

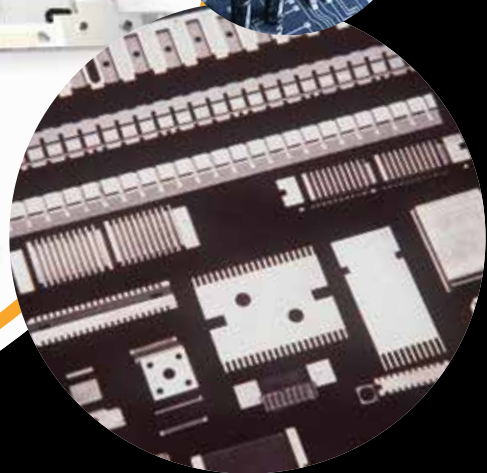
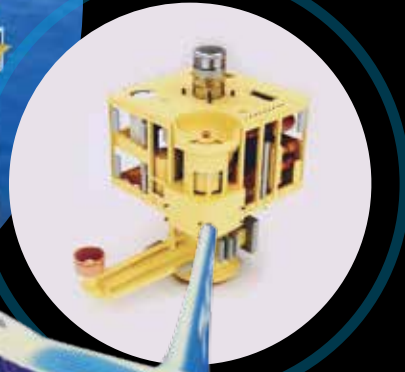


KOBAY  
TECHNOLOGY BHD

ANNUAL REPORT 2018

## Our Pride

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## CORPORATE INFORMATION

### Board of Directors

Dr. Mohamad Zabdi Bin Zamrod  
*Chairman/Independent and Non-executive Director*

Dato' Seri Koay Hean Eng  
*Managing Director / Chief Executive Officer*

Koay Cheng Lye  
*Executive Director / Chief Administrative Officer*

Lim Swee Chuan  
*Executive Director / Chief Financial Officer*

Koay Ah Bah @ Koay Cheng Hock  
*Non-independent and Non-executive Director*

Khaw Eng Peng  
*Senior Independent and Non-executive Director*

### Audit and Risk Management Committee

Khaw Eng Peng  
*Chairman*

Dr. Mohamad Zabdi Bin Zamrod  
*Member*

Koay Ah Bah @ Koay Cheng Hock  
*Member*

### Nominating Committee

Khaw Eng Peng  
*Chairman*

Dr. Mohamad Zabdi Bin Zamrod  
*Member*

Koay Ah Bah @ Koay Cheng Hock  
*Member*

### Remuneration Committee

Dato' Seri Koay Hean Eng  
*Chairman*

Dr. Mohamad Zabdi Bin Zamrod  
*Member*

Khaw Eng Peng  
*Member*

### Secretaries

Chan Mun Shee (MAICSA 7003071)  
Email : cosec@kobaytech.com

Wong Mee Choon (MACS 01562)

### Registered Office

3rd Floor, Wisma Kobay,  
No. 42-B Jalan Rangoon,  
10400 Georgetown,  
Penang.  
Tel.: (04) 3711338  
Fax : (04) 2261363  
Email : cosec@kobaytech.com

### Registrar

Agriteum Share Registration Services Sdn. Bhd.  
2nd Floor, Wisma Penang Garden,  
42, Jalan Sultan Ahmad Shah,  
10050 Penang.  
Tel: (04) 2282321  
Fax: (04) 2272391  
Email : agriteumshare@gmail.com

### Website

www.kobaytech.com

### Auditors

Crowe Malaysia  
Chartered Accountants  
Level 6, Wisma Penang Garden,  
42, Jalan Sultan Ahmad Shah,  
10050 Penang.  
Tel: (04) 2277061  
Fax: (04) 2278011

### Bankers

Malayan Banking Berhad  
Public Bank Berhad  
Alliance Bank Malaysia Berhad  
Hong Leong Bank Berhad  
Ambank (M) Berhad

### Stock Exchange Listing

Main Market, Bursa Malaysia Securities Berhad  
(Stock Code : 6971; Stock Name : KOBAY)

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Twenty-Fourth (24th) Annual General Meeting ("AGM") of Kobay Technology Bhd. will be held at 4th Floor, Wisma Kobay, No. 42-B, Jalan Rangoon, 10400 Georgetown, Penang on Thursday, 22 November 2018 at 2.30 p.m. for the following purposes:-

### ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 30 June 2018 and the Reports of the Directors and Auditors thereon.
2. To retain Dr. Mohamad Zabdi Bin Zamrod as Independent and Non-executive Director in accordance with Malaysian Code of Corporate Governance 2017. Resolution 1
3. To re-elect Mr. Koay Cheng Lye as Company Director, who retires in accordance with Article 95 of the Company's Constitution. Resolution 2
4. To re-elect Mr. Khaw Eng Peng as Company Director, who retires in accordance with Article 95 of the Company's Constitution. Resolution 3
5. To re-appoint Messrs. Crowe Malaysia (formerly known as Crowe Horwath) as Auditors of the Company and to authorize the Directors to fix their remuneration. Resolution 4

### SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions:

6. ORDINARY RESOLUTION Resolution 5  
**PAYMENT OF DIRECTORS' FEES**  
 "THAT the payment of Directors' fees totaling Ringgit Malaysia Twenty Two Thousand Five Hundred (RM22,500) only to the Non-executive Directors for the financial year ended 30 June 2018 be and is hereby approved."
7. ORDINARY RESOLUTION Resolution 6  
**AUTHORITY TO ISSUE SHARES IN ACCORDANCE TO SECTION 76 OF THE COMPANIES ACT, 2016**  
 "THAT subject always to the Companies Act, 2016 ("the Act") and the approvals from the relevant governmental and/or regulatory authorities, the Directors of the Company be and are hereby empowered pursuant to Section 76 of the Act, to issue and allot shares in the capital of the Company from time to time upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit PROVIDED THAT the aggregate number of shares to be issued (inclusive employee share option scheme exercised by the employees, if any) pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being AND THAT the Directors are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad ("Bursa Securities") AND THAT such authority shall continue in force until the conclusion of the next AGM of the Company."
8. ORDINARY RESOLUTION Resolution 7  
**PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY**  
 "THAT subject to the compliance by the Company with all applicable laws, regulations and guidelines pursuant to the Act, the Company's Constitution, the Main Market Listing Requirements of Bursa Securities and the approvals of all relevant authorities, the Company be and is hereby authorized to purchase and/or hold such amount of ordinary shares in the Company ("shares") as may be determined by the Directors of the Company from time to time through the Bursa Securities upon such terms and conditions as the Directors may deem fit in the interest of the Company PROVIDED THAT the maximum number of shares purchased and/or held pursuant to this resolution does not exceed ten per cent (10%) of the issued share capital of the Company at any given point in time and that the maximum amount of fund allocated by the Company for the purpose of purchasing the shares shall not exceed the retained profits account of the Company.

THAT authority be and is hereby given to the Directors to treat the shares so purchased by the Company pursuant to this Proposed Share Buy-back in accordance with the provision of the Act, which allows a Company that has purchased its own shares to either retain part of or entire shares as treasury shares or cancel part of or entire shares, or a combination of both. The shares so retained as treasury shares by the Company may, either be distributed as share dividends to shareholders or resell on Bursa Securities or in any manner pursuant to the Act, Bursa Securities Listing Requirements or any other relevant authority for the time being in force.

## NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

### 8. ORDINARY RESOLUTION

Resolution 7

#### **PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)**

THAT such authority from the shareholders would be effective immediately upon passing of this resolution and would continue to be in force until:-

- (i) the conclusion of the next AGM of the Company following the AGM at which such resolution was passed, at which time it shall lapse unless by ordinary resolution passed at that meeting, the authority is renewed either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which the next AGM of the Company after the date it is required to be held pursuant to sections 340(1) & (2) of the Companies Act, 2016 (but shall not extend to such extension as may be allowed pursuant to section 340(4) of the Companies Act, 2016); or
- (iii) revoked or varied by ordinary resolution passed by the shareholders of the Company in a general meeting,

whichever occurs first.

AND THAT authority be and is hereby given to the Directors to take all such steps as are necessary or expedient to implement or to give effect of the Proposed Share Buy-back Authority with full powers to assent to any conditions, modifications, re-valuations, variations and/or amendments (if any) as may be imposed by the relevant authorities from time to time."

### 9. ORDINARY RESOLUTION

Resolution 8

#### **PROPOSED SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE**

"THAT pursuant to paragraph 10.09 of the Listing Requirements of Bursa Securities, a mandate of the shareholders be and is hereby granted to allow recurrent related party transactions of a revenue or trading nature ("RRPTs"), which are necessary for the day-to-day operations of the Company and/or its subsidiary companies ("Kobay Group"), to be entered into by the Kobay Group in the ordinary course of business, PROVIDED THAT such transactions are entered into at arm's length basis and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company, the particulars of such transactions are set out in Section 2.4 of the Circular/Statement to Shareholders of Kobay dated 30 October 2018 ("Proposed Shareholders' Mandate");

THAT disclosure of the breakdown of the aggregate value of transactions conducted will be made based on the type of RRPTs made, names of the related parties involved in each type of the RRPTs made and their relationship with the Company, in the annual report of the Company during the current financial year and in the annual report for the subsequent financial year during which the Proposed Shareholders' Mandate is in force;

THAT the authority conferred by this resolution shall commence immediately upon the passing of this Ordinary Resolution and shall continue to be in force until:-

- a. the conclusion of the next Annual General Meeting ("AGM") of the Company, at which time it shall lapse unless by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions; or
- b. the expiration of the period within which the next AGM of the Company after the date it is required to be held pursuant to sections 340(1) & (2) of the Companies Act, 2016 (but shall not extend to such extension as may be allowed pursuant to section 340(4) of the Companies Act, 2016); or
- c. revoked or varied by resolution passed by the shareholders in a general meeting,

whichever is earlier.

AND THAT the Directors of the Company and/or any of them be and are hereby authorised to give effect to the Proposed Shareholders' Mandate with full powers to deal with all matters relating thereto and to complete and do all acts and things (including executing such documents as may be required) in connection with the Proposed Shareholders' Mandate."

### 10. To transact any other ordinary business of which due notice shall have been given.



## NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

BY ORDER OF THE BOARD

CHAN MUN SHEE (MAICSA 7003071)  
WONG MEE CHOON (MACS 01562)  
Company Secretaries

Penang, 30 October 2018

### NOTES :

1. A member of the Company entitled to attend and vote, is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. For the purpose of determining a member who shall be entitled to attend and vote at the AGM, the Company shall be requesting the Record of Depositors as at 5.00 p.m. on 14 November 2018. Only a depositor whose name appears on the Record of Depositors as at 5.00 p.m. on 14 November 2018 shall be entitled to attend and vote at the said meeting as well as for appointment of proxy/(ies) to attend and vote on his stead.
3. The instrument of appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorized in writing, or the appointer is a corporation, either under the corporation's seal, or under the hand of the attorney or duly authorized officer.
4. If a member appoints 2 proxies, the appointment will be invalid unless he states the percentage off his shareholding to be represented by each proxy.
5. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 3rd Floor, Wisma Kobay, No.42-B, Jalan Rangoon, 10400 Georgetown, Penang not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof, either by hand, post or fax to (04)-2261363. In the case where the member is a corporation and the proxy form is delivered by fax, the original form shall also be deposited at the Registered Office, either by hand or post not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

### EXPLANATORY NOTES :

#### Resolution 1

In accordance with Malaysian Code of Corporate Governance 2017, the Nominating Committee has assessed the independency of Dr. Mohamad Zabdi Bin Zamrod, who has served as Independent and Non-executive Director for a cumulative term of more than 12 years, and recommended to Board of Directors to retain Dr. Mohamad Zabdi Bin Zamrod as Independent and Non-executive Director whereby the Board recommends and proposes to the shareholders' approval in two (2) tier voting to retain Dr. Mohamad Zabdi Bin Zamrod as Independent and Non-executive Director of the Company on the following justifications :-

- 1) He has fulfilled the criteria under the definition of an Independent Director as stated in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad thus enable him to perform a check and balance role in the Board;
- 2) He has performed his duty diligently and in the best interest of the Company with his experience and independent view from a different perspective of the management; and
- 3) He does not hold any shares in the Company, no relationship with other Board members nor having any business dealing or transaction with the Company or the Group before his appointment till to-date.

#### Resolution 5

The proposed Ordinary Resolution under item 6 is to obtain shareholders' approval for the payment of Directors' fees totalling Ringgit Malaysia Twenty Two Thousand Five Hundred (RM22,500) only to three (3) Non-executive Directors for the financial year ended 30 June 2018 as required under Article 103 of the Company's Constitution.

## NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

### EXPLANATORY NOTES : (Cont'd)

#### Resolution 6

A mandate was sought and approved by the members during the Twenty-Third (23rd) AGM held on 29 November 2017. No new shares were issued and no proceeds were raised from the previous mandate.

If the proposed Ordinary Resolution is passed, the Directors will be empowered to issue and allot shares in the Company at any time and for such purposes as the Directors consider would be in the interests of the Company up to an aggregate not exceeding 10% of the Company's issued capital (of which is not inter-conditional with the other corporate exercise carried out by the Group) without the need to convene separate general meetings to obtain its shareholders' approval so as to avoid incurring additional cost and time. This authority unless revoked or varied at the general meeting, will expire at the next AGM.

The mandate will provide flexibility to the Company for any possible fund raising exercises including but not limited to placing of shares for the purpose of funding future investment project(s), working capital and/or acquisition(s) and such other application as the Directors may deem fit and in the best interest of the Company.

#### Resolution 7

The proposed Ordinary Resolution under item 8 is of renewal and if passed, will allow the Company to purchase up to ten per cent (10%) of the issued share capital of the Company, at any given point in time. This authority unless revoked or varied at the general meeting, will expire at the next AGM. The details of this proposal are set out in the Circular/Statement to Shareholders dated 30 October 2018.

#### Resolution 8

The proposed Ordinary Resolution under item 9, if passed, will allow the Group to enter into recurrent related parties transactions of a revenue or trading nature and in the ordinary course of business which are necessary for day-to-day operations pursuant to Paragraph 10.09(1) of the Bursa Malaysia Securities Berhad's Listing Requirements. The details of this proposal are set out in the Circular/Statement to Shareholders dated 30 October 2018.

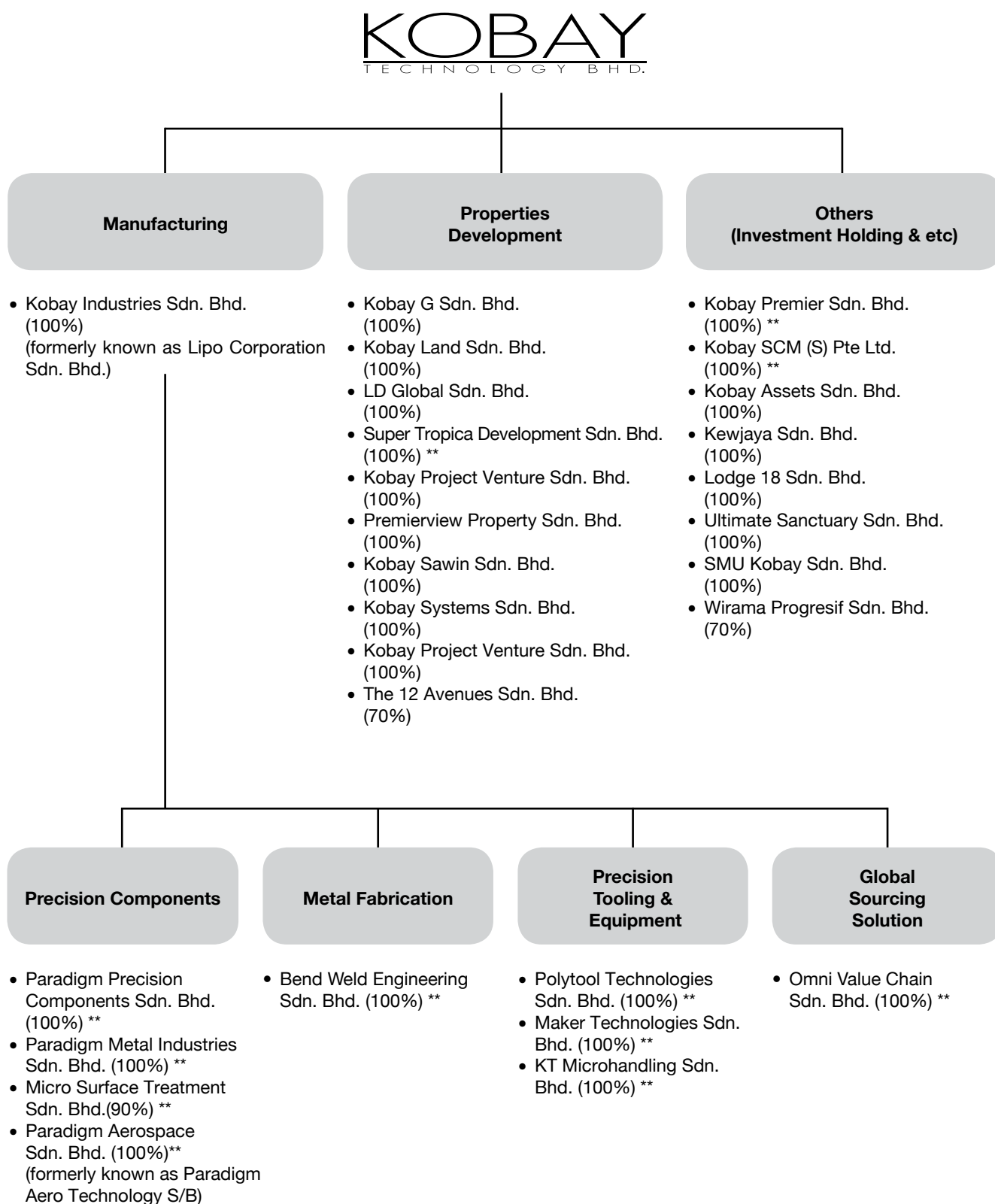
### STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

The profile of the Directors who are standing for retainment and re-election (as per Resolution 1-3 as stated in the Notice of Annual General Meeting) at the Twenty-Fourth (24th) Annual General Meeting of Kobay Technology Bhd. which will be held at 4th Floor, Wisma Kobay, No. 42-B, Jalan Rangoon, 10400 Georgetown, Penang on Thursday, 22 November 2018 at 2.30 p.m., are stated on page 8 & 9 of the Annual Report 2018.

