-	-	-	(10,790)
Acquisition of new lease	-	-	-	-	2,219	2,219
Repayment of principal	*	-	(14)	(667)	(954)	(1,635)
Repayment of interests	(9)	(2,952)	-	(173)	(207)	(3,341)
	(9)	(13,742)	(14)	2,460	1,058	(10,247)
Non-cash changes						
Acquisition of new lease (Note (b) above)	-	-	-	-	1,673	1,673
Interest expenses recognised in profit or loss	9	2,952	-	173	207	3,341
	9	2,952	-	173	1,880	5,014
At 31 December	-	54,211	157	4,236	4,427	63,031

* Bank overdrafts have formed part of the cash and cash equivalents, therefore no movement presented.

32. Related party disclosures

(a) Identities of Related Parties

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.

In addition to the information detailed elsewhere in the financial statements, the Group has related party relationships with its directors, key management personnel and entities within the same group of companies.

(b) Significant related party transactions and balances

Other than those disclosed elsewhere in the financial statements, the Group and the Company also carried out the following significant transactions with the related parties during the financial year:-

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Subsidiaries				
Dividends received from subsidiaries	-	-	(2,445)	(7,726)
Companies in which certain directors have substantial financial interests				
Lease expenses	200	-	-	-
Sales of goods	(10,774)	(13,102)	-	-
Purchase of goods	498	535	-	-

The significant outstanding balances of the related parties together with their terms and conditions are disclosed in the respective notes to the financial statements.

The related party transactions described above were entered into the normal course of business carried out based on negotiated terms and conditions and are mutually agreed with respective parties.

33. Key management personnel compensation

The key management personnel of the Group and of the Company include executive directors and non-executive directors of the Company and certain members of senior management of the Group and of the Company.

The key management personnel compensation during the financial year are as follows:-

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
(a) Directors				
Directors of the Company				
Short-term employee benefits:				
- fees	496	782	240	240
- salaries, bonuses and other benefits	1,874	2,823	17	19
Defined contribution benefits	146	145	-	-
	2,516	3,750	257	259
Directors of the Subsidiaries				
Short-term employee benefits:				
- salaries, bonuses and other benefits	688	672	-	-
Defined contribution benefits	82	80	-	-
	770	752	-	-
Total directors' remuneration (Note 8)	3,286	4,502	257	259

The estimated monetary value of benefits-in-kind provided by the Group to the directors of the Company were approximely RM34,000 (2018 - RM50,000).

(b) Other key management personnel

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Short-term employee benefits	1,165	1,052	-	-
Defined contribution benefits	139	127	-	-
Total compensation for other key management personnel	1,304	1,179	-	-

34. Capital commitments

	Group	
	2019 RM'000	**2018 RM'000**
Purchase of plant and equipment	8,496	3,680

35. Operating segments

No business and geographical segment information is presented as the Group is principally engaged in the manufacturing and sale of corrugated boards and carton boxes and operates in Malaysia only.

There is no single customer that contributed 10% or more to the Group's revenue.

36. Contingent liabilities

(a) No provisions are recognised on the following matters as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

The Company has granted corporate guarantees to licensed banks amounting to approximately RM179,173,500 (2018 - RM174,173,500 for credit facilities extended to a subsidiary of which RM53,529,000 (2018 - RM51,331,000) was outstanding as at the end of the financial year.

(b) There was no material litigation against the Group, except for a trade dispute over the Collective Agreement between a subsidiary and the Paper and Paper Products Manufacturing Employee's Union dated 20 May 2004 that was referred to the Industrial Court.

Both parties agreed that the Learned Chairman should hand down an Award on the preliminary issues raised earlier before the Hearing commenced. As such, the subsidiary of the Group had filed a submission on the preliminary issues. As at the reporting date, this matter is pending decision for a date to be fixed by the industrial court.

The Board of Directors believe that there will not have unfavorable outcome from the dispute. Hence no provision is provided for as at the reporting date.

37. Financial instruments

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

37.1 Financial risk management policies

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

(a) Market risk

(i) Foreign currency risk

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than Ringgit Malaysia. The currencies giving rise to this risk are primarily United States Dollar ("USD"), Euro Dollar ("EUR") and Singapore Dollar ("SGD"). Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level. On occassion, the Group enters into forward foreign currency contracts to hedge against its foreign currency risk. The Group also holds cash and cash equivalents denominated in foreign currencies for working capital purposes.