There is no individual standing for election as new Director (excluding Directors standing for re-election) at this forthcoming Annual General Meeting.



## CORPORATE STRUCTURE



Notes :-

\*\* Subsidiary of Kobay Industries Sdn. Bhd. (formerly known as Lipo Corporation Sdn. Bhd.)

## BOARD OF DIRECTORS

**Dr. Mohamad Zabdi Bin Zamrod**

*Malaysian, aged 76, Male*

*Chairman/Independent and Non-executive Director/Member of Audit and Risk Management Committee/Member of Remuneration Committee and Member of Nominating Committee*

Dr. Mohamad Zabdi Bin Zamrod graduated with Doctorate in Curriculum and Teaching in Physical Education from the Columbia University, New York. He was a lecturer in Universiti Sains Malaysia and has vast experience in education field.

Dr. Mohamad Zabdi has been appointed as member of the Board on 30 March 2002. During his service tenure as Board's Chairman, together with the Company Secretaries, he has fostered a culture of compliance and governance in the Group.

Pursuant to the Malaysia Code of Corporate Governance, Dr. Mohamad Zabdi's retainment as Independent Director of the Company is subject to the members' approval in the forthcoming Annual General Meeting. After due consideration, both by the Nominating Committee and the Board of Directors, for which Dr. Mohamad Zabdi has been abstained in voting, proposed to retain Dr. Mohamad Zabdi as Independent Non-executive Director of the Company.

Dr. Mohamad Zabdi does not hold any shares in the Company as of 30 September 2018.

**Dato' Seri Koay Hean Eng**

*Malaysian, aged 60, Male*

*Chief Executive Officer/Member of Executive Committee and Chairman of Remuneration Committee*

As a co-founder to Kobay Group, Dato' Seri Koay Hean Eng holds a certificate of vocational education. He has involved himself in high precision engineering industry for more than 40 years with experience ranging from tool, die and mold making to semi-automated machines. He has also possessed more than 25 years of property development experience where he has participated and completed numerous property projects ranging from medium cost residential to high end condominium and commercial properties in Penang and Kuala Lumpur.

He was appointed to Kobay's Board in 17 September 1994 and thereafter he drove Kobay to be a public listed company. His passion in high precision engineering industry has contributed significantly to the growth of Kobay Group, and has turned the Group from small family business to public listed company.

With his vast experience in property development projects, he contributes extensively in the Group's diversification into property development since year 2013.

As of 30 September 2018, Dato' Seri Koay has direct shareholding of 2,481,231 ordinary shares and indirect shareholding of 26,284,510 ordinary shares via Kobay Holdings Sdn. Bhd., a major shareholder of the Company, by virtue of his substantial direct interest in Kobay Holdings Sdn. Bhd.

**Koay Cheng Lye**

*Malaysian, aged 70, Male*

*Chief Administrative Officer/Member of Executive Committee*

As a co-founder of Kobay Group, Mr. Koay Cheng Lye who has studied in National Taiwan University in Mathematics possessed more than 30 years of experience in high precision engineering industry. He was appointed to the Board prior to the floatation exercise of the Company on 17 September 1994 and also sits on the Board of all the subsidiaries within the Group and other private limited companies. He has an in depth knowledge of the overall Kobay's group operations.

Aside from his experience in high precision engineering industry, Mr. Koay Cheng Lye has also possessed more than 25 years of property development industries related knowledges and experience.

As of 30 September 2018, Mr. Koay has direct shareholding of 1,588,492 ordinary shares in the Company and indirect shareholdings of 26,284,510 ordinary shares, via Kobay Holdings Sdn. Bhd., a major shareholder of the Company by virtue of his direct shareholding in Kobay Holdings Sdn. Bhd.

Mr. Koay Cheng Lye is subject to retirement by rotation under Article 95 of the Company's Constitution at the forthcoming Annual General Meeting and being eligible, has offered himself for re-election.

## BOARD OF DIRECTORS (CONT'D)

### **Koay Ah Bah @ Koay Cheng Hock**

*Malaysian, aged 72, Male*

*Non-independent and Non-executive Director/Member of Nominating Committee/Member of Audit and Risk Management Committee*

Mr. Koay Ah Bah @ Koay Cheng Hock was appointed to the Board on 25 January 1999. He possessed more than 30 years of experience in mechanical engineering field through operating owned mechanical repair shop with a primary education background. He possessed more than 15 years of experience in property development industries and has completed numerous projects ranging from medium cost apartment to high end condominium in Penang and Kuala Lumpur.

As of 30 September 2018, Mr. Koay has direct shareholding of 1,326,997 ordinary shares in the Company and indirect shareholdings of 27,236,260 ordinary shares, via Kobay Holdings Sdn. Bhd., a major shareholder of the Company by virtue of his direct shareholding in Kobay Holdings Sdn. Bhd. and vide his sons' direct shareholding in the Company.

### **Lim Swee Chuan**

*Malaysian, aged 52, Male*

*Chief Financial Officer/Member of Executive Committee*

Mr. Lim Swee Chuan graduated with a Bachelor of Accounting (Honours) Degree from Universiti Utara Malaysia in year 1991. He is a Chartered Accountant and a member of the Malaysian Institute of Accountants as well as Chartered Tax Institute of Malaysia. Upon graduation, he worked for Cycle & Carriage (M) Sdn. Bhd. as a Group Internal Audit Executive from 1991 to 1992. Between 1992 and 1995, he was attached to Price Waterhouse (now known as PricewaterhouseCoopers) where his last position was an Audit Senior. He then joined our Group in 1995 as an Accountant.

After six years of services, he was appointed to the Board on 29 November 2001 and presently he is the Chief Financial Officer of Kobay Group. He oversees the Group's corporate finance and accounting functions and he also holds directorship in subsidiary companies.

Mr. Lim Swee Chuan has no direct/indirect shareholding in Kobay as of 30 September 2018.

### **Khaw Eng Peng**

*Malaysian, aged 51, Male*

*Senior Independent and Non-executive Director/Chairman of Audit and Risk Management Committee/Chairman of Nominating Committee and Member of the Remuneration Committee*

Mr. Khaw Eng Peng is a fellow member of the Association of Chartered Certified Accountants and a member of Malaysian Institute of Accountants. He joined Messrs. Coopers and Lybrand (now merged under the firm PricewaterhouseCoopers) in 1993 attaching to audit and compliance services division and he left in 1996 as Assistant Audit Manager. He then joined Oriental Interest Berhad ("OIB") Group as Senior Manager in Finance and Administration Department. In year 2001, he was promoted to Assistant General Manager overseeing all financial reporting, corporate compliance and administrative aspects of OIB Group. Mr. Khaw was appointed as Executive Director of OIB on 5 November 2007 and was subsequently re-designated as Chief Financial Officer on 13 December 2013 after resigning from OIB Board. In January 2017, Mr. Khaw left OIB to provide freelance consultancy services in corporate, financial reporting and taxation.

Mr. Khaw was appointed to the Board of Kobay on 30 July 2010. On 13 October 2014, he was re-designated as Senior Independent Non-executive Director, appointed as Chairman of Audit and Risk Management Committee, Chairman of the Nominating Committee and member of Remuneration Committee.

Mr. Khaw Eng Peng has no direct/indirect shareholding in Kobay as of 30 September 2018.

Mr. Khaw Eng Peng is subject to retirement by rotation under Article 95 of the Company's Constitution at the forthcoming Annual General Meeting and being eligible, has offered himself for re-election.

## BOARD OF DIRECTORS (CONT'D)

### KEY SENIOR MANAGEMENT

**Koay Wooi Tatt**

*Malaysian, aged 41, Male*

*Chief Operating Officer – Manufacturing Division/Member of Executive Committee*

Mr. Koay Wooi Tatt was appointed as Chief Operating Officer of Kobay on 10 October 2016 taking charge of the entire operations for the Manufacturing Division.

He graduated with Diploma in Mechanical Engineering from German-Malaysian Institute in 1999. He worked for Hup Fatt Brothers Sdn. Bhd. as Design Engineer prior to his appointment as Functional Manager in Paradigm Metal Industries Sdn. Bhd. ("PMI"), a subsidiary of Kobay, on 2 May 2003. In year 2004, he was promoted to General Manager of PMI. He has vast experience in precision machining and sheet metal manufacturing experience. He has in-depth experience in the entire Manufacturing Division of Kobay Group with his job rotation from sheet metal to precision machining and components, precision engineering and automated equipments. His working experience within Kobay Group has provided him an in-depth knowledge of the Group's operation systems and procedures.

Save as his directorship in the subsidiary companies of the Manufacturing Division, he has no directorship in any public companies and Kobay.

Mr. Koay Wooi Tatt is son of Mr. Koay Ah Bah @ Koay Cheng Hock and nephew of Dato' Seri Koay Hean Eng and Mr. Koay Cheng Lye.

As of 30 September 2018, Mr. Koay Wooi Tatt has direct shareholding of 475,875 ordinary shares in the Company

**Koay Zee Ee,**

*Malaysian, aged 31, Male*

*Chief Operating Officer – Property Development Division/Member of Executive Committee*

Mr. Koay Zee Ee was appointed as Chief Operating Officer of Kobay on 18 August 2017 taking charge of the entire operations for the Property Development Division.

He started his career as Management Trainee in Kobay Group in February 2006. In the same year, he was promoted to General Manager in Bend Weld Engineering Sdn. Bhd. ("BWE"), a wholly owned subsidiary of Kobay, responsible for managing the business unit that specializing in manufacturing of equipments and structures for the subsea oil and gas industry. He has managed to build the foundation of business and manufacturing excellence of BWE and relocated the business to Johor as well as expanded its customer base.

In year 2016, he was transferred back to Kobay as Personal Assistant to Chief Executive Officer ("CEO") after the Company diversified into property development. During his service as Personal Assistant to CEO, he has assisted the CEO in strategic planning, new projects and investments in property development of Kobay Group.

Mr. Koay Zee Ee is son of Dato' Seri Koay Hean Eng, our CEO and nephew of Mr. Koay Cheng Lye and Mr. Koay Ah Bah @ Koay Cheng Hock.

Save as his directorship in the subsidiary companies of the Property Division, he has no directorship in any public companies and Kobay.

He has no direct/indirect shareholding in Kobay as of 30 September 2018.

### OTHER INFORMATION

**Family Relationship**

Dato' Seri Koay Hean Eng, Mr. Koay Cheng Lye and Mr. Koay Ah Bah @ Koay Cheng Hock are brothers and they are also major shareholders of the Company via their shareholdings in Kobay Holdings Sdn. Bhd., a major shareholder of the Company.

The Chief Operating Officer for Manufacturing Division, Mr. Koay Wooi Tatt is the son of Mr. Koay Ah Bah @ Koay Cheng Hock and nephew of Dato' Seri Koay Hean Eng and Mr. Koay Cheng Lye. Mr. Koay Zee Ee, the Chief Operating Officer for Property Development Division, is the son of Dato' Seri Koay Hean Eng and nephew of Mr. Koay Ah Bah @ Koay Cheng Hock and Mr. Koay Cheng Lye.

Save for the above, none of the Directors and key senior management has any family relationship with other Directors or major shareholders of the Company.

## BOARD OF DIRECTORS (CONT'D)

### OTHER INFORMATION (CONT'D)

#### Conflict of Interest

None of the Company's Directors and key senior management has acted in conflict in any arrangement, contract or transaction during the financial year.

#### Conviction for Offences

None of the Company's Directors and key senior management had convicted any offence (other than traffic offences, if any) within the past five (5) years.

#### Number of board meetings attended in the financial year ended 30 June 2018

Four (4) board meetings were held during the financial year ended 30 June 2018. Details of attendance of Directors at the board meetings are as follows:

Directors	Attendance
Dato' Seri Koay Hean Eng	4/4
Koay Cheng Lye	4/4
Koay Ah Bah @ Koay Cheng Hock	4/4
Lim Swee Chuan	4/4
Khaw Eng Peng	4/4
Dr. Mohamad Zabdi Bin Zamrod	4/4

#### Directors' and Substantial Shareholders' Interests

Name	No. of shares held in Kobay as at 30.09.2018			
	No. of ordinary shares	Direct %	No. of ordinary shares	Indirect %
<b>Directors</b>				
Dato' Seri Koay Hean Eng	2,481,231	2.43	*26,284,510	25.75
Koay Cheng Lye	1,588,492	1.56	*26,284,510	25.75
Koay Ah Bah @ Koay Cheng Hock	1,326,997	1.30	#27,236,260	26.68
Lim Swee Chuan	—	—	—	—
Khaw Eng Peng	—	—	—	—
Dr. Mohamad Zabdi Bin Zamrod	—	—	—	—
<b>Substantial Shareholders</b>				
Kobay Holdings Sdn. Bhd. ("KHSB")	26,284,510	25.75	—	—
Norinv Kapital Sdn. Bhd.	19,904,700	19.50	—	—
Premiergrow Capital Sdn. Bhd.	7,239,000	7.09	—	—
Dato' Seri Koay Hean Eng	2,481,231	2.43	*26,284,510	25.75
Koay Cheng Lye	1,588,492	1.56	*26,284,510	25.75
Koay Ah Bah @ Koay Cheng Hock	1,326,997	1.30	#27,236,260	26.68

#### Notes:-

\* Deemed interest by virtue of shares held by company in which the director has interest

# Deemed interest by virtue of 26,284,510 shares held by company in which the director has interest and 951,750 shares held by his sons

By virtue of their interests in shares in the Company, Dato' Seri Koay Hean Eng, Koay Cheng Lye and Koay Ah Bah @ Koay Cheng Hock are also deemed to have interests in shares in the subsidiaries to the extent of the Company's interests, pursuant to Section 8 of the Companies Act 2016.

Save as disclosed above, none of the other Directors in office at the end of the financial year held any interests in shares in the Company or its related corporations.

## FINANCIAL HIGHLIGHTS

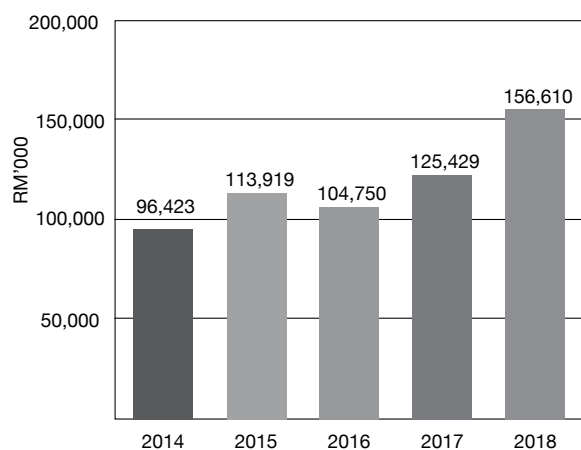
	2014	2015	2016	2017	2018
Statement of Comprehensive Income	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	96,423	113,919	104,750	125,429	156,610
Profit before tax	13,062	14,185	7,580	7,627	18,858
Profit after tax	11,862	11,028	4,977	4,862	13,393
Net profit attributable to equity holders	11,680	10,636	4,458	4,739	13,184

### Statement of Financial Position

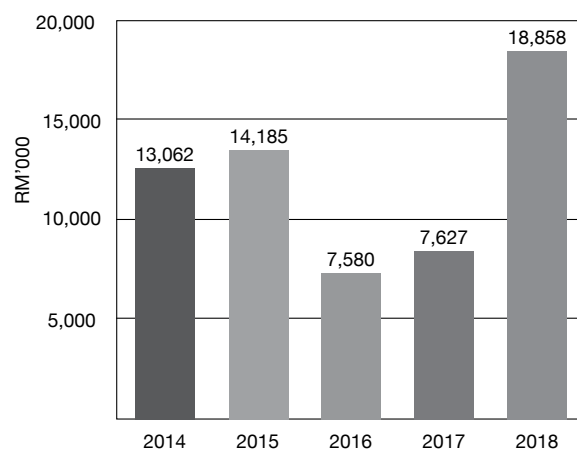
Total Assets	165,768	172,607	182,255	191,242	209,919
Total Borrowing	12,389	10,744	11,424	12,208	12,019
Equity attributable to owners of the Company	129,148	136,462	140,325	145,755	158,601

### Financial Indicators

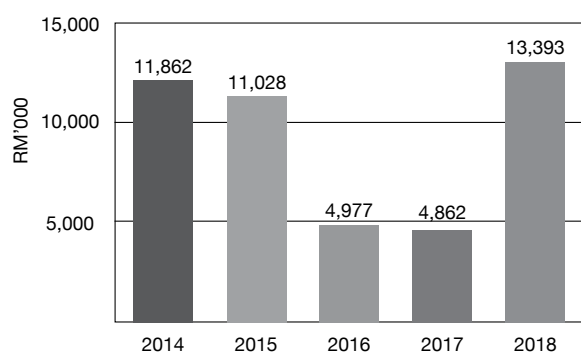
Earning per share (sen)	11.56	10.53	4.38	4.65	12.92
Gearing ratio (%)	9.54	7.81	8.05	8.35	7.56
Net assets per share (RM)	1.92	2.03	2.06	1.43	1.56
Tax exempt dividend per share (sen)	3.00	3.00	-	-	-
Share price as at the financial year end (RM)	1.20	1.18	1.23	1.03	1.00
Price earning (PE) ratio as at financial year end (times)	10.38	11.21	28.08	22.15	7.74



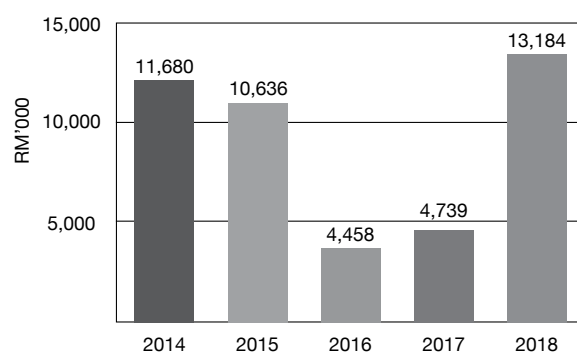
REVENUE



PROFIT BEFORE TAX



PROFIT AFTER TAX



NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

## MANAGEMENT DISCUSSION AND ANALYSIS 2018

### REVIEW OF OPERATIONS

The principal activities of Kobay Technology Bhd. ("Kobay") are those of investment holding and provision of management services. The subsidiaries' operations are grouped into two major divisions, namely Manufacturing Division and Property Development Division. Other than these two major divisions, there are other small operations which are mainly investment nature.

#### **(A) Manufacturing Division**

Manufacturing Division is the main revenue contributor of Kobay Group. This division engages in high precision engineering manufacturing processes on machining components, metal stamping, sheet metal works, die casting, tooling & equipment, metal fabrication and surface treatment. In FY2018, the Manufacturing Division contributed approximately 89.6% of the Group's revenue.

Manufacturing Division has several business operation locations situated at Bayan Lepas & Perai, Penang and Johor, with total built up area of approximately 271,377 square feet.

Precision Machining Components business units manufacture high precision engineering components that meet the stringent quality requirements of multinational customers mainly from semiconductors, electronics and aerospace industries. These business units have obtained various recognized quality accreditations such as AS9100, ISO9001, ISO14001 as well as NADCAP which provide them the readiness and competitive advantages to fulfil the requirements of multinational corporations in semiconductor and aerospace industry.

Apart from high compliance standards and complexity of the products, the high mix-low volume product mix posted a great challenge to the business units' production management in achieving an optimum production level at an efficient manner. This is one of the business risks and challenges that the business units have to overcome and competent people is the key to success in this business unit. The management will continuously put in efforts in hiring local and skilled production machinists as they are paramount to ensure capacity in full swing. The lack of skilled workers in local market is a significant operations risk that the management need to overcome. The business units will continue to engage in talent recruitment and on the job training programme to attract skilled and talent workers.

The management is fully aware that this business segment is dealing with industry that emphasize on total quality and safety, hence, it is subjected to high degree of compliance risk which determine the success of the business units. The management has deployed dedicated team to review and ensure compliance with customers' stringent requirements without any tolerance.

As always being emphasised by the business units, reforming engineering strength is imperative to seize more business opportunities and cost saving from innovative improvement programme.

We shall continue to focus on organic growth in FY2019. We have entered into agreement to acquire a piece of 4.66 acres land with industrial factory in Perai Industrial Estate for RM16.0 million. The acquisition shall be completed by end of 2018 and ready for production commencement by mid of 2019. The management plans to renovate and upgrade the new plant with capital expenditure budget of approximately RM6.0 million. The new factory will provide a more organized and spacious production floor to meet the expansion plan of the Precision Machining Components segment. The management is mindful of the possible interruption that may occur on the business unit's operations resulting from the plant consolidation and shifting exercise, and hence will work out the necessary action plans to minimize the risk.

The Group's Tooling & Equipment business units are operating in a matured industry that mainly serves the semiconductor industry. This segment achieved a better result this year, mainly due to upsurge of demand for the segment's Equipment business. We face significant competition at its home ground which had been a mature market for the high precision engineering tooling & equipment with low profit margin.

The Metal Fabrication business unit mainly involves in manufacturing of heavy metal works and structures, modules and parts for oil and gas and other industries. The manufacturing activities of the business unit is located at a 4.22 hectares plant in Pontian, Johor. As the business relies heavily on subsea segment of the oil and gas industry, it is a major business risk especially when the oil and gas exploration activity is down. To mitigate its business risk, the management plans to broaden its exposure to other equipment supplies.



## MANAGEMENT DISCUSSION AND ANALYSIS 2018 (CONT'D)

### **(B) Property Development Division**

Currently, the Property Development Division owns three parcels of freehold land at the following location :

- Langkawi, Kedah – 6.3 acres (under development)
- Tanjung Bungah, Penang – 1.5 acres
- Sungai Nibong, Penang – 2.0 acres

Below is the ongoing development projects currently undertaken by the Property Development Division :

#### ***Lavanya Residence, Langkawi***

This development features a luxury serviced residences to be developed on a 6.3 acres freehold land that strategically located at the tourist hotspot area of Pantai Tengah, Langkawi. The development project, Lavanya Residences, consists of a stylish cluster of 37 units of serviced villas in Phase 1 which has been under development progress, and 90 units serviced apartments and 133 units serviced studio suites in Phase 2 which had obtained its Advertising Permit and Developer's License ("APDL") in June 2018. The estimated gross development value for the serviced villas is RM76.0 million whereas the serviced apartment & studio is estimated to be RM242.0 million.

As of the date of this report, the serviced villas units recorded sales of RM46.0 million. With the sales rate of 60%, the development of Phase 1 is able of being self-sustained. The Phase 1 development is expected to be completed in Q2 of 2019.

For the Phase 2 serviced apartment and studio, the management intends to develop the project into a 5-star hotel model and manage the hotel for the buyers who own the property. The business unit had engaged a renowned hotel management company, Ri-Yaz Hotels & Resorts Group, which has been managing numerous hotels in South East Asia, to design and manage the hotel operations for the project.

#### ***Future Project Development***

Below are the projects that are still under planning stage:

- Own development project on a 1.5 acres land in Tanjung Bungah, Penang
- Own and Joint development project on a 3.0 acres land in Sungai Nibong, Penang
- Joint development project on a 19.5 acres land in Seri Manjung, Perak
- Joint development project on a 5.5 acres land in Bukit Mertajam, Penang
- Joint development project on a 1.6 acres land in Mukim Batu, Kuala Lumpur
- Joint development project on a 1.3 acres land in Sungai Renggam, Selangor

The management is fully alert of the market risk in view of the present poor property market condition. As such, it will exercise its prudence and cautious stand when dealing with land acquisition and project launching. For each of the launched project, the management will withhold the construction works until the confirmed sales reach the targeted break-even point. This is to prevent unnecessary project cashflow pressure and over-gearing.

## MANAGEMENT DISCUSSION AND ANALYSIS 2018 (CONT'D)

### REVIEW OF RESULTS

	Revenue			Profit After Taxation		
	2018	2017	+/-	2018	2017	+/-
<u>Division</u>	RM'mil	RM'mil	RM'mil	RM'mil	RM'mil	RM'mil
Manufacturing	140.4	118.6	21.8	17.5	9.5	8.0
Property Development	12.1	2.3	9.8	(1.3)	(2.3)	1.0
Other operating segments	4.1	4.5	(0.4)	0.5	0.6	(0.1)
Consolidation eliminations & unallocated segments	0	0	0	(3.4)	(3.0)	(0.4)
Total	156.6	125.4	31.2	13.3	4.8	8.5

The Group's revenue grew by 24.8% from RM125.4 million in FY2017 to RM156.6 million in FY2018 with profit after taxation amounted to RM13.3 million, an increase of RM8.5 million as compared to preceding year.

The organic growth of its core manufacturing business had propelled the Manufacturing Division's bottom line by achieving RM17.5 million of profit after taxation, a strong growth as compared to last year's profit after taxation of RM9.5 million. On the other hand, the Group's Property Development Division, although was still in red, had seen progressive improvement after the commencement of works for its first project in Langkawi. The Division suffered a loss of RM1.3 million in FY2018, narrowed down from FY2017's loss of RM2.3 million. After deducting other operating and administrative costs, the Group closed its financial year end with a net profit of RM13.3 million.

#### Manufacturing Division

The Group's Precision Machining Components and Tooling & Equipment have delivered a favorable set of result by achieving total revenue of RM130.8 million, largely due to higher orders received from semiconductor customers in line with the boom in semiconductor industry. Besides, better products mix and improved production efficiency achieved by the segment's aerospace components business had further lifted the performance.

However, the Group's result was dampened by the unfavorable performance of the Metal Fabrication segment that was affected by the downturn in its oil & gas business, coupled with a bad debt written off of RM1.2 million as a result of consent judgement for legal dispute with a customer. Consequently, the Metal Fabrication segment suffered a net loss of RM1.1 million.

#### Property Development Division

The Property Development Division that is still operating at its infancy development stage recorded a net loss of RM1.3 million, mainly due to project start-up and operating costs incurred as the development profit of the period was unable to cover the costs yet. During the year under review, the Property Development Division generated a revenue of RM12.1 million compared to RM2.3 million in last financial year.

## MANAGEMENT DISCUSSION AND ANALYSIS 2018 (CONT'D)

### FINANCIAL POSITION

The Group's financial positions remain healthy with cash and cash equivalents stood at RM41.8 million as at 30 June 2018 as compared to last year's RM27.6 million. The net assets per ordinary share attributable to owners of the parent stood at RM1.55 as compared to RM1.43 in preceding year. The gearing ratio remained at healthy and manageable level of 0.08 times.

### OUTLOOK AND PROSPECT

For the coming financial year, the global economic environment has turned challenging caused by trade war between the two world economic powerhouse of US and China. World trade is showing sign of slowing with the deepening and prolong trade war between the two countries. Whether the trade war will cause a global inflation and recession, it remains to be seen. Malaysia being an open economy will be affected by the uncertainties faced by global supply chains and delays in business investment decisions. There is also pressure on emerging markets' currencies such as Ringgit Malaysia caused by the rapid outflow of capital to US in tandem with rise in US interest rates.

The Semiconductor Industry Association (SIA), representing U.S. leadership in semiconductor manufacturing, design and research, reported in June 2018 that it endorsed the World Semiconductor Trade Statistic ("WSTS") Spring 2018 global semiconductor sales forecast, which projects the industry's worldwide sales will be \$463.4 billion in 2018. This would mark the industry's highest-ever annual sales, a 12.4 percent increase from the 2017 sales total. WSTS projects year-to-year increases across all regional markets for 2018: the Americans (14.0%), Europe (13.4%), Asia Pacific (including China)(12.3%), and Japan (8.6%). In 2019, growth in the semiconductor market is expected to moderate, with sales increases of between 4-5 percent expected across each of the regions (Source : SIA news release, 6 June 2018)

The above indicators suggest that global and Malaysia economic outlook for coming year could be challenging, with modest growth expected.

The Group will continue to leverage on its Manufacturing Division, to move up the value chain for more complex and high value added products and tapping on the sign that oil industry is on recovering path and has seen an increase in sales orders from oil majors.

Our Property Development Division is operating in a challenging environment. Despite of the tough condition ahead, this Division is expected to achieve a better result in coming financial year compared to last financial year from the progress and completion of its Phase 1 serviced villa project in Langkawi in Q4 of FY2019.

In view of the weak property market outlook, we will observe prudence and project sustainability by taking into consideration break-even point before construction commencement. Major focus will be given to the Langkawi Lavanya project until it achieves a satisfactory level, before commencing other development project.

The Group will continue to unlock its investment in idling and non-productive assets to generate fund for its core business and property development projects. At the same time, the management will continue to identify viable projects for acquisition and expansion.

The management remains cautious that the global economy may expect volatility, given the prevailing external factors such as trade war and other geopolitical risks. Barring any unforeseen circumstances, the Group is optimistic of delivering a satisfactory result in FY2019.

### DIVIDENDS

For the financial year ended 30 June 2018, the Board of Directors does not recommend any dividend to conserve cash for business operations.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

Pursuant to Paragraph 15.25 of Bursa Malaysia Securities Berhad ("Bursa")'s Listing Requirements and the Malaysian Code of Corporate Governance issued by Securities Commission Malaysia ("MCCG"), the Corporate Governance Overview Statement provides an overview of the application of the Principles set out in the MCCG is practiced in Kobay Group throughout the financial year ended 30 June 2018. This Statement is to be read together with the CG Report in Bursa's prescribed format. The CG Report is available for reference at Kobay's website, [www.kobaytech.com](http://www.kobaytech.com) and on Bursa's website, [www.bursamalaysia.com](http://www.bursamalaysia.com).

### BOARD LEADERSHIP AND EFFECTIVENESS

The Board is entrusted with the role of steward and guardian of the Company in building its long term success and deliver the sustainable value to its stakeholders. The Board also has its critical role to provide leadership and championing good governance and ethical practices throughout the Company as well as the Group.

Each and every Director is able to access directly to the senior management and/or to the advice and services of the Company Secretaries or external independent professionals' advice for more information.

#### Board Responsibilities

The Board has set out role and responsibilities, code of conduct for individual Director and the Terms of Reference for its Committees in the Board Charter which has published at the Kobay's website. The Board will review and revise the Board's Charter every 5 years interval or whenever is necessary in line with the changes in the relevant legislation.

Matters which specifically required the entire Board's approval have been set in the Kobay Board Charter. Please refer to Kobay's website for more details.

The Board has delegated certain specific responsibilities to its Board Committee which operates within clearly defined terms of reference and report regularly to the Board. Authority for the operational management for Group has been delegated to the Executive Committee and Chief Executive Officer for execution or further delegates to respective senior management for effective running of the day-to-day matters.

#### Board Roles and Responsibilities

Position	Roles and Responsibilities
Chairman	To chair and conduct meetings as well as corporate governance issue of the Company.
Chief Executive Officer	The Chief Executive Officer play a vital role in leading the entire group's business operations towards the Group's vision and mission. He requires to work in line with the Corporate Direction and Key Performance Indices ("KPI") set and which to be revised yearly.
Independent Directors	The Independent Non-executive Directors playing a protection roles for the minority shareholders and other stakeholders in the Group. Their effective participation promote a balance to the Board's decision.
Company Secretaries	The Company Secretaries play an advisory role to the Board and ensuring all corporate governance matters and the Board procedures are in compliance with all applicable laws and regulations. The Directors are updated by the Company Secretaries regularly via quarterly meetings on all changes made to relevant legal and regulatory requirements, corporate governance practices, and area relating to the Directors in discharging their duties and responsibilities.

The roles of the Chairman and the Chief Executive Officer are segregated to ensure that there is a balance of power and authority. The Chairman is responsible for ensuring the effectiveness of the Board policies and conduct whilst the Chief Executive Officer is responsible for entire Group's operations, organizational effectiveness, overseeing as well as coordinating the development and implementation of Board policies, corporate strategies and decisions. Their duties and code of conducts are stated in the Board Charter.

#### Board Meetings

There were four (4) Board meetings held in the financial year ended 30 June 2018. Management teams are invited, if required, to attend the Board meetings and to report on the results. Board papers for the Board and its Committee Meetings are furnished to the members of the meeting seven (7) calendar days prior to the meeting.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONT'D)

### Board Meetings (Cont'd)

No individual or group of individuals dominates the Board's decision making. Each Director contributes his skill, experiences and expertise accordingly and each agenda/issue raised is carefully considered during Board meeting. Documents and information in relation to any corporate or business issue to be discussed in the meeting are furnished to the Board members prior to the meeting. The Board members review updates and/or reports inclusive Board attendance, resolutions passed quarterly, Directors' dealing in Company's securities and directorship in other listed entities, financial information, Committees' report, risk management report, external auditor feedback and corporate developments.

### Board Committees

The Board has established the following Committees to which it delegates certain responsibilities. Membership and performance of these Committees are reviewed annually. All the minutes of these Committees are being recorded by the Company Secretaries and made available for all Directors on a timely basis.

Committee	Scope of Responsibilities
Executive Committee (EXCO)	To assist the Board in formulate, review, approve and adopt the Group's strategic plans and annual budget.
Remuneration Committee (RC)	To assist the Board to review the performance of each and every individual Director as well as the Board Committee yearly and recommend the remuneration to be paid to each Executive Director and fee paid to Non-executive Director.
Nominating Committee (NC)	To assist the Board in reviewing and recommending the election of each and every Director.
Audit and Risk Management Committee (ARMC)	To deal in the functions of auditing, financial statements, risk management, related party transactions and any other topics as may be agreed to by itself and the Board.

Note : The terms of reference for each Committee are made available on the Kobay's website.

### Board and its Committee Meeting Attendance

Name of Members	Board Meeting	ARMC Meeting	NC Meeting	RC Meeting
Dr. Mohamad Zabdi Bin Zamrod	4/4	4/4	1/1	1/1
Dato' Seri Koay Hean Eng	4/4	–	–	1/1
Mr. Koay Cheng Hock @ Koay Ah Bah	4/4	4/4	1/1	–
Mr. Koay Cheng Lye	4/4	–	–	–
Mr. Lim Swee Chuan	4/4	–	–	–
Mr. Khaw Eng Peng	4/4	4/4	1/1	1/1

Note : the EXCO meeting is conducted weekly to resolve the day-to-day operational related matters for which the records are kept by the Company Secretaries.