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37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

The Group's exposure to foreign currency risk (a currency which is other than the functional currency of the entities within the Group) based on the carrying amounts of the financial instruments at the end of the reporting period is summarised below:-

Foreign currency exposure

The Group	**United States Dollar RM'000**	**Euro Dollar RM'000**	**Singapore Dollar RM'000**	**Total RM'000**
2019				
Financial assets				
Trade receivables	2,399	-	209	2,608
Other receivables	76	-	-	76
Cash and bank balances	3	-	-	3
Financial liabilities				
Trade payables	(474)	-	-	(474)
Other payables and accruals	(798)	(56)	-	(854)
Currency Exposure	1,206	(56)	209	1,359

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37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

The Group's exposure to foreign currency risk (a currency which is other than the functional currency of the entities within the Group) based on the carrying amounts of the financial instruments at the end of the reporting period is summarised below (continued):-

Foreign currency exposure (continued)

The Group	**United States Dollar RM'000**	**Singapore Dollar RM'000**	**Total RM'000**
2018			
Financial assets			
Trade receivables	2,791	156	2,947
Cash and bank balances	36	6	42
Financial liabilities			
Trade payables	(50)	-	(50)
Other payables and accruals	(1,098)	-	(1,098)
Currency Exposure	1,679	162	1,841

Foreign Currency Risk Sensitivity Analysis

The following table details the sensitivity analysis to a reasonably possible change in the foreign currencies at the end of the reporting period, with all other variables held constant:-

	Group	
Effects on Profit After Taxation	**2019 RM'000**	**2018 RM'000**
USD/RM – strengthened by 4% (2018: 5%)	37	64
– weakened by 4% (2018: 5%)	(37)	(64)
EUR/RM – strengthened by 4% (2018: 3%)	(2)	-
– weakened by 4% (2018: 3%)	2	-
SGD/RM – strengthened by 3% (2018: 2%)	5	3
– weakened by 3% (2018: 2%)	(5)	(3)

37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(a) Market risk (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises mainly from interest-bearing borrowings. The Group's policy is to obtain the most favourable interest rates available and by maintaining a balanced portfolio mix of fixed and floating rate borrowings.

The Group's fixed rate receivables and borrowings are carried at amortised cost. Therefore, they are not subject to interest rate risk as in defined MFRS 7 since neither carrying amounts nor the future cash flows will fluctuate because of a change in market interest rates.

The Group's exposure to interest rate risk based on the carrying amounts of the financial instruments at the end of the reporting period is disclosed in Note 23 to the financial statements.

Interest Rate Risk Sensitivity Analysis

The following table details the sensitivity analysis to a reasonably possible change in the interest rates at the end of the reporting period, with all other variables held constant:-

	Group	
	2019	**2018**
	RM'000	**RM'000**
Effects on Profit After Taxation		
Increase of 25 basis points (2018 - 50 basis points)	(167)	(277)
Decrease of 25 basis points (2018 - 50 basis points)	167	277

(iii) Equity price risk

The Group does not have any quoted investments and hence, is not exposed to equity price risk.

37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(b) Credit risk

The Group's exposure to credit risk, or the risk of counterparties defaulting, arises mainly from trade and other receivables. The Group manages its exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis. For other financial assets (including cash and bank balances and derivatives), the Group minimises credit risk by dealing exclusively with high credit and derivatives rating counterparties.

The Company's exposure to credit risk arises principally from corporate guarantee given to financial institutions for credit facilities granted to certain subsidiaries. The Company monitors the results of these subsidiaries regularly and repayments made by the subsidiaries.

(i) Credit risk concentration profile

The Group does not have any major concentration of credit risk related to any individual customer or counterparty.

In addition, the Group also determines the concentration of credit risk by monitoring the geographical region of its trade receivables on an ongoing basis. The credit risk concentration profile of trade receivables (including related parties) at the end of the reporting period is as follows:-

	Group	
	2019	**2018**
	RM'000	**RM'000**
Local	76,400	84,173
Export	1,013	100
	77,413	84,273

37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(b) Credit risk (continued)

(ii) Exposure to credit risk

At the end of the reporting period, the maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position of the Group after deducting any allowance for impairment losses (where applicable).

(iii) Assessment of impairment losses

At each reporting date, the Group assesses whether any of the financial assets at amortised cost are credit impaired.

The gross carrying amounts of financial assets are written off when there is no reasonable expectation of recovery (i.e. the debtor does not have assets or sources of income to generate sufficient cash flows to repay the debt) despite the fact that they are still subject to enforcement activities.

Trade Receivables

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Also, the Group considers any receivables having financial difficulty are deemed credit impaired.