### Main Activities of the Board and/or its Executive Committee during the Financial Year

During the financial year ended 30 June 2018, main activities carried out by the Board and/or its Executive Committee includes :

#### Main Activities

- Review the Directors' performance for the financial year 2017 individually and the Board/its Committee as a whole.
- Review the performance of the external auditors, Messrs. Crowe Malaysia.
- Review the Company and Group's quarterly results for the financial year 2017, Q1, Q2 and Q3 of financial year 2018 for submission to Bursa.
- Review and approve the Directors' Report and Audited Accounts for the financial year ended 30 June 2017.
- Receive the Risk Management Reports reported by the CFO and CEO quarterly and yearly for the financial year 2017/8.
- Receive, review and approve the semi-annual return for the submission to Bursa.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONT'D)

### Main Activities of the Board and/or its Executive Committee during the Financial Year (Cont'd)

During the financial year ended 30 June 2018, main activities carried out by the Board and/or its Executive Committee includes : (Cont'd)

- Review and approve the Group Strategy Plan and KPI quarterly by EXCO.
- Review and approve the Group's yearly budget.
- Receive updates on the Recurrent Related Party Transactions by the Group.
- Review and report any major litigation, claims and/or issues with substantial financial impact (if any).
- Review and approve any changes in the terms of reference for any Board Committees.
- Review and approve for implementation of any policies and procedures of the Group.
- Review the re-appointment and remuneration of external auditors, Messrs. Crowe Malaysia.
- Review and approve the Statement of Corporate Governance, Internal Control Statement, ARMC Report for FY2017.
- Review and approve Annual Report 2017.
- Re-affirm the board resolution passed every quarter.
- Review the attendance of the Board members and its Committee every quarter.
- Review and approve the Statement to Shareholders in relation to the Proposed Renewal of Share Buy Back Authority.
- Review the term of office and assess the retirement of Directors by rotation, the retention of Directors and eligibility for re-election or retention.
- Review the amendments to MCGG and its report submitted to Bursa in accordance to the amended Listing Requirements.
- Review and approve the Auditors' audit plan and note on the memorandum for each and every financial year.
- Review on the succession planning and gender diversity of the Group.
- Review on the Investors' communication effectiveness.
- Review on the Group's information management system periodically.

### Board Composition

The Board is formed in a balanced composition with three (3) Executive Directors and three (3) Non-executive Directors. Out of the three (3) Non-executive Directors, two (2) are Independent Directors. All Directors do discharge their fiduciary duties and responsibilities at all times.

Details of all the Directors and their biographies are provided in pages 8-9 of this Annual Report.

### Commitment

In facilitating the members of the Board or its Committee, the Board are provided with the proposed date for the subsequent 2 meetings whereas the EXCO and senior management are provided with 18 months of meeting calendar in order to ease their planning ahead. Any special meeting required, it will be arranged by the Company Secretaries or in the event if the decision required by way of Directors Written Resolution (DWR), the Company Secretaries will notify the Board via emails, phone messages and/or social platform like whatsapp or wechat and signed DWR will be filed in the statutory record and noted by the Directors in the forthcoming Board meeting.

The Directors shall devote their time in carrying out their responsibilities and regularly update themselves with required skills and knowledge in discharging their fiduciary duties. They will notify the Board before new directorship appointment and such notification shall indicate the time committed for the new appointment.

### Appointment and Re-election of Directors

Pursuant to the Company's Constitution, one-third (1/3) of the Directors shall retire from office by rotation at each Annual General Meeting ("AGM") and the newly appointed Directors are subject to re-election at the next AGM to be held subsequent to their appointments. Provided always that all Directors shall retire from office once at least in each three (3) years and if eligible, they can offer themselves for re-election.

Pursuant to the Companies Act 2016, there is no age limit for the Director except they have to meet all the relevant codes or regulations governs the Independent Directors and justification for retention based on performance and contribution.

The appointment and re-election of Board members are vital process as it determines the quality of the Board's capability and competency. The Nominating Committee is vested with the responsibility by the Board to review the candidates for new appointment as well as retired candidates whom eligible for re-election.

For candidates for new appointment, the Nominating Committee will first scrutinize and select those candidates who can filled the skill/gap of the current Board before conducting an assessment on the capability and interact with the selected candidates before convening a meeting to finalized the selection and proposed for the Board's approval on the appointment.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONT'D)

### Evaluating the Board

The Board has assigned the Nominating Committee to assess its Independent Directors annually, so to ensure that the Independent Directors bring objective judgment and mitigate risks arising from conflict of interest or undue influence from interested parties as set out in the Listing Requirements and Practice Notes of Bursa. However, individual Director is required to declare his/her independency prior to his/her appointment/re-appointment as Independent Director of the Company.

Yearly, the Nominating Committee will also evaluate and assess the performance of each Director or the Board and its Committees on the effectiveness. Notices were sent to those Directors whom due for retirement on their reply whether to opt for re-election during the forthcoming AGM. Consent letter from retiring Director will be compiled and tabled in the Nominating Committee meeting before the Nominating Committee made any recommendations to the Board to include into the forthcoming AGM's agenda for those Directors whom retired and eligible for re-election.

The Nominating Committee has on 23 August 2018 conducted its meeting on assessment of Directors' performance and for re-electing/re-appointing those Directors whom retired for approval of the members in its AGM set on 22 November 2018.

During the financial year 2018, the Nominating Committee has evaluated and assessed the performance of the following Directors who are subject to re-election/re-appointment in the forthcoming AGM and has recommended for Board's approval via its meeting held on 23 August 2018. The said Directors' profiles are set out on page 8 & 9 of this Annual Report.

Name of Director	Re-election/Re-appointment	Constitution (the Memorandum and Articles of Association)/MCCG
Dr. Mohamad Zabdi Bin Zamrod	Independent and Non-executive Chairman	MCCG
Mr. Koay Cheng Lye	Chief Administrative Officer	Article 95
Mr. Khaw Eng Peng	Senior Independent and Non-executive Director	Article 95

The Board noted the tenure of Independent Director should not exceed cumulative term of 9 years whereby members' approval is required. The Board is mindful of Dr. Mohamad Zabdi Bin Zamrod whom has served exceed the 12 years term as Independent Director. However, the Board is of view that the integrity and the competency of an Independent Director is vital in discharging his duties compared to the tenure of service. Moreover, the Independent Directors are all Non-executive Directors of the Company whereby they can provide an independent view of decision made with their diversified experience in their own expertise and their in-depth knowledge of the business of the Company/Group in view of their long service with the Company. The Independent Directors are all well aware of Bursa's Listing Requirements on their independency when discharging their fiduciary duties of which may impact their reputation and cause them legal implication for being non-independent. All Independent and Non-executive Directors are not a substantial shareholder of the Company nor associated with the substantial shareholders.

Dr. Mohamad Zabdi Bin Zamrod, who has served more than 12 years, has provided his declaration of independency based on the Listing Requirements and the Nominating Committee has assessed and concluded he would be able to demonstrate and exercise independent judgment and act in the best interest of the Company. The Independent and Non-executive Directors have undertaken to notify the Board should their independency is affected due to change or development of interest or relationship in period from their re-appointments to the next AGM. The Board will propose for the shareholders' approval in the forthcoming AGM to seek the shareholders' approval on his retainment as Independent Director. Should the retainment being approved by the shareholders, there are in total 2 Independent and Non-executive Directors out of 6 Directors on the Board.

The Board is aware of the gender diversification under the best practice and is consistently looking for female candidates with caliber to balance up the gender diversity of the Board. The Board targets to have at least a lady director to be appointed within the coming years.

Gender diversity amongst the management position and Directors of the Board for the financial year ended 30 June 2018 is as follow:-

Category	Total Headcount	Employees Headcount for		% of Employee for	
		Male	Female	Male	Female
Senior Management	16	11	5	68.75	31.25
Chief Executive #	3	3	0	100.00	0.00
Board of Directors*	3	3	0	100.00	0.00

# Three (3) Chief Executives (i.e. Chief Executive Officer, Chief Administrative Officer, Chief Financial Officer) who are also the Board of Directors

\* excludes Non-executive Directors



## CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONT'D)

### Board's Training and Development

The Board as a whole acknowledges the importance of training and has delegated the Nominating Committee to continuously evaluate the training needs of the Directors and determine relevant training particularly in new laws and regulations, essential practices to enhance corporate governance and risk management so to enable the Directors participate in deliberations and effectively discharge their duties. All Directors have undergone the Mandatory Accreditation Programme and complied with the Listing Requirements of Bursa.

The Nominating Committee has formalized an orientation programme, of which included the introduction of Company's background and strategic plans and directions of the Company as well as the Group, for all newly appointed Directors. For the current financial year, there is no new Director being appointed.

The Company Secretaries will update the Board members with the new/amended Listing Requirements or relevant laws and regulations via Board of Directors Meetings held. The Company Secretaries have vide the quarterly Board meeting as listed below briefed the Board members the following topics –

Date of Meeting	Topic of the Briefing Conducted
24 May 2018	Highlight of Bursa Listing Requirements Updates

The followings are additional courses and training programmes attended by the Directors for the financial year ended 30 June 2018.

Directors	Training Programmes Attended	Date
Lim Swee Chuan	LHAG Tax & GST Briefing for Property Developers and Contractors	11 August 2017
	Bursa Advocacy Session on Corporate Disclosure	6 September 2017
	PWC – Fraud and Internal Audit	20 September 2017
	LHAG Secrets of Crafting & Drafting a Tax Efficient Agreement	5 October 2017
	PWC Seminar – Forging Ahead	14 November 2017
	Practical Application of the Three New Standards and Their Interactions – MFRS 9, 15 & 16	2 & 3 April 2018
Khaw Eng Peng	Advocacy Session on Corporate Disclosure for Directors and Principal Officers of Listed Issues	6 September 2017
	Fraud and Internal Audit by Pricewaterhouse Coopers	20 September 2017
	Cyber risks and the Impacts on an Organisation	20 September 2017
	Corporate Briefing Session with Suruhanjaya Syarikat Malaysia 2017	26 September 2017
	AMLA & CFT Awareness Programme by Bank Negara Malaysia	1 November 2017
	2018 Budget Seminar by MIA	7 November 2017
	MIA-SC Workshop on Malaysian Code on Corporate Governance	17 November 2017
	CFO Luncheon Talk by MIA	16 January 2018
	MIA Technical Updates 2018	17 January 2018

### Remuneration

The Remuneration Committee will review the Director's remuneration package inclusive benefits in-kind to align with business strategy and long term objective of the Group besides matching with the seniority, responsibilities and expertise of an individual during the recruitment and/or periodically performance evaluation as set per the Group Human Resource Policy and Procedures.

The current performance evaluation interval for employees of which inclusive Executive Directors as ruled and guided by the Group Human Resource Policy and Procedures is half yearly. The Executive Directors' performance evaluation will be reviewed by the Committee yearly on their fiducially duties as Directors as well as tracked by KPI set in achieving the Group's Vision and Mission as employees to the Company. The Committee's recommendation will be tabled to the Board and execution by EXCO with the aim to "attract and retain" committed and performed Executive Directors to drive the Group. No Director is allowed to approve his/her own evaluation under the Group Human Resource Policy and Procedures.

Remuneration of Non-executive Directors is determined by the Board as a whole and Non-executive Directors shall abstain in the discussion of their own remuneration. The compensation of Non-executive Directors is proposed by the Committee which link to their experience and level of responsibility taken and tabled for the Board's approval.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONT'D)

The Committee had on 24 August 2017 proposed Directors' fee payable for the members' approval in the AGM held on 29 November 2017. The Committee has also vide the meeting on 22 May 2018 proposed Directors' fee payable for the financial year ended 30 June 2018 for the forthcoming AGM to be held on 22 November 2018.

Details of the Directors' remuneration are reported herein.

### **Directors' Remuneration**

The Company pays its Executive Directors salaries, bonuses and other emoluments and for Non-executive Directors, Directors' fees that are approved at the AGM.

A summary of the Directors' remuneration is reflected as follows:-

#### **1. Directors' Fees**

Directors' fees are payable only to Non-executive Directors. For the year under review, the Board proposed a fee of RM7,500 for each Non-executive Director. Breakdown of Directors' fees payable to each and every Non-executive Director for the financial year ended 30 June 2018 is as follows :-

<b>Non-executive Director</b>	<b>Proposed Directors' Fees (RM)</b>
Mr. Koay Ah Bah @ Koay Cheng Hock	7,500
Dr. Mohamad Zabdi Bin Zamrod	7,500
Mr. Khaw Eng Peng	7,500
Total Payable	22,500

#### **2. Non-executive Directors' Other Benefit**

Non-executive Directors are paid a perquisite for their every attendance of quarterly meeting and during the financial year ended 30 June 2018, a total of RM5,250 meeting expenses have been paid to Non-executive Directors.

#### **3. Directors' Remuneration**

A summary of the Directors' remuneration paid or payable to all Directors of the Company by the Group, both for Executive and Non-executive Directors, categorized into appropriate components and into each successive band of RM50,000 for the financial year ended 30 June 2018 is disclosed below :-

	<b>Executive Directors (RM)</b>	<b>Non-executive Directors (RM)</b>
Fees	–	22,500
Salary and other emoluments	941,376	36,443
Bonus	63,921	4,200
Allowance & Statutory Contributions	105,386	7,864

<b>Per Annum</b>	<b>Executive Directors</b>	<b>Non-executive Directors</b>
0 to RM 50,000	–	3
RM50,001 to RM100,000	–	–
RM100,001 to RM150,000	–	–
RM150,001 to RM200,000	–	–
RM200,001 to RM250,000	–	–
RM250,001 to RM300,000	–	–
RM300,001 to RM350,000	1	–
RM350,001 to RM400,000	1	–
RM400,001 to RM450,000	1	–

There is no granting of options under the Employees' Share Option Scheme established on 19 April 2016.

# CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONT'D)

## EFFECTIVE AUDIT AND RISK MANAGEMENT

### Audit Committee

The Board has established the now designated as Audit and Risk Management Committee ("ARMC") which comprises of three members, two (2) out of the three (3) financial literate members are Independent and Non-executive Directors and one of them is a member of an accounting association.

The ARMC's composition and its report are set out in page 36-37 of this Annual Report.

Assigned by the Board, the ARMC will ensure the financial statements prepared for each financial year complied with applicable financial reporting standards and give a true and fair view of the state of affairs and financial position of the Company. The ARMC will then recommend the financial statements for the Board's approval. The ARMC has reviewed the audited financial statements for the financial year under review and a Statement of Directors' Responsibilities in preparing the financial statement is set out on page 38 of this Annual Report.

In accordance with the External Auditors Policy (as published on Kobay's website), the ARMC shall assess suitability and independence of external auditors once in a year and the external auditors shall assure the ARMC in written form that they are and have been independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements. The external auditors have, during the 23 August 2018 ARMC meeting, confirmed their independency for the audit engagement provided for the financial year ended 30 June 2018.

Save for the audit services and review of Statement on Risk Management and Internal Control provided during the financial year ended 30 June 2018, there are no non-audit services provided by the external auditors. Any non-audit services to be provided by the external auditors shall be first reviewed by the ARMC before tabled for the Board's approval prior to engagement.

The external auditors has indicated their intention to continue their service and the ARMC has reviewed and recommended their re-appointments to be included into agenda for shareholders' approval in the forthcoming AGM.

### RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Board is primarily responsible for the Group's sound risk management framework and internal control system. The Company has identified the key business risks to safeguard the shareholders' and the Company's investment. The Group's risk management framework was established in year 2013, it determines the risk tolerance level and risk management accountability bodies and monitoring procedures of the Group's business risk.

#### **Internal Control**

The purpose of internal control is to manage and control risk. The Board of Directors is aware and responsible in ensuring that the Company maintains an effective internal control system. The Company maintains written documentation of the Company's values, expected code of conduct, policies and procedures which clearly defines authorities and responsibilities for the Board, its Committees, each manager, employee and department.

The management is accountable to the Board in monitoring the Company's internal control system and provides reasonable assurance regarding the reliability of the financial information used within the business, as well as safeguarding the assets against unauthorized use or disposition and problems are identified on a timely basis with suggested solutions.

The Company has a customized Enterprise Resource Management System which enables the management to monitor and manage each individual subsidiary company's KPI to ensure their operations are operating to the management expectation.

The Board has established an Executive Committee ("EXCO") which comprises of five (5) members, three (3) Executive Directors and two (2) senior management staff, to manage the day-to-day operations of the Group. The primary functions of the Committee are stated in the Board Charter and accessible in Kobay's website. The EXCO will review individual subsidiary's risk management and internal control activities during the quarterly meetings as an on-going monitoring process.

The Group's Statement on Risk Management and Internal Control is set out on page 33-35 of this Annual Report.

#### **Internal Audit**

As regards to the internal audit function, the Board views it as an integral part of an effective system of corporate governance. The Board has established an in-house Internal Audit Department to periodically review on the adequacy, effectiveness and integrity of the Group's internal control system, management information system, risk management and governance processes. The internal auditors review and highlight weaknesses in control procedures and makes recommendations for improvement.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONT'D)

### **RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONT'D)**

#### **Internal Audit (Cont'd)**

One of the internal auditors' functions is also to investigate any complaints on mismanagement of Company's properties and assets and any instances of fraud or malpractice. The Internal Audit Department reports directly to the ARMC, to ensure the independence of the internal audit function.

Summary of the activities of the Internal Audit Department is set out in the Audit and Risk Management Committee Report on page 37 of this Annual Report.

### **INTEGRITY IN COROPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS**

#### **Communication with Stakeholders**

The Board views communication as one of the values in the Company's/Group's culture. Communication is not only confined with its stakeholders under its day-to-day operations but it is a powerful foundation to have continuous communication with the shareholders for the Company's success.

Quarterly, the Company released its quarterly financial results to keep the shareholders informed about the performance and operations of the Group on a timely basis after approved by the Board via Bursa Link pursuant to the Bursa's Listing Requirements.

The Group also maintains a corporate website where all information released to the public be accessible. The Board is aware that no information shall be disseminated in any forms and means prior to the announcement first made to Bursa Link.

The Company's Corporate Disclosure Guide has been established and the said policy has made available on Kobay's website. There shall be no information disseminated to the media or any parties unless it is, either first approved by the Chief Executive Officer or the Board, depending on the authority level required for approval and it shall be only released by the Chief Executive Officer.