The expected loss rates are based on the payment profiles of past sales and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle their debts.

37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(b) Credit risk (continued)

(iii) Assessment of impairment losses (continued)

Trade Receivables (continued)

The information about the exposure to credit risk and the loss allowances calculated under MFRS 9 for trade receivables are summarised below:-

The Group	Gross Amount RM	Individual Impairment RM	Collective Impairment RM	Carrying Amount RM
2019				
Current (not past due)	58,032	-	-	58,032
1 to 30 days past due	13,955	-	-	13,955
31 to 60 days past due	3,899	-	-	3,899
61 to 90 days past due	1,430	-	-	1,430
91-120 days past due	85	-	-	85
120 -151 days past due	12	-	-	12
Credit impaired	682	(682)	-	-
	78,095	(682)	-	77,413

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37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(b) Credit risk (continued)

(iii) Assessment of impairment losses (continued)

Trade Receivables (continued)

The information about the exposure to credit risk and the loss allowances calculated under MFRS 9 for trade receivables are summarised below (continued):-

The Group	Gross Amount RM	Individual Impairment RM	Collective Impairment RM	Carrying Amount RM
2018				
Current (not past due)	59,440	-	-	59,440
1 to 30 days past due	16,963	-	-	16,963
31 to 60 days past due	5,381	-	-	5,381
61 to 90 days past due	2,418	-	-	2,418
91-120 days past due	69	-	-	69
120 -151 days past due	2	-	-	2
Credit impaired	169	(169)	-	-
	84,442	(169)	-	84,273

The movements in the loss allowances in respect of trade receivables are disclosed in Note 19 to the financial statements.

Other receivables

The Group applies the 3-stage general approach to measuring expected credit losses for other receivables. At the end of the reporting period, there was no indication that the amount owing is not recoverable other than those which had already impaired in the last financial year.

37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(b) Credit risk (continued)

(iii) Assessment of impairment losses (continued)

Deposits with Licensed Banks, Cash and Bank Balances

The Group considers these banks and financial institutions have low credit risks. In addition, some of the bank balances are insured by Government agencies. Therefore, the Group is of the view that the loss allowance is immaterial and hence, it is not provided for.

Financial Guarantee Contracts

All of the financial guarantee contracts are considered to be performing, have low risks of default and historically there were no instances where these financial guarantee contracts were called upon by the parties of which the financial guarantee contracts were issued to. Accordingly, no loss allowances were identified based on 12-month expected credit losses.

(c) Liquidity risk

Liquidity risk arises mainly from general funding and business activities. The Group practises prudent risk management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities.

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37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(c) Liquidity risk

Maturity Analysis

The following table sets out the maturity profile of the financial liabilities at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period):-

The Group	Weighted Average Effective Interest Rate %	Carrying Amount RM'000	Contractual Undiscounted Cash Flows RM'000	Within 1 Year RM'000	1 – 5 Years RM'000
2019					
Non-derivative Financial Liabilities					
Trade payables	-	20,816	20,816	20,816	-
Other payables and accruals	-	12,831	12,831	12,831	-
Bank overdrafts	7.78	1,493	1,493	1,493	-
Bankers' acceptances	4.01	60,820	60,820	60,820	-
Term loans	6.19	3,242	3,623	1,116	2,507
Lease liabilities	5.07	7,114	7,529	2,486	5,043
Derivative Financial Liabilities					
Forward currency contract (gross settled):					
- gross payments		4	417	417	-
		106,320	107,529	99,979	7,550

37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(c) Liquidity risk (continued)

The following table sets out the maturity profile of the financial liabilities at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period) (continued):-

	Weighted Average Effective Interest Rate %	Carrying Amount RM'000	Contractual Undiscounted Cash Flows RM'000	Within 1 Year RM'000	1 – 5 Years RM'000
The Group					
2018					
Non-derivative Financial Liabilities					
Trade payables	-	25,348	25,348	25,348	-
Other payables and accruals	-	12,475	12,475	12,475	-
Finance lease payables	3.85	4,427	5,002	1,287	3,715
Term loans	6.24	4,236	4,915	1,292	3,623
Bankers' acceptances	4.33	54,211	54,211	54,211	-
Charge card	3.50	157	157	157	-
		100,854	102,108	94,770	7,338

37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(c) Liquidity risk (continued)

The following table sets out the maturity profile of the financial liabilities at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period) (continued):-

	Weighted Average Effective Interest Rate %	Carrying Amount RM'000	Contractual Undiscounted Cash Flows RM'000	Within 1 Year RM'000	1 – 5 Years RM'000
The Company					
2019					
Non-derivative Financial Liability					
Other payables and accruals	-	45	45	45	-
2018					
Non-derivative Financial Liability					
Other payables and accruals	-	60	60	60	-

37. Financial instruments (continued)

37.2 Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to maintain an optimal capital structure so as to support its businesses and maximise shareholder(s) value. To achieve this objective, the Group may make adjustments to the capital structure in view of changes in economic conditions, such as adjusting the amount of dividend payment, returning of capital to shareholders or issuing new shares.