Shareholders and stakeholders can also access through the Company's website globally to obtain information in relates to Group's strategy, performance and major development. There is a platform where the investor/shareholder be able to communicate and send an email to the designated person on our Company's website.

Shareholders may direct or post to Mr. Khaw Eng Peng, the Senior Independent and Non-executive Director for any queries or concerns regarding the Company at the registered office of the Company. At all times, shareholders may contact the Company Secretaries via office contact number or email to [cosec@kobaytech.com](mailto:cosec@kobaytech.com) for information.

#### **Conduct of General Meetings**

Every General Meeting of the Company represents a primary platform between the Shareholders, the Board and the Management Team to interact with shareholders in person beside the written communication.

The Company has always served requisite notice period for meetings as prescribed in the Listing Requirements. Special businesses in the Notice of the AGM will be furnished with explanatory notes to Shareholders on the effect of the proposed resolution arising from each item.

At the AGM, the Shareholders do actively participate in discussing the resolutions proposed or the Company's operations in general. The Board, the Management Team and the Company's external auditors are present to answer questions raised and provide clarification as required by Shareholders.

In compliance with the MCGG, all resolutions set out in the Notice of AGM are put forward to poll voting and the re-appointment of Independent Director whom served more than 12 years will be voted in two (2) tier basis in accordance with the MCGG.

Announcement of the results for each resolution during the meeting is made to the public via Bursa Link.

#### **Compliance Statement by the Board of Directors on Corporate Governance Statement**

The Board has reviewed and approved this Statement on Corporate Government on 19 October 2018. Pursuant to the Paragraph 15.25 of the Listing Requirements, the Board is pleased to report that the Board is satisfied that to the best of its knowledge, the Company has fulfilled its obligations in accordance with all the applicable laws, regulations, internal and external guidelines on corporate governance throughout the financial year ended 30 June 2018.

## SUSTAINABILITY STATEMENT 2018

Kobay Group (or “the Group”) acknowledges the importance of organization sustainability and aims to balance both financial stability and its social responsibility in attaining sustainable growth. The Board has undertaken the task to attain the organization sustainability vide its effort in achieving business excellence and value creation for the Group apart from its financial performance.

Bursa has made amendments onto its Listing Requirements and require PLC to present its Sustainability Statement in PLC’s Annual Report yearly. Our Group involves in (i) manufacturing of high precision engineering components and parts, semiconductor assembly and testing equipments, fabrication of structure and parts for oil and gas industry, sheet metal and surface treatment; and (ii) property development.

We recognize the impact of our business decision onto the surrounding environment and communities where our business is operated. Moving forward, we are committed to integrate Economic, Environmental and Social (EES) issues into our business operations.

In year 2015, the United Nation (UN) has launched 17 Sustainable Development Goals (SDGs) as illustrated below as the foundation for Sustainable Development targeted to be achieved in year 2030.



We have embedded into our Group’s mission those SDGs that fit within our business strategies :-

### **Our Commitment, Our Mission**

We aim to be the market leader and pre-eminent supplier to customers worldwide, to pursue excellence in all aspects of our business to serve our customers in the global market.

To achieve sustainable, profitable **growth (Goal 8)**, we combine **market leading technology (Goal 9)** with a highly **competent and committed workforce (Goal 16)** to achieve business excellence which is reflected in the products and services we offer.

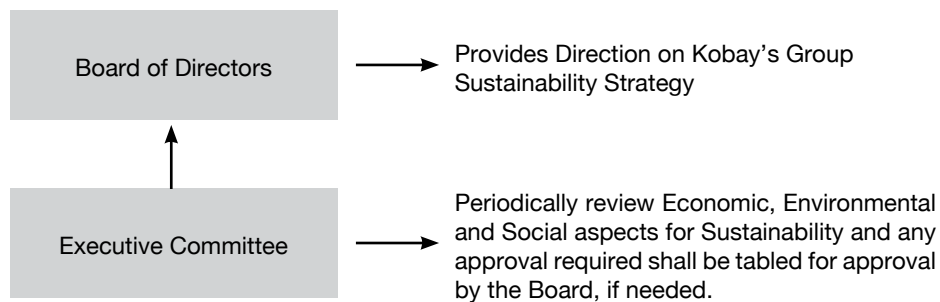
Success is measured by our ability to create economic value, **bond with our customers and suppliers (Goal 17)**, promote a sense of pride and ownership amongst **our employees (Goal 12)** and produce a higher return of equity to our shareholders.

## SUSTAINABILITY STATEMENT 2018 (CONT'D)

### Governance Structure

The Group sustainability is led by the Board of Directors ("Board") or so delegated, its Committee, which oversees the integration of sustainability initiatives of the Group.

Heading by Chief Executive Officer ("CEO") of our Executive Committee ("EXCO"), the Committee of the Board of Directors, he articulates the sustainability practices across the management and operational. The CEO reports to the EXCO on relevant proposals pertaining to the Group's sustainability strategy and performance for review and approval on a yearly basis together with the Yearly Strategy Planning and Goal Setting and quarterly reviewed on the progress vide its quarterly performance review meeting.

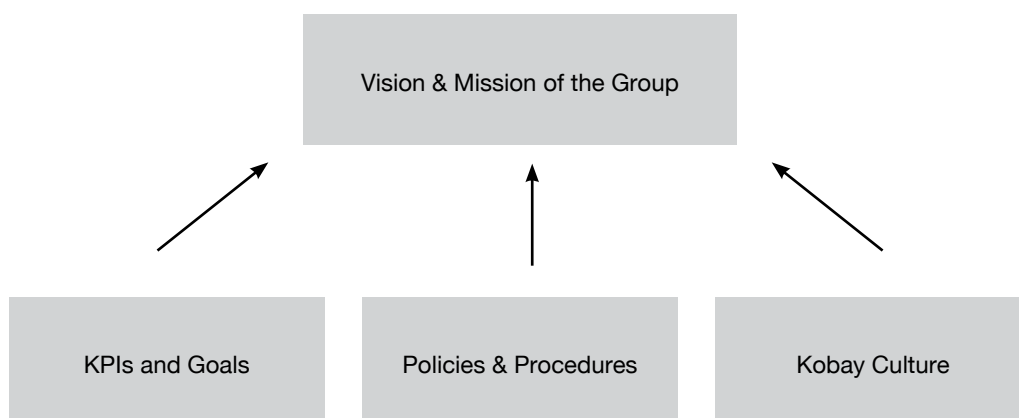


### Our Strategy

The Group views the following areas as crucial to build a strong foothold in financial and non-financial aspects in defending today and creating tomorrow.

Since year 2004 where the Group embarking on sustainability vide its effort to formulate the Shared Vision, Mission and Values of the Group, the EXCO has continuous to manage and grow the Group up the value chain in order to sustain and providing profitable return to our stakeholders and shareholders at large.

The EXCO will initiate the yearly strategic planning process for the Group prior to new financial year and will disseminate the approved plan to the senior management and beyond. EXCO will monitor the performance of individual subsidiary company within the Group against its approved key performance indices (KPIs) to minimize risk exposure and to meet the financial stability.



In order for us to achieve our Vision and Mission, we entrench sustainability with our Kobay Culture, Policies and Procedures and our Systems to continuously measure and track our KPIs and Goals. Periodic review will be conducted onto our policies and systems to ensure consistency and good governance.

Kobay values our stakeholders of their contribution and influences which will have direct impact onto the business operations of the Group. It is crucial to articulate the shared value through our stakeholder engagement.

## SUSTAINABILITY STATEMENT 2018 (CONT'D)

### Our Strategy (Cont'd)

Stakeholders	Issues/Concern	Materiality	Forms of Engagement
Customers (Critical)	<ul style="list-style-type: none"> <li>Pricing</li> <li>Product quality &amp; safety</li> <li>On time delivery</li> <li>Design and features</li> <li>Resources efficiency</li> <li>After sales services</li> </ul>	<ul style="list-style-type: none"> <li>Customers satisfaction</li> <li>Innovation</li> </ul>	<ul style="list-style-type: none"> <li>Market survey</li> <li>Launches/Events</li> <li>Customers visits and engagement by sales personnel</li> <li>Promotions</li> </ul>
Employees (Critical)	<ul style="list-style-type: none"> <li>Corporate Direction</li> <li>Job Security and career advancement</li> <li>Remuneration &amp; benefits</li> <li>Work-life balance</li> <li>Workplace health &amp; safety</li> <li>Labour &amp; human rights</li> </ul>	<ul style="list-style-type: none"> <li>Employee welfare</li> <li>Training and development</li> <li>Occupation health &amp; safety</li> <li>Talent retention</li> </ul>	<ul style="list-style-type: none"> <li>Periodic meeting at all levels</li> <li>Whistleblowing policy</li> <li>Job description</li> <li>Training and development Programme</li> <li>Internal policies and procedures</li> <li>Employees portal</li> </ul>
Investors (Crucial)	<ul style="list-style-type: none"> <li>Growth plans</li> <li>Market diversification</li> <li>Risk management</li> <li>Corporate Governance</li> <li>Sustainable performance</li> </ul>	<ul style="list-style-type: none"> <li>Ethic &amp; integrity</li> <li>Innovation</li> </ul>	<ul style="list-style-type: none"> <li>Shareholders Meeting</li> <li>Announcement via Bursa Malaysia</li> <li>Investor Briefing</li> <li>Website enquiry</li> </ul>
Regulatory Agencies and Statutory Bodies (High)	<ul style="list-style-type: none"> <li>Compliance</li> <li>Securities Issues</li> <li>Waste management</li> <li>Migrant workers</li> </ul>	<ul style="list-style-type: none"> <li>Government compliance</li> </ul>	<ul style="list-style-type: none"> <li>Inspection by the local authority</li> <li>Formal forum or meeting with respective authority</li> <li>Press release</li> <li>Workshops or briefing</li> </ul>
Vendors/ Suppliers (High)	<ul style="list-style-type: none"> <li>Legal compliance</li> <li>Payment schedule</li> <li>Pricing</li> <li>Product quality and supply commitment</li> <li>On time delivery</li> </ul>	<ul style="list-style-type: none"> <li>Vendor/Supplier development</li> </ul>	<ul style="list-style-type: none"> <li>Vendors/Suppliers programme</li> <li>Negotiation on pricing and contract</li> <li>Supplier audit and evaluation</li> </ul>
Non- Governmental Organization (NGO) (Moderate)	<ul style="list-style-type: none"> <li>Environmental and social issues in relates to development</li> </ul>	<ul style="list-style-type: none"> <li>Community development</li> </ul>	<ul style="list-style-type: none"> <li>Donation &amp; financial aid</li> <li>Contribution to environment and social enhancement</li> <li>Sustainability related programmes</li> </ul>
Media (Moderate)	<ul style="list-style-type: none"> <li>Company's reputation</li> <li>Advocating green consumerism and lifestyle</li> </ul>	<ul style="list-style-type: none"> <li>Green design and energy</li> </ul>	<ul style="list-style-type: none"> <li>On-going engagement session</li> <li>Media release</li> </ul>

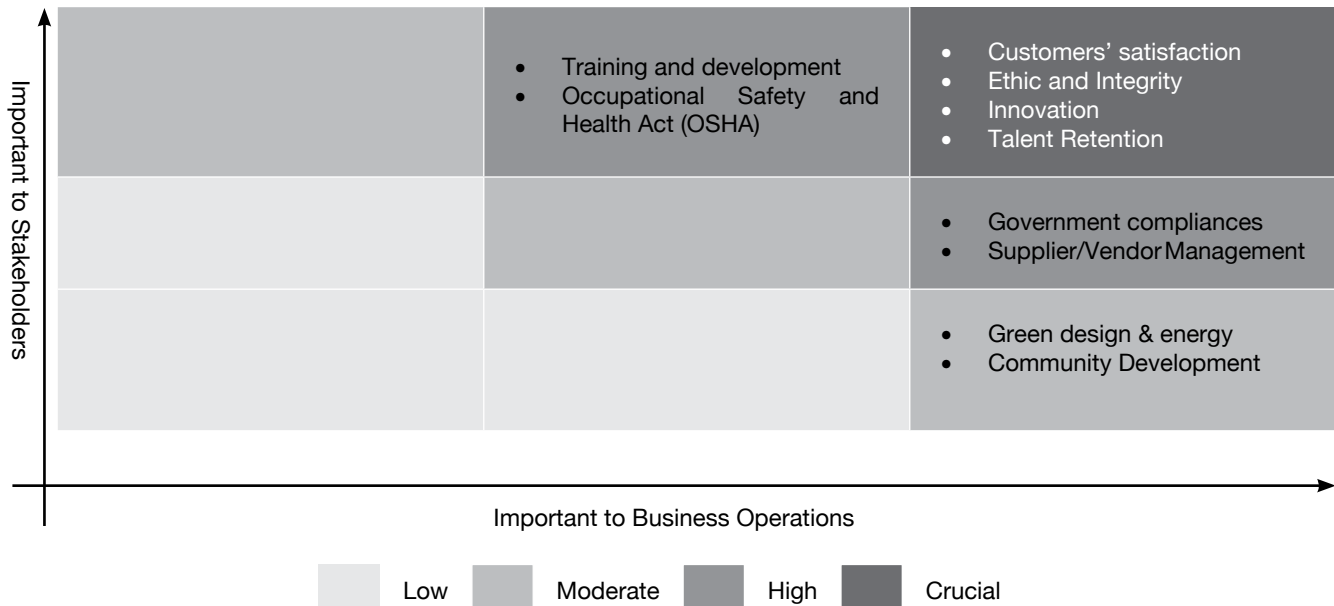


## SUSTAINABILITY STATEMENT 2018 (CONT'D)


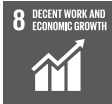





### Identifying Materiality

Material sustainability matters impacted the business operations substantially, hence they shall be assessed and identified. The sustainability team has identified pertinent sustainability issues and how each of the issue be addressed was deliberated. The results for which was weighted by the team and the matrix is illustrated below.










Materiality Matrix



For each of the 10 material issues prioritized, we have developed corresponding indicators as described in the table below.

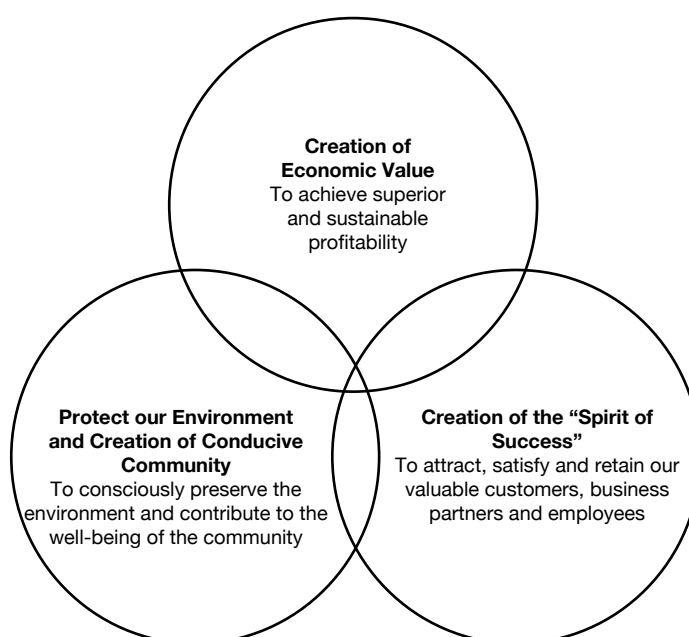
Material Issues	Key Indicators	Relevant SDGs	EES
Ethic and integrity	<ul style="list-style-type: none"> <li>Code of Conduct</li> <li>Whistle Blowing Policy</li> </ul>		<ul style="list-style-type: none"> <li>Economic</li> <li>Social</li> </ul>
Government Compliances	<ul style="list-style-type: none"> <li>Regulatory and applicable law of Malaysia</li> <li>CIDB "Qlassic" Complied Building</li> </ul>		<ul style="list-style-type: none"> <li>Economic</li> <li>Environmental</li> <li>Social</li> </ul>
OSHA	<ul style="list-style-type: none"> <li>Monitoring OSHA at each development project as well as manufacturing operations floor</li> </ul>		<ul style="list-style-type: none"> <li>Social</li> </ul>
Customers' satisfaction	<ul style="list-style-type: none"> <li>Customer retention</li> </ul>	 	<ul style="list-style-type: none"> <li>Economic</li> </ul>
Talent Retention	<ul style="list-style-type: none"> <li>Employee welfare &amp; benefits</li> <li>Career advancement</li> <li>Coaching &amp; development</li> </ul>	 	<ul style="list-style-type: none"> <li>Economic</li> <li>Social</li> </ul>

## SUSTAINABILITY STATEMENT 2018 (CONT'D)

Material Issues	Key Indicators	Relevant SDGs	EES
Innovation	<ul style="list-style-type: none"> <li>Process improvement to boost efficiency</li> <li>Best use of space for product design</li> </ul>		<ul style="list-style-type: none"> <li>Economic</li> </ul>
Supplier/ Vendor Management	<ul style="list-style-type: none"> <li>Ethics and integrity of supplier/vendor building</li> <li>Local procurement</li> </ul>	 	<ul style="list-style-type: none"> <li>Economic</li> <li>Environmental</li> <li>Social</li> </ul>
Community development	<ul style="list-style-type: none"> <li>Donations and financial aid</li> <li>Foundation in nurturing next generation</li> </ul>	 	<ul style="list-style-type: none"> <li>Economic</li> <li>Social</li> </ul>
Training & development	<ul style="list-style-type: none"> <li>Orientation &amp; alignment of vision, mission &amp; values of Kobay</li> <li>Employee retraining programme</li> <li>Leadership development</li> </ul>	 	<ul style="list-style-type: none"> <li>Economic</li> <li>Social</li> </ul>
Green design & energy	<ul style="list-style-type: none"> <li>Embedded into our property development projects</li> </ul>	 	<ul style="list-style-type: none"> <li>Environmental</li> <li>Social</li> </ul>

### Managing Economic, Environmental and Social Risks

The 3 broad focus is for sustainability attainment in our Group are illustrated as below.

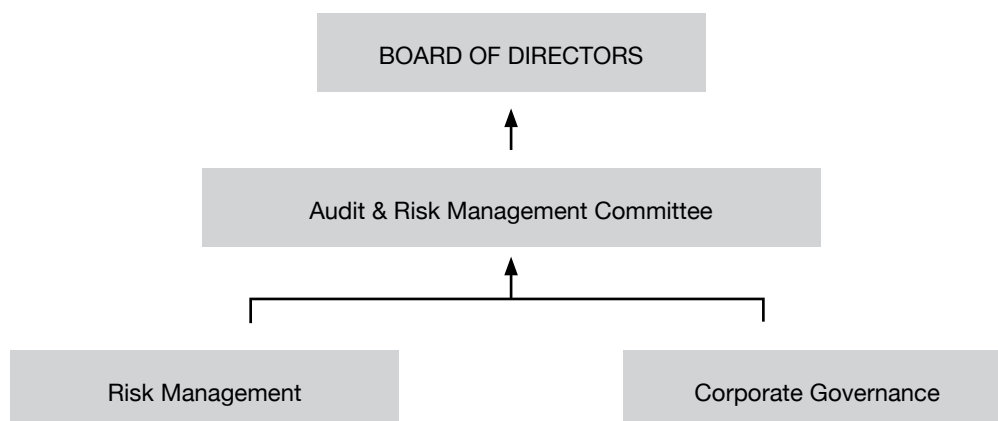


With the fast pace of changes globally and also resources depletion, the demand from stakeholders in growing and sustaining the business with a transparent and accountability avenue at the Group level in managing EES risks will be a challenging one. The Board has assigned the Audit and Risk Management Committee to manage it within the ambit of our Risk Management Strategy and Policy.

## SUSTAINABILITY STATEMENT 2018 (CONT'D)

### Managing Economic, Environmental and Social Risks (Cont'd)

The reporting structure for risk management of the Group is illustrated as in the below diagram.



On risk management, the Board has formulated the Risk Management Policy and each business unit shall report for their risk management activities to the EXCO periodically in accordance to the Risk Management Policy. The Chief Financial Officer shall report those activities related to the Risk Management Policy to the Audit and Risk Management Committee quarterly and further tabled for the Board's information.

The business unit's risk management team will review and assess the adequacy of internal control imposed onto the day-to-day risk management process whether financially or non-financially to ensure it is functioning and to protect the Group's assets from misappropriation and overseeing the legal and regulatory compliance. The team will also review the compliance of Group's policies and procedures in relation to anti-bribery and corruption, fraud, money laundering and whistleblowing.

Compliance is a crucial and important matter to manage EES risks and the Board acknowledges that if only with compliance of the legislative structure where the business operates, we shall be able to maintain high standard level of our EES welfare and improve our business practices so to attain business sustainability.

### **Our Economy**

The group is strive to generate profitable gain for our shareholders while building and growing our businesses to contribute to the local economy. We aim to provide equal opportunity and employment to the local community where our business is in operation.

<b>OUR RESULTS</b> Market Cap : RM104million @ 30 June 2018	<b>OUR REVENUE (million)</b> @ 30 June 2017 – RM125.43 @ 30 June 2018 – RM156.61	<b>OUR NET PROFIT (million)</b> @ 30 June 2017 – RM4.74 @ 30 June 2018 – RM13.18
	<b>OUR EPS</b> @ 30 June 2017 - 4.65 sen @ 30 June 2018 - 12.92 sen	<b>OUR SHARE PRICE</b> @ 30 June 2017 – RM1.03 @ 30 June 2018 – RM1.00

Source : [www.klscreener.com](http://www.klscreener.com)

We provide equal opportunity to everyone regardless of gender so that every employee will have a fair chance to make advancement in their career path based on their capabilities and performance merits.

We comply with the country's Minimum Wages Order while recruiting our employee and prohibits child labour as stated in the Employment Act. We continuously sourcing and recruiting local talents which strengthen the local economy. Our senior managements are all Malaysian.

We put priority in hiring qualified, competent and experienced local management staff to strengthen our team to compete in the global platform. We consistently train and re-train our employees to broaden their knowledge and skill so to cope with the ever challenging global market. This effort, directly and indirectly will contribute towards the country's goal to be a high income country.

## SUSTAINABILITY STATEMENT 2018 (CONT'D)

### Our Economy (Cont'd)

Simultaneously, the Group also support local suppliers/vendors when selecting their business partners in line with the Group's practices to buy locally to reduce the operating cost (cheaper in logistic) and delivery lead time. This is not only provides benefits to local economy but also build up these business partners' value chain and build the country's economy to the next level.

### Our Environment

Kobay supports green environment and is committed to continuously manage the impact of its operations towards minimizing environmental pollution. All waste management systems of the Manufacturing Division are approved by relevant authority and will continuously review and upgrade to ensure compliance. The Group's Manufacturing Division only assigned licensed operators to manage the waste and disposal from operations to ensure no hazardous cause to the environment. Subsidiaries of the Group's Manufacturing Division will consistently maintaining and non-stop in improving its accreditation in ISO so to identify, prioritize and manage environmental risks as part of its business practices.

For the Property Development Division, the Group will take precaution to ensure the environment of the project will not be affected and only operate when license of the relevant authorities be obtained.

In contribution to environmental friendly, the Group consistently educate its employees in 3R i.e. reuse, reduce and re-cycle. Hence, we will consistently looking for ways to reduce the energy and water consumption as well as cost saving via re-use and re-cycle. The Group continuously encourages paper-less environment via computerization.

For in-house environment, the Group encourages employees consistently keeping the working environment clean and tidy. The Group's Manufacturing Division organizes yearly 5S competition amongst subsidiaries and encourages employees to dispose of or re-cycle those unused items or papers or waste and monies raised therefrom will be donated to the needy of the society. The Manufacturing Division also via CIP ("Continuous Innovative Processes") encourages employees to propose to the management on ways to save energy and resources which can be incorporated into its manufacturing process and the winner of the project will be rewarded.

### Our People

Employees are stakeholders of the Group. The Group's management values employees as assets of the Company and consistently reviewing the workplace safety, employee training opportunities, diversity and equality that are crucial to retain talents within the organization.

We promote safer and healthier working environment and having policies such as HR Policies, 5S, to ensure all operating companies within the Group are complied with labour standard and OSHA.

The Group's management values the continuous education at large. New recruits will be invited to attend the Group's orientation where they will be briefed with the Group's Vision, Mission and Values as well as the operations systems. All employees are given opportunity to be trained or re-trained whether internally via internal training or by external coach whenever need arises so to equip and update them with soft and hard skill in order to compete in the ever challenging market place. The Group continuously recruiting new talent to enhance the Group's human capital resources and contribute new idea to the Group's operations.

## SUSTAINABILITY STATEMENT 2018 (CONT'D)

### Our People (Cont'd)

The Group leverage on diversified range of individuals from different age group, culture, ethnic, gender and background who work together under Kobay's umbrella with Kobay Value, A.C.T.I.O.N.S. committed to work towards the Group's Vision and Mission. The gender diversification of our Directors and top management are as follows :-



The Group reviews and revises its HR policies and rewards system periodically to attract and retain employees and foster greater productivity. Any recommendation for revising or setting new policies or practices will be tabled to the EXCO of the Group for approval prior to implementation.

### Our Community

As a responsible corporate citizen, in our business processes, we will ensure that we treat our waste ethically so not to create any pollution which will impact any life on the land or in the sea. We are cautious on our housing project development impact onto environmental and social needs, hence we are mindful in the land-use and relevant approvals will be obtained prior to commencement of the project. We will strive to use energy saving product into our building design as well as open space with greeneries.

In the office day-to-day operations, we encourage to use 3Rs i.e. reuse, recycle and reproduce. Each operations also mindful to convert all usage of halogen bulb to LED bulb for energy saving. It is the office practices not to waste paper whereby the Company is continuously reviewing the possibility to convert to paperless environment for our system. The state where most of the business units are operating segregate all the rubbishes for a greener and cleaner Penang.

We keep our effort in supporting the underprivileged community at all times. The Group always believed that nurturing the next generation is the foundation for building a highly educated community thus move to a high income country to reduce poverty. We have consistently participate ourselves in solidify the foundation and we also encourage our employees to participate whenever we have a group base activities. Below are some of our activities in contributing back to the society :

#### Our CSR Efforts for the Financial Year 2018

July 2017	:	Sponsorship for Monash University Malaysia Motorsport Team
August 2017	:	Sponsorship for UNIMAP Chinese Culture Organization Cultural Night 2017
January 2018	:	Donation to Penang Chinese Town Hall
February 2018	:	Sponsorship for The One Academy Graduation Exhibition
June 2018	:	Donation to CSI Charity Golf 2018

This statement is dated 19 October 2018.

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors (“Board”) affirms its responsibilities in establishing a sound risk management framework and internal control system and constantly reviewing the adequacy and integrity to safeguard shareholders’ investments and company’s assets. The Board is fully aware that risk management and internal control system cannot totally eliminate the risk of failure in achieving business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. This Statement will address the Group’s approach in risk management and internal control taking note the principles, intended outcome and practices as set out in Malaysian Code on Corporate Governance. The preparation of this Statement is also guided by “Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers.” endorsed by Bursa Malaysia Securities Berhad. (“Guidelines”)

### Risk Management

The Board has formalized and adopted a Risk Management Framework Manual (“Framework”) in 2013 which documented down the approach, commitment, practices, policies and procedures to be applied in the Group on risk management and for communicating to all levels of management. The Framework is developed by reference to guidance as provided by the Guidelines. To achieve the Group’s objectives and goals, in ensuring business sustainability and continuity, the Board is committed to articulate and implement risk management into Group’s culture and day to day activities with formalised risk management practices in its strategic planning, organization structure, operation procedures, management processes and internal control systems.

As an on-going process, key business risks faced by the Group are reviewed on yearly basis by management to identify, made assessment on the likelihood and impact and planned action plans to mitigate the risks. In the Framework, the Board has provided guidance on methods to identify, analyse, evaluate and treat risks. It also states the acceptable risk tolerance & appetite levels, planning & execution timetable, the managing processes & information flow and responsible bodies to monitor and report on the effectiveness of risk management activities carried out.

Risk management activities are applied to major strategic business units in Kobay Group covering Divisions of Precision Metal Components, Metal Fabrication, Precision Tooling & Equipment and Property Development.

On risk management accountability structure, the key components are as follow:

### Board of Directors (“Board”)

It is the Board’s role to establish a sound framework to manage risk. The Board has determined the Group’s level of risk tolerance and appetite for assessing key business risks faced in the Framework in order to safeguard shareholders’ investment and Group’s resources. Risk appetite as measured by tolerance level of loss in monetary value has been formally defined and stated in the Framework for application in risk assessment and management.

For effective implementation and management, the Board has delegated its review process role to Audit and Risk Management Committee (“ARMC”). However, the Board as a whole maintains the execution role and responsible for all the actions of ARMC.

### Audit and Risk Management Committee (“ARMC”)

The Audit Committee of the Board has been designated as Audit and Risk Management Committee in 2013, to be more reflective of its functional role in the auditing and risk management.

ARMC assists the Board in fulfilling its risk management oversight role. ARMC reviews Risk Management Reports presented by management on quarterly basis on the status update and risk management activities carried out for items classified as high risk during strategic planning, on any risk identified during the year and the mitigation action. ARMC also reviews Internal Audit Department’s report on annual review of risk management activities in the area of adequacy and compliance with policies and procedures as stated in Framework. The results of the reviews are reported in the Board’s meeting.

### Management

Executive Committee (“EXCO”) that consists of Executive Directors of the Board and Chief Operating Officers spearheads the implementation of risk management activities in the Group. EXCO acts as the Management Committee of risk management and reports the risk management activities and matters that deemed high risk or critical and the mitigation actions to the ARMC on quarterly basis.

In business operations, the Chief Operating Officer (“COO”) and Head of Strategic Business Group and Functional Units (“SBG Head”) are responsible for risk management within the respective strategic business and functional units. Their responsibilities include designing and implementing of a sound system of risk management to identify, assess, monitor and manage major risks that may have impacts on achieving Group’s business objectives.

To promote accountability, Head of Strategic Business Unit (“SBU Head”) takes charge of the compliance and monitoring roles at business units. The line managers at all levels of management are responsible for the adoption and implementation of risk management practices planned and the results of risk management activities, relevant to their areas of responsibility.

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONT'D)

### Risk Identification, Evaluation and Management

Risk coverage for the Group is basically divided into three areas, namely strategic & operational, financial and regulatory compliance. For risk evaluation, risk level is determined by tabulating its likelihood in terms of probability and consequences measured in monetary value. The calculated risk value is then measured against pre-defined Risk Matrix Table as per Framework to determine at which the risk level is, in range of low to extreme risk. The risk level identified will determine which risk management accountability body is to address the risk and to report on status update and results of risk management activities carried out.

To identify and evaluate strategic & operational risks faced by the Group's activities, yearly strategic planning sessions attended by EXCO and operations management are being held before the beginning of new financial year. The Kick-Off meeting for Strategic Planning Financial Year 2019 commenced in February 2018. The Chief Executive Officer and senior management held brain-storming sessions to evaluate current business environment, competition landscape and sustainability issues, to identify key risks faced by Group's businesses and determined the Group's directions going forward.

At business operation level, with the Group's directions, the respective strategic business and functional units' SBG Head performed SWOT (Strengths/ Weaknesses/Opportunities/Threats) analysis on business operating environment, industry trends, capabilities, past performances and developed strategic plan on business direction & strategy, focus and expectations. Based on the strategic plan, SBU Head and line management then prepared individual business unit's strategic plan covering the details of planned activities, goal set, annual budget and Key Performance Indices for guidance, communication and monitoring. Meetings were conducted between EXCO, SBG Head and SBU Head to discuss, review and buy-off the annual strategic plans, goals and Key Performance Indices. The EXCO buy-off of Strategic Plan Financial Year 2019 was completed in June 2018.

As for regulatory compliance and financial risks, they are carried out by SBU Heads and Group Accountants via Risk Assessment Forms. Risk assessment is done on individual business unit by way of questionnaire basis to systematically assess currently known risks as guided by past records in risk register and emerging risks foresee.

For managing and monitoring risks, there is a meeting agenda in quarterly held Operations Review Meeting for SBG Heads to report to EXCO on risk issues and current business situations that have bearings on risk management, their impacts or likely impact to the business units in achieving objectives and strategies. The remedy actions in addressing the significant weaknesses and threats identified in strategic planning process were reported. The SBU Heads reported on the progress of planned risk management activities carried out in business units to EXCO in the meeting.

The Chief Executive Officer and Chief Financial Officer have provided a written assurance to the Board stating that the Group's risk management and internal control system are operating adequately and effectively for the current financial year under review and up to the approval date of this Statement for inclusion in Annual Report.

### Internal/ External Audit

Internal Audit is responsible for evaluating the effectiveness and efficiency of risk management carried out and compliance with the Group's laid-down practices and procedures. A review is to be conducted at least once in a year with the outcome reported to ARMC. Internal Audit Department has carried out the annual review on Group's risk management activities for FY2018 and reported in ARMC meeting.

The External Auditors review the Statement on Risk Management and Internal Control and report the results thereof to the Board on annual basis. The External Auditors have reviewed the Statement for financial year ended 30 June 2018 which is included in the Annual Report, as guided by Recommended Practice Guide 5 (revised) issued by Malaysian Institute of Accountants. Based on the review, nothing has come to their attention that caused them to believe that the Statement is not prepared, in all material respects, in accordance with the disclosures to be set out as required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, nor is factually inaccurate.



## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONT'D)

### Internal Control System

On the Group's system of internal control that manages risks to achieve established goals and provides reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, the key elements are described below: -

- Formal Group Organisation Structure that defines clearly the line of reporting and hierarchy of authority with the Group's core activities managed by segregation into different strategic business groups.
- Group Policies and Procedures Manuals on Financial, Human Resource and Sales and Operations are adopted and laid down the objectives, scopes, policies and operating procedures to be complied by business units.
- Clearly defined authorisation limits at appropriate management levels are set out in a Financial Authority Matrix for controlling and approving capital and revenue expenditures.
- Budgetary control system is in place to establish the responsibilities and accountabilities of each business unit in term of resources employed, control over costs and expenses and for measuring the business unit's overall financial performance. The budgets are approved by the EXCO.
- Individual companies with active business operations hold monthly management meeting to review the financial performance, business overview, direction and development with corporate's Chief Operating Officer and Head of Strategic Business Group.
- EXCO consists of Executive Directors and Chief Operating Officers hold weekly meeting to discuss, approve and resolve any major issues arising from business operations and plan for corrective actions.
- Internal Audit Department is established and report directly to ARMC and is assigned with tasks to assist ARMC in discharging its duties and responsibilities.
- Regular internal audit visits to business units are carried out by Internal Audit Department to ensure compliance of Group Policies and Procedures and to examine the effectiveness and efficiency of the internal control systems.
- Internal control issues noted by Internal Audit Department are tabled for discussion and resolution in business unit's monthly management meeting and presented in operational review meeting at corporate level. Improvements in existing policies and procedures or implementation of new policies and procedures are carried out when needed to keep in pace with the evolving business environment.
- ARMC and Board of Directors hold quarterly meeting to discuss on internal audit reports, periodic financial statements and issues that warrant the Committee's and Board's attentions.

For the year under review, the Board confirms that there is an on-going process of identifying, evaluating and managing significant risks faced by the Group and reviewing its internal control system to safeguard shareholders' investment and Group's assets. The Group's system of internal control is in place and functioning, continuous efforts are being taken to strengthen and improve the Group's internal control environment.

For the review of effectiveness of risk management and internal control, the Board is satisfied with the adequacy, integrity and effectiveness of the Group's risk management framework and its internal control system. There were no material internal control system failures nor have any of the reported weaknesses resulted in material losses or contingencies that would require mention in the Annual Report for the financial year under review.

This Statement is made in accordance with the resolution of the Board of Directors dated 19 October 2018.

# AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

## COMPOSITION AND DESIGNATION

### Members of the Committee

1. **Khaw Eng Peng**  
*Chairman, Senior Independent and Non-executive Director*
2. **Dr. Mohamad Zabdi Bin Zamrod**  
*Independent and Non-executive Director*
3. **Koay Ah Bah @ Koay Cheng Hock**  
*Non-independent and Non-executive Director*

### Secretaries to the Committee

1. **Chan Mun Shee** (MAICSA 7003071)
2. **Wong Mee Choon** (MACS 01562)

## TERMS OF REFERENCE

The Terms of Reference of Audit and Risk Management Committee ("Committee") is published at Kobay website, [www.kobaytech.com](http://www.kobaytech.com).

## MEETINGS

The Committee met four times in the financial year ended 30 June 2018. The meetings were convened in a structured manner by formal notice of meeting with meeting agenda and reports being sent to Committee members at least 7 calendar days before the meeting date. Committee Secretary recorded meeting minutes and confirmed by Committee Chairman were tabled in subsequent meeting for adoption. The Chief Financial Officer, Head of Internal Audit Department and External Auditors were invited to attend the meetings to provide insights and advice on reports discussed. Details of meeting attendance were as follows:

Name of Committee Members	Attendance
Khaw Eng Peng	4/4
Dr. Mohamad Zabdi Bin Zamrod	4/4
Koay Ah Bah @ Koay Cheng Hock	4/4

## SUMMARY OF WORK OF THE COMMITTEE

During the financial year, the Committee had:

1. Reviewed with External Auditors the Audit Review Memorandum for financial year ended 30 June 2017. It covered areas on accounting and audit issues, internal control issues noted during the course of audit, compliance requirements of Malaysian Institute of Accountants, International Ethics Standards Board and International Standards on Auditing and summary of adjustments and unadjusted differences to financial statements. There was no major item highlighted in relation to management judgments and estimates that affecting the financial year statements. The financial statements for the financial year were then submitted to Board for their consideration and approval for the purpose of announcement to Bursa Malaysia Securities Berhad ("Bursa Malaysia") and inclusion in Annual Report.
2. Noted the written declaration provided by External Auditors on their independence in accordance with the relevant professional and regulatory requirements with regards to audit of the Group's financial statements for year ended 30 June 2017.
3. Noted there was no External Auditors' Report issued on Deficiencies in Internal Control for financial year ended 30 June 2017.
4. Reviewed quarterly unaudited results with the Chief Financial Officer and obtained clarifications before submission to Board for consideration and approval for the purpose of announcement to Bursa Malaysia.
5. Reviewed Quarterly Internal Audit Department Report presented by Internal Auditors. The audit works carried out during the quarter, corrective actions provided by management on audit findings and status of implementation were discussed and adopted by the Committee members.
6. Reviewed quarterly report presented by Internal Auditors on related party transactions transacted in the Group. Related party and recurrent related party transactions transacted in the quarter were reviewed for compliance of reporting and approving procedures, Listing Requirements of Bursa Malaysia and any conflict of interest situation.

## AUDIT AND RISK MANAGEMENT COMMITTEE REPORT (CONT'D)

### SUMMARY OF WORK OF THE COMMITTEE (CONT'D)

7. Reviewed Quarterly Risk Management Report presented by Chief Financial Officer on behalf of Executive Committee on operation's risk management activities. The activities carried out in the quarter and progress status update of high risk items identified in annual risk management review were reported to the Committee.
8. Reviewed Internal Auditors' report on annual review of Group's risk management activities carried out in financial year ended 30 June 2017 for compliance with policies and procedure as stated in Group Risk Management Framework Manual.
9. Reviewed External Auditors' Audit Planning Memorandum for financial year ended 30 June 2018. It covered on engagement and reporting requirements, audit approach, areas of audit emphasis, accounting standards update, engagement team particulars and timetable for audit and issuance of audit report.
10. Adopted Internal Audit Plan for financial year ending 30 June 2019 presented by Internal Auditors. The planned audit activities are based on risk-based approach whereby emphasis given on core business units and the audit areas covered are determined by respective unit's key risk areas, business nature and past audit experiences. The Plan also includes review on the Group's related party transactions and risk management activities.
11. Reviewed Statement on Risk Management and Internal Control, Audit and Risk Management Committee Report for adoption and disclosure in 2017 Annual Report.
12. Reviewed Semi-annual Returns before submission to Board for approval for the purpose of submission to Bursa Malaysia.
13. Reviewed the performance and work carried out by the External Auditors, Messrs. Crowe Horwath for their suitability, objectivity and independence before recommendation of re-appointment in the incoming year. The areas covered in the review are outlined in the External Auditors Policy which is published at Kobay website. As for the evaluation of Internal Auditors' scope of audit coverage, competency and job performance, it was carried out via Performance Evaluation Form approved by Committee Chairman.
14. Held two dialogue sessions on 24 August 2017 and 24 May 2018 with the external auditors and internal auditors to discuss on any issues affecting them in discharging their duties and responsibilities without the present of Executive Directors. There was no major areas of concern identified by the auditors that warrant the Committee attention and further elaboration.

### SUMMARY OF WORK OF INTERNAL AUDIT FUNCTION

The Company has an Internal Audit Department, which reports directly to the Committee and assists in discharging its functions and duties. The internal audit function is independent of operational activities and has its own service charter to ensure the internal audit activities are performed with impartiality, proficiency and due professional care. The costs incurred for internal audit function in financial year ended 30 June 2018 amounted to RM136,445.

During the financial year, Internal Audit Department has carried out the following activities:

1. Conducted compliance, operational and financial audits covering Group Policies and Procedures Manual and internal control systems. At Group level, areas covered were review on the execution of risk management activities carried out at business units and providing inputs for improvement in revamp exercise of Group Policies and Procedures Manuals. For Property Development Division, audits were carried out on sale and purchase agreement and management agreement documentations signed with property buyers, compliance with license applications and submission requirements of Housing Development Act 1966 & Regulation. For Manufacturing Division, audits were carried at core business units on customer returns, inventories valuation, monitoring mechanism for recovery of non-movement inventories and scrap dispositions, store management, cutting tools' consignment arrangement and its storage management, prepayment accounts and creditors' statement reconciliation.
2. Issued audit reports on audit findings to business units' management and obtained their corrective actions. The audit reports were tabled for adoption in business unit's management meeting and then presented in operations review meeting at holding company level with Executive Directors, Chief Operating Officer and Head of Strategic Business Group present. They were also reported in the quarterly Committee meeting.
3. Conducted follow-up audits to ensure corrective actions in internal and external auditors' reports were in-practice in business operations.
4. Reviewed related party transactions transacted in the Group during the financial year on quarterly basis and reported to Committee.
5. Reviewed risk management activities carried out in the Group for adequacy and compliance with laid down policies and procedures as stated in Group Risk Management Framework Manual and reported to Committee.

## DIRECTORS' RESPONSIBILITIES STATEMENT

Pursuant to Chapter 15 to the Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors ("Board") wishes to issue a statement explaining their responsibilities for preparing the annual audited financial statements.

Pursuant to the Companies Act 2016 and the relevant regulations, the Board has prepared the financial statements which give a true and fair view of the state of affairs, its result and cash flows of the Company and the Group. The Directors have :-

- considered and selected relevant accounting policies and applied consistently;
- made judgements and estimates that are reasonable and prudent;
- ensured that the applicable accounting standards have been followed; and
- prepared the financial statements on a going concern basis.

The Board is responsible for ensuring that proper accounting records is kept of which financial position of the Company and the Group were disclosed with reasonable accuracy at any time. The Board of Directors has generally taking such steps that are reasonably available to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The Board has reviewed the content/disclosure of this Annual Report inclusive of the Statement on Corporate Governance, Statement on Risk Management and Internal Control and Audit and Risk Management Committee Report and approved this Annual Report for dissemination to all shareholders.

The Statement is made in accordance with the resolution of Board of Directors dated 19 October 2018.

## OTHER INFORMATION

### UTILISATION OF PROCEEDS

No proceeds were raised by the Company from any corporate proposals during the financial year.

### AUDIT AND NON-AUDIT FEES

For the financial year under review, the amount of audit fees paid or payable to the Group's external auditors amounted to RM32,000 and RM191,828 respectively for the Company and the Group. Other than the RM1,000 of non-audit fees paid by the Company to the Group's external auditors, there is no other non-audit fees be paid or payable to the external auditors.

### MATERIAL CONTRACTS

There are no material contracts of the Company and its subsidiaries being entered into for which involving the interest of the Directors, Chief Executive who is not a Director or major shareholders since the end of the previous financial year and still subsisting at the end of the financial year.

### RECURRENT RELATED PARTY TRANSACTIONS

Shareholders' mandate was not procured for recurrent related party transactions entered into during financial year ended 30 June 2018. The amounts transacted during the financial year were within the threshold as prescribed by Bursa Malaysia Securities Berhad's Listing Requirements and no announcement was made.

### EMPLOYEES SHARE OPTION SCHEME

The Company's Employees Share Option Scheme ("ESOS") has been approved by the members during the Extraordinary General Meeting held on 9 December 2015 and became effective on 19 April 2016 and shall be valid for a duration of 10 years from the effective date.

There are no options being granted to any employees of the Group since implementation during the financial year ended 30 June 2018.

## FINANCIAL REPORT

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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## DIRECTORS' REPORT

The directors hereby submit their report and the audited financial statements of the Group and the Company for the financial year ended 30 June 2018.

### PRINCIPAL ACTIVITIES

The principal activities of the Company are those of investment holding and provision of management services. The principal activities and other details of the subsidiaries are disclosed in Note 8 to the financial statements.

### RESULTS

	The Group RM	The Company RM
Profit for the financial year attributable to:-		
- Owners of the Company	13,183,598	6,887,208
- Non-controlling interests	209,240	0
	<u>13,392,838</u>	<u>6,887,208</u>

### DIVIDENDS

No dividends were recommended, declared or paid by the Company since the end of the previous financial year.

### RESERVES AND PROVISIONS

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

### ISSUE OF SHARES OR DEBENTURES

During the financial year, the Company reissued 55,000 treasury shares by resale in the open market for a total cash consideration of RM77,449.

The Company did not issue any debentures during the financial year.

### SHARE OPTIONS

The shareholders of the Company, by a resolution passed at the Extraordinary General Meeting held on 9 December 2015, approved the Employees' Share Option Scheme ("ESOS") of the Company. The ESOS became effective on 19 April 2016 and shall be valid for a duration of 10 years from the effective date. The Company has yet to grant any options under the ESOS as at 30 June 2018.

### BAD AND DOUBTFUL DEBTS

Before the financial statements were prepared, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances which would render the amount written off for bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent.

### CURRENT ASSETS

Before the financial statements were prepared, the directors took reasonable steps to ensure that any current assets which were unlikely to be realised in the ordinary course of business including the value of current assets as shown in the accounting records have been written down to an amount which the current assets might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to current assets in the financial statements misleading.

## DIRECTORS' REPORT (CONT'D)

### VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets or liabilities of the Group or the Company misleading or inappropriate.

### CONTINGENT AND OTHER LIABILITIES

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

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

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

### CHANGE OF CIRCUMSTANCES

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

### ITEMS OF AN UNUSUAL NATURE

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

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Group or the Company for the financial year in which this report is made.

### DIRECTORS

The directors in office since the beginning of the financial year are:-

#### Directors of the Company

Dato' Seri Koay Hean Eng  
Koay Cheng Lye  
Koay Ah Bah @ Koay Cheng Hock  
Lim Swee Chuan  
Dr. Mohamad Zabdi Bin Zamrod  
Khaw Eng Peng

#### Directors of Subsidiaries (Other than Directors of the Company)

Koay Wooi Seong  
Koay Wooi Tatt  
Ng Tiat Seng  
Syed Muhamad Hafiz Bin Syed Ahmad  
Tommy Teh Guan Seng  
Gan Bee Keow  
Koay Zee Ee (Appointed on 8.1.2018)



## DIRECTORS' REPORT (CONT'D)

### DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings, the interests in shares in the Company of the directors in office at the end of the financial year are as follows:-

Name of Director	Number of Ordinary Shares					
	Direct Interest			Deemed Interest		
	Balance at 1.7.2017	Bought	Sold	Balance at 30.6.2018	Balance at 1.7.2017	Balance at 30.6.2018
Dato' Seri Koay Hean Eng	2,481,231	0	0	2,481,231	26,284,510 <sup>(a)</sup>	26,284,510 <sup>(a)</sup>
Koay Cheng Lye	1,588,492	0	0	1,588,492	26,284,510 <sup>(a)</sup>	26,284,510 <sup>(a)</sup>
Koay Ah Bah @ Koay Cheng Hock	1,326,997	0	0	1,326,997	27,236,260 <sup>(b)</sup>	27,236,260 <sup>(b)</sup>

<sup>(a)</sup> Deemed interest by virtue of shares held by company in which the director has interest

<sup>(b)</sup> Deemed interest by virtue of 26,284,510 shares held by company in which the director has interest and 951,750 shares held by his sons

By virtue of their interests in shares in the Company, Dato' Seri Koay Hean Eng, Koay Cheng Lye and Koay Ah Bah @ Koay Cheng Hock are also deemed to have interests in shares in the subsidiaries to the extent of the Company's interests, pursuant to Section 8 of the Companies Act 2016.

Save as disclosed above, none of the other directors in office at the end of the financial year held any interests in shares in 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 the directors' remuneration as disclosed in Note 22 to the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest except for any benefits which may be deemed to have arisen by virtue of certain related party transactions as disclosed in Note 26 to the financial statements.

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

### INDEMNITY AND INSURANCE FOR DIRECTORS AND OFFICERS

There was no indemnity given to or liability insurance effected for any director or officer of the Group or the Company during the financial year.

### AUDITORS

The auditors, Messrs. Crowe Malaysia (formerly known as Crowe Horwath), have expressed their willingness to continue in office. The auditors' remuneration is disclosed in Note 21 to the financial statements. There was no indemnity given to or liability insurance effected for the auditors during the financial year.

### SIGNED IN ACCORDANCE WITH A RESOLUTION OF THE DIRECTORS DATED 27 SEPTEMBER 2018

**Dato' Seri Koay Hean Eng**

**Lim Swee Chuan**

## STATEMENT BY DIRECTORS

In the opinion of the directors, the financial statements set out on pages 49 to 94 give a true and fair view of the financial position of the Group and the Company as at 30 June 2018 and of their financial performance and cash flows for the financial year then ended in accordance with Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

**Signed In Accordance With A Resolution Of The Directors  
Dated 27 September 2018**

**Dato' Seri Koay Hean Eng**

**Lim Swee Chuan**

## STATUTORY DECLARATION

I, Lim Swee Chuan (MIA membership no.: 9254), being the director primarily responsible for the financial management of Kobay Technology Bhd., do solemnly and sincerely declare that the financial statements set out on pages 49 to 94 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 abovenamed Lim Swee Chuan  
at Georgetown in the State of Penang on this 27 September 2018**

**Lim Swee Chuan**

Before me

**Mok Cheng Yoon**  
**No. P140**  
Commissioner for Oaths

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KOBAY TECHNOLOGY BHD.

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Kobay Technology Bhd., which comprise the statements of financial position as at 30 June 2018 of the Group and the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 49 to 94.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Company as at 30 June 2018, and of their financial performance and cash flows for the financial year then ended in accordance with 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 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 the Company of the current period. These matters were addressed in the context of our audit of the financial statements of the Group and the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><u>Property development activities (Refer to Notes 3 and 6 to the financial statements)</u></p> <p>For property development in progress, the Group recognises revenue and costs in profit or loss by reference to the stage of completion of the development activity. The determination of the stage of completion involves judgements in estimating the total costs and outcome of the development activity. In making the estimate, management relies on past experience, work of experts and continuous monitoring mechanism.</p> <p>Land held for future development is subject to annual assessment for any indication of impairment. Such assessment involves judgements in considering information about the asset's value and economic performance as well as the overall property market conditions.</p>	<p>Our audit procedures included, among others:-</p> <ul style="list-style-type: none"> <li>Obtaining an understanding of:- <ul style="list-style-type: none"> <li>the Group's feasibility study and budgeting process; and</li> <li>how the Group estimates the total costs and outcome of the development activity.</li> </ul> </li> <li>Reviewing the project budgets and evaluating the reasonableness thereof by examining supporting documentation such as contracts, letters of award, variation orders, quotations, etc.</li> <li>Verifying major costs incurred to supporting documentation such as contracts, progress claims, invoices, architect certifications, etc.</li> <li>Reviewing the feasibility study of future projects and evaluating the reasonableness thereof by examining the contractual terms of joint venture agreements, project plans, estimated gross development value and costs as well as the prospective market and economic conditions.</li> <li>Where feasibility study is not available, evaluating the reasonableness of fair value estimates made by management for land itself.</li> </ul>

## INDEPENDENT AUDITORS' REPORT (CONT'D) TO THE MEMBERS OF KOBAY TECHNOLOGY BHD.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><u>Valuation of inventories (Refer to Notes 3 and 11 to the financial statements)</u></p> <p>The Group carries significant inventories. The assessment of inventory write-downs due to excess quantities, obsolescence and decline in net realisable value below cost involves judgements and estimation uncertainty in forming expectations about future sales and demands.</p>	<p>Our audit procedures included, among others:-</p> <ul style="list-style-type: none"> <li>Obtaining an understanding of:- <ul style="list-style-type: none"> <li>the Group's inventory management process;</li> <li>how the Group identifies and assesses inventory write-downs; and</li> <li>how the Group makes the accounting estimates for inventory write-downs.</li> </ul> </li> <li>Reviewing the ageing analysis of inventories and testing the reliability thereof.</li> <li>Examining the perpetual records for inventory movements and to identify slow moving aged items.</li> <li>Making inquiries of management regarding the action plans to clear slow moving aged and obsolete inventories.</li> <li>Reviewing the net realisable value of major inventories.</li> <li>Evaluating the reasonableness and adequacy of the allowance for inventories recognised for identified exposures.</li> </ul>
<p><u>Impairment of receivables (Refer to Notes 3 and 12 to the financial statements)</u></p> <p>The Group carries significant receivables and is subject to major credit risk exposures. The assessment of recoverability of receivables involves judgements and estimation uncertainty in analysing historical bad debts, customer concentration, customer creditworthiness, current economic trends, customer payment terms, etc.</p>	<p>Our audit procedures included, among others:-</p> <ul style="list-style-type: none"> <li>Obtaining an understanding of:- <ul style="list-style-type: none"> <li>the Group's control over the receivable collection process;</li> <li>how the Group identifies and assesses the impairment of receivables; and</li> <li>how the Group makes the accounting estimates for impairment.</li> </ul> </li> <li>Reviewing the ageing analysis of receivables and testing the reliability thereof.</li> <li>Reviewing subsequent cash collections for major receivables and overdue amounts.</li> <li>Making inquiries of management regarding the action plans to recover overdue amounts.</li> <li>Comparing and challenging management's view on the recoverability of overdue amounts to historical patterns of collections.</li> <li>Examining other evidence including customer correspondences, proposed or existing settlement plans, repayment schedules, etc.</li> <li>Evaluating the reasonableness and adequacy of the allowance for impairment recognised for identified exposures.</li> </ul>

We have determined that there are no key audit matters to communicate in our report in respect of the audit of the financial statements of the Company.

### *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 directors' report (but does not include the financial statements of the Group and the Company and our auditors' report thereon), which we obtained prior to the date of this auditors' report, and the annual report, which is expected to be made available to us after that date.

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

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

## INDEPENDENT AUDITORS' REPORT (CONT'D) TO THE MEMBERS OF KOBAY TECHNOLOGY BHD.

### *Information Other than the Financial Statements and Auditors' Report Thereon (Cont'd)*

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Company and request that a correction be made. If the directors refuse to make the correction, we shall take appropriate action considering our legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom our auditors' report is prepared.

### *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 the Company that give a true and fair view in accordance with 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 the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and 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 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.

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 the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and 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 the Company, including the disclosures, and whether the financial statements of the Group and 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.

## INDEPENDENT AUDITORS' REPORT (CONT'D) TO THE MEMBERS OF KOBAY TECHNOLOGY BHD.

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

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 the Company of the current period 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 we have not acted as auditors of a subsidiary, Kobay SCM (S) Pte. Ltd.

### **Other Matters**

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**

Firm No.: AF 1018

Chartered Accountants

### **Eddy Chan Wai Hun**

Approval No.: 02182/10/2019 J

Chartered Accountant

Date: 27 September 2018

Penang

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	2018 RM	2017 RM
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	4	56,513,874	57,957,664
Investment properties	5	0	2,000,395
Land held for property development	6	39,150,823	41,189,546
Intangible assets	7	79,590	93,278
Other investment		15	0
Deferred tax assets	9	289,000	0
		<b>96,033,302</b>	<b>101,240,883</b>
<b>CURRENT ASSETS</b>			
Property development costs	6	19,164,083	13,171,630
Assets held for sale	10	1,976,059	0
Inventories	11	15,124,499	14,888,390
Receivables	12	33,332,120	32,593,211
Prepayments		2,338,117	1,163,015
Current tax assets		135,250	484,812
Cash and cash equivalents	13	41,815,361	27,699,690
		<b>113,885,489</b>	<b>90,000,748</b>
<b>CURRENT LIABILITIES</b>			
Progress billings	6	3,254,688	369,988
Payables	14	28,215,402	26,302,781
Loans and borrowings	15	4,693,322	3,433,825
Financial liabilities at fair value through profit or loss	16	50,674	0
Current tax liabilities		1,086,219	246,456
		<b>37,300,305</b>	<b>30,353,050</b>
<b>NET CURRENT ASSETS</b>		<b>76,585,184</b>	<b>59,647,698</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	9	4,473,000	4,293,000
Loans and borrowings	15	7,325,954	8,773,925
Deferred income on government grants	17	1,734,608	1,629,946
		<b>13,533,562</b>	<b>14,696,871</b>
<b>NET ASSETS</b>		<b>159,084,924</b>	<b>146,191,710</b>
<b>EQUITY</b>			
Share capital	18	102,103,907	102,093,601
Treasury shares	18	0	(67,143)
Capital reserve		1,550,000	1,550,000
Currency translation reserve		80,285	497,668
Retained profits		54,866,520	41,680,750
Equity attributable to owners of the Company		<b>158,600,712</b>	<b>145,754,876</b>
Non-controlling interests	19	484,212	436,834
<b>TOTAL EQUITY</b>		<b>159,084,924</b>	<b>146,191,710</b>

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Note	2018 RM	2017 RM
Revenue	20	156,609,921	125,429,203
Cost of sales		(114,231,801)	(97,400,400)
Gross profit		42,378,120	28,028,803
Other income		3,610,723	3,464,229
Administrative and general expenses		(21,877,925)	(19,413,425)
Selling and distribution expenses		(5,037,641)	(4,350,307)
Finance costs		(215,179)	(101,949)
Profit before tax	21	18,858,098	7,627,351
Tax expense	23	(5,465,260)	(2,765,397)
Profit for the financial year		13,392,838	4,861,954
Other comprehensive income:-			
<i>Items that may be reclassified subsequently to profit or loss:-</i>			
- Currency translation differences for foreign operations		(22,424)	111,258
- Reclassification adjustment on dissolution of foreign operation		(394,959)	0
Other comprehensive income for the financial year		(417,383)	111,258
Total comprehensive income for the financial year		12,975,455	4,973,212
Profit for the financial year attributable to:-			
- Owners of the Company		13,183,598	4,738,971
- Non-controlling interests	19	209,240	122,983
		13,392,838	4,861,954
Total comprehensive income for the financial year attributable to:-			
- Owners of the Company		12,766,215	4,844,943
- Non-controlling interests		209,240	128,269
		12,975,455	4,973,212
Earnings per share:-	24		
- Basic (sen)		12.92	4.65
- Diluted (sen)		12.92	4.65

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



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Non-distributable				Distributable		Equity attributable to owners of the Company		Non-controlling interests	Total equity
	Share capital	Treasury shares	Share premium	Capital reserve	Currency translation reserve	Retained profits	Company			
	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
Balance at 1 July 2016	68,080,750	(221,473)	2,345,604	1,550,000	235,937	68,334,148	140,324,966	1,667,129	141,992,095	
Profit for the financial year	0	0	0	0	0	4,738,971	4,738,971	122,983	4,861,954	
Currency translation differences for foreign operations (representing other comprehensive income for the financial year)	0	0	0	0	105,972	0	105,972	5,286	111,258	
Total comprehensive income for the financial year	0	0	0	0	105,972	4,738,971	4,844,943	128,269	4,973,212	
Reissue of treasury shares	0	154,330	37,614	0	0	0	191,944	0	191,944	
Bonus issue	34,012,851	0	(2,324,218)	0	0	(31,688,633)	0	0	0	
Share issue transaction costs	0	0	(59,000)	0	0	0	(59,000)	0	(59,000)	
Dividends to non-controlling interests	0	0	0	0	0	0	0	(368,941)	(368,941)	
Contributions by/ (Distributions to) owners	34,012,851	154,330	(2,345,604)	0	0	(31,688,633)	132,944	(368,941)	(235,997)	
Changes in ownership interests in subsidiaries	0	0	0	0	155,759	296,264	452,023	(989,623)	(537,600)	
Total transactions with owners	34,012,851	154,330	(2,345,604)	0	155,759	(31,392,369)	584,967	(1,358,564)	(773,597)	
Balance at 30 June 2017	102,093,601	(67,143)	0	1,550,000	497,668	41,680,750	145,754,876	436,834	146,191,710	

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Non-distributable				Distributable		Equity attributable to owners of the Company		Non-controlling interests		Total equity	
	Share capital	Treasury shares	Share premium	Capital reserve	Currency translation reserve	Retained profits	RM	RM	RM	RM	RM	RM
Balance at 1 July 2017	102,093,601	(67,143)	0	1,550,000	497,668	41,680,750	145,754,876	436,834			146,191,710	
Currency translation differences for foreign operations	0	0	0	0	(22,424)	0	(22,424)	0			(22,424)	
Reclassification adjustment on dissolution of foreign operation	0	0	0	0	(394,959)	0	(394,959)	0			(394,959)	
Other comprehensive income for the financial year	0	0	0	0	(417,383)	0	(417,383)	0			(417,383)	
Profit for the financial year	0	0	0	0	0	13,183,598	13,183,598	209,240			13,392,838	
Total comprehensive income for the financial year	0	0	0	0	(417,383)	13,183,598	12,766,215	209,240			12,975,455	
Reissue of treasury shares	10,306	67,143	0	0	0	0	77,449	0			77,449	
Dividends to non-controlling interests	0	0	0	0	0	0	0	(93,000)			(93,000)	
Contributions by/ (Distributions to) owners	10,306	67,143	0	0	0	0	77,449	(93,000)			(15,551)	
Change in ownership interest in subsidiary (Note 19)	0	0	0	0	0	2,172	2,172	(68,862)			(66,690)	
Total transactions with owners	10,306	67,143	0	0	0	2,172	79,621	(161,862)			(82,241)	
Balance at 30 June 2018	<b>102,103,907</b>	<b>0</b>	<b>0</b>	<b>1,550,000</b>	<b>80,285</b>	<b>54,866,520</b>	<b>158,600,712</b>	<b>484,212</b>			<b>159,084,924</b>	

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

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Note	2018 RM	2017 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		18,858,098	7,627,351
Adjustments for:-			
Amortisation of deferred income on government grants		(410,338)	(347,620)
Bad debts written off		1,191,225	0
Depreciation of investment properties		24,336	24,336
Depreciation of property, plant and equipment		6,133,019	6,097,041
Gain on disposal of property, plant and equipment		(168,582)	(258,397)
Gain on dissolution of subsidiary		(375,206)	0
Impairment loss on intangible assets		0	189,137
Impairment loss on property, plant and equipment		0	343,971
Impairment loss on receivables		452,396	167,333
Interest expense		215,179	101,949
Interest income		(488,622)	(295,834)
Property, plant and equipment written off		413,714	88,200
Reversal of impairment loss on receivables		(54,334)	(42,000)
Unrealised (gain)/loss on foreign exchange		(386,760)	232,190
Unrealised loss on financial instruments at fair value through profit or loss		50,674	0
Operating profit before working capital changes		25,454,799	13,927,657
Changes in:-			
Property development costs		(417,398)	(269,941)
Inventories		(236,109)	(299,486)
Receivables and prepayments		(3,182,152)	(6,756,684)
Progress billings		2,884,700	(1,029,641)
Payables		1,902,469	5,318,589
Financial instruments at fair value through profit or loss		0	10,750
Cash generated from operations		26,406,309	10,901,244
Tax paid		(4,946,552)	(3,142,733)
Tax refunded		561,617	64,632
Net cash from operating activities		22,021,374	7,823,143
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to intangible assets		(6,065)	0
Additions to land held for property development		(3,419,172)	(5,997,440)
Deposit refunded for purchase of investment properties		0	60,000
Grants received		515,000	0
Interest received		488,622	295,834
Proceeds from disposal of property, plant and equipment		236,904	265,156
Purchase of other investment		(15)	0
Purchase of property, plant and equipment		(5,171,265)	(4,028,695)
Net cash used in investing activities		(7,355,991)	(9,405,145)

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

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Note	2018 RM	2017 RM
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquisition of shares from non-controlling interests		(66,690)	(537,600)
Dividends paid to non-controlling interests		(93,000)	(368,941)
Increase in short-term loans and borrowings (net)	25	266,040	892,440
Interest paid		(339,501)	(102,329)
Placement of term deposits pledged as security		(3,586,998)	(17,492)
Reissue of treasury shares		77,449	191,944
Repayment of term loans	25	(2,445,208)	(1,861,846)
Share issue transaction costs paid		0	(59,000)
Term loan raised	25	0	1,681,951
Net cash used in financing activities		(6,187,908)	(180,873)
Currency translation differences		57,352	101,308
Net increase/(decrease) in cash and cash equivalents		8,534,827	(1,661,567)
Cash and cash equivalents brought forward		25,085,318	26,746,885
Cash and cash equivalents carried forward	13	<u>33,620,145</u>	<u>25,085,318</u>

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

# STATEMENT OF FINANCIAL POSITION

## AS AT 30 JUNE 2018

	Note	2018 RM	2017 RM
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	4	377,808	435,108
Investments in subsidiaries	8	114,983,241	91,483,241
Other investment		15	0
		<b>115,361,064</b>	91,918,349
<b>CURRENT ASSETS</b>			
Receivables	12	5,287,609	20,561,927
Prepayments		10,575	12,900
Current tax assets		12,182	0
Cash and cash equivalents	13	9,217,026	9,299,627
		<b>14,527,392</b>	29,874,454
<b>CURRENT LIABILITIES</b>			
Payables	14	408,255	2,486,348
Loans and borrowings	15	4,490,972	481,299
Current tax liabilities		0	21,500
		<b>4,899,227</b>	2,989,147
<b>NET CURRENT ASSETS</b>		<b>9,628,165</b>	26,885,307
<b>NON-CURRENT LIABILITIES</b>			
Loans and borrowings	15	7,325,954	8,105,038
<b>NET ASSETS</b>		<b>117,663,275</b>	110,698,618
<b>EQUITY</b>			
Share capital	18	102,103,907	102,093,601
Treasury shares	18	0	(67,143)
Retained profits		15,559,368	8,672,160
<b>TOTAL EQUITY</b>		<b>117,663,275</b>	110,698,618

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

## STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

		2018 RM	2017 RM
	Note		
Revenue	20	10,229,542	9,088,271
Other income		1,392,582	2,193,944
Administrative and general expenses		(4,398,405)	(4,500,788)
Finance costs		(184,978)	(47,018)
Profit before tax	21	7,038,741	6,734,409
Tax expense	23	(151,533)	(110,647)
Profit for the financial year		6,887,208	6,623,762
Other comprehensive income for the financial year		0	0
Total comprehensive income for the financial year		6,887,208	6,623,762

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

# STATEMENT OF CHANGES IN EQUITY

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Share capital RM	Treasury shares RM	Non-distributable		Distributable		Total equity RM
			Share premium RM	Retained profits RM			
Balance at 1 July 2016	68,080,750	(221,473)	2,345,604	33,737,031			103,941,912
Profit (representing total comprehensive income) for the financial year	0	0	0	6,623,762			6,623,762
Reissue of treasury shares	0	154,330	37,614	0			191,944
Bonus issue	34,012,851	0	(2,324,218)	(31,688,633)			0
Share issue transaction costs	0	0	(59,000)	0			(59,000)
Total transactions with owners	34,012,851	154,330	(2,345,604)	(31,688,633)			132,944
Balance at 30 June 2017	102,093,601	(67,143)	0	8,672,160			110,698,618
Profit (representing total comprehensive income) for the financial year	0	0	0	6,887,208			6,887,208
Reissue of treasury shares (representing total transactions with owners)	10,306	67,143	0	0			77,449
Balance at 30 June 2018	<b>102,103,907</b>	<b>0</b>	<b>0</b>	<b>15,559,368</b>			<b>117,663,275</b>

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

## STATEMENT OF CASH FLOWS

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Note	2018 RM	2017 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		7,038,741	6,734,409
Adjustments for:-			
Depreciation of property, plant and equipment		63,286	95,232
Dividend income		(8,774,442)	(7,957,614)
Gain on disposal of subsidiaries		0	(1,185,189)
Impairment loss on investments in subsidiaries		0	291,125
Impairment loss on receivables		17,970	0
Interest expense		184,978	47,018
Interest income		(1,053,001)	(1,000,311)
Property, plant and equipment written off		0	544
Reversal of impairment loss on receivables		(338,981)	0
Operating loss before working capital changes		(2,861,449)	(2,974,786)
Changes in:-			
Receivables and prepayments		2,675	17,320
Payables		41,907	(5,062)
Cash absorbed by operations		(2,816,867)	(2,962,528)
Tax paid		(185,215)	(105,574)
Tax refunded		0	16,427
Net cash used in operating activities		(3,002,082)	(3,051,675)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additional investments in subsidiaries		0	(599,900)
Capital repayment from subsidiary		400,000	0
Dividends received		8,774,442	7,957,614
Interest received		1,053,001	1,000,311
Net advance to subsidiaries		(10,425,021)	(6,386,476)
Proceeds from disposal of property, plant and equipment		0	5,644
Purchase of other investment		(15)	0
Purchase of property, plant and equipment		(5,986)	(49,999)
Net cash (used in)/from investing activities		(203,579)	1,927,194
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in short-term loans and borrowings (net)	25	2,000,000	0
Interest paid		(184,978)	(47,018)
Reissue of treasury shares		77,449	191,944
Repayment of term loans	25	(763,257)	(826,961)
Share issue transaction costs paid		0	(59,000)
Net cash from/(used in) financing activities		1,129,214	(741,035)
Net decrease in cash