The Group manages its capital based on debt-to-equity ratio that complies with debt covenants. The debt-to-equity ratio is calculated as net debt divided by total capital plus net debt. The Group includes within net debt, loans and borrowings, trade and other payables less cash and bank balances and deposits with licensed banks. Capital includes equity attributable to the owners of the parent. The debt-to-equity ratio of the Group at the end of the reporting period was as follows:-

	Group	
	2019	**2018**
	RM'000	**RM'000**
Trade payables	20,816	25,348
Other payables and accruals	13,276	13,015
Bank overdrafts	1,493	-
Derivative liabilities	4	-
Charge card	-	157
Lease liabilities	7,114	-
Finance lease payables	-	4,427
Term loans	3,242	4,236
Bankers' acceptances	60,820	54,211
	106,765	101,394
Less: Cash and bank balances	(36,640)	(29,747)
Less: Deposits with licensed banks	(6,652)	(6,436)
Net debt	63,473	65,211
Total equity	175,327	163,971
Capital and net debt	238,800	229,182
Debt-to-equity ratio	0.27	0.28

There was no change in the Group’s approach to capital management during the financial year.

37. Financial instruments (continued)

37.3 Classification of financial instruments

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Financial Assets				
Amortised Cost				
Trade receivables (Note 19)	77,413	84,273	-	-
Other receivables (Note 20)	66	328	17	8
Deposits with licensed banks (Note 21)	6,652	6,436	3,149	3,066
Cash and bank balances	36,640	29,747	606	574
	120,771	120,784	3,772	3,648

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Financial Liabilities				
Mandatorily at fair value through profit or loss				
Derivative liabilities (Note 29)	4	-	-	-
Amortised Cost				
Trade payables (Note 26)	20,816	25,348	-	-
Other payables and accruals (Note 27)	12,831	12,475	45	60
Bank overdrafts (Note 28)	1,493	-	-	-
Charge card (Note 23)	-	157	-	-
Lease liabilities (Note 24)	7,114	-	-	-
Finance lease payables (Note 23)	-	4,427	-	-
Term loans (Note 23)	3,242	4,236	-	-
Bankers' acceptances (Note 23)	60,820	54,211	-	-
	106,320	100,854	45	60

37. Financial instruments (continued)

37.4 Gains or Losses Arising From Financial Instruments

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Financial Assets				
Amortised Cost				
Net gains recognised in profit or loss	109	616	-	-
Financial Liabilities				
Fair Value Through Profit or Loss				
Net loss recognised in profit or loss	(4)	-	-	-
Amortised Cost				
Net losses recognised in profit or loss	(3,577)	(3,236)	-	-

37.5 Fair Value Information

The fair values of the financial assets and financial liabilities of the Group and of the Company which are maturing within the next 12 months approximated their carrying amounts due to the relatively short-term maturity of the financial instruments or repayable on demand terms.

37. Financial instruments (continued)

37.5 Fair Value Information (continued)

The following table sets out the fair value profile of financial instruments that are carried at fair value and those not carried at fair value at the end of the reporting period:-

	Fair Value of Financial Instruments Carried at Fair Value			Fair Value of Financial Instruments not Carried at Fair Value			Total	Carrying
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Fair Value	Amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group								
2019								
Financial Liabilities								
Term loans:								
- floating rate	-	-	-	-	3,242	-	3,242	3,242
Derirative liabilities:								
- forward currency contract	-	4	-	-	-	-	4	4

37. Financial instruments (continued)

37.5 Fair Value Information (continued)

The following table sets out the fair value profile of financial instruments that are carried at fair value and those not carried at fair value at the end of the reporting period (continued):-

	Fair Value of Financial Instruments not Carried at Fair Value				
	Level 1 RM	Level 2 RM	Level 3 RM	Total Fair Value RM	Carrying Amount RM
Group					
2018					
Financial Liabilities					
Finance lease payable	-	4,427	-	4,427	4,427
Term loans:					
– floating rate	-	4,236	-	4,236	4,236

(a) Fair Value of Financial Instruments Carried at Fair Value

(i) The fair values above have been determined using the following basis:-

(aa) The fair values of forward currency contracts are determined by discounting the difference between the contractual forward prices and the current forward prices for the residual maturity of the contracts using a risk-free interest rate (government bonds).

(ii) There were no transfers between level 1 and level 2 during the financial year.

37. Financial instruments (continued)

37.5 Fair Value Information (continued)

(b) Fair Value of Financial Instruments Not Carried at Fair Value

The fair values, which are for disclosure purposes, have been determined using the following basis:-

(i) The fair value of the Group's term loans that carry floating interest rates approximated their carrying amounts as they are repriced to market interest rates on or near the reporting date.

(ii) The fair value of finance lease payables that carry fixed interest rates are determined by discounting the relevant future contractual cash flows using current market interest rates for similar instruments at the end of the reporting period. The interest rates used to discount the estimated cash flows are as follows:-

	Group	
	2019	**2018**
	%	**%**
Finance lease	-	3.16 to 3.19

38. Initial application of MFRS 16

The Group has adopted MFRS 16 retrospectively from 1 January 2019 and has not restated the comparative information as permitted under the specific transition provisions in the standard. The Group has applied MFRS 16 only to contracts that were previously identified as leases under MFRS 117 'Leases' and IC Interpretation 4 'Determining Whether an Arrangement Contains a Lease'. Therefore, MFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At 1 January 2019, for leases that were classified as operating leases under MFRS 117, the Group measured the lease liabilities at the present value of the remaining lease payments, discounted using the Group's weighted average incremental borrowing rate at that date of 5.07%. The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease.

38. Initial application of MFRS 16 (continued)

The Group has used the following practical expedients in applying MFRS 16 for the first time:-

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied for the exemption not to recognise operating leases with a remaining lease term of less than 12 months as at 1 January 2019;
- Excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the lease contract contains options to extend or terminate the lease.

For leases that were classified as finance leases, the Group has recognised the carrying amount of the leased asset and lease liability immediately before 1 January 2019 as the carrying amount of the right-of-use asset and the lease liability as at the date of initial application.

As a result, the Group did not make any adjustments to its retained profits upon the transition to MFRS 16 at 1 January 2019 other than the reclassification of certain balances in the Group's statement of financial position on that date as disclosed below:-

Statements of financial position

	Group 1.1.2019		
	As previously reported RM'000	Initial application of MFRS 16 RM'000	As restated RM'000
Property, plant and equipment	96,848	(12,371)	84,477
Land use rights	6,529	(6,529)	-
Right-of-use-assets	-	20,440	20,440
Loans and borrowings	(63,031)	4,427	(58,604)
Lease liabilities	-	(5,967)	(5,967)

39. Comparative figure

The following figures have been reclassified to conform with the presentation of the current financial year:-

	As Previously Reported RM'000	As Restated RM'000
Group		
Statement of Financial Position (Extract):-		
Non-current Asset		
Deferred tax assets	713	-
Current Assets		
Trade and other receivables	85,078	-
Other current assets	3,745	-
Trade receivables	-	84,273
Other receivables, deposits and prepayments	-	4,550
Non-current Liability		
Deferred tax liabilities	9,822	9,109
Current Liabilities		
Trade and other payables	38,563	-
Refund liabilities	628	828
Trade payables	-	25,348
Other payables and accruals	-	13,015
Statement of Profit or Loss and Other Comprehensive income (Extract):-		
Interest income	331	-
Other income	1,463	1,446
Reversal of net impairment losses on financial assets	-	348

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39. Comparative figure (continued)

The following figures have been reclassified to conform with the presentation of the current financial year (continued):-

	As Previously Reported RM'000	As Restated RM'000
Group		
Statement of Cash Flows (Extract):-		
Cash flows from operating activities		
Interest expense	3,557	3,341
Bad debts receovered	(9)	-
Increase in trade and other receivables	-	1,475
Increase in receivables	2,404	-
Increase in other current assets	(929)	-
Increase in payables and refund liabilities	3,202	-
Decrease in refund liabilities	-	(628)
Increase in trade and other payables	-	3,456
Reversal of impairment loss on trade receivables	(339)	(348)
Interest paid	(3,773)	-
Cash flows for financing activities		
Interest paid	-	(3,341)

	As Previously Reported RM'000	As Restated RM'000
Company		
Statement of Financial Position (Extract):-		
Current Assets		
Trade and other receivables	21	-
Other current assets	1	-
Other receivables, deposits and prepayments	-	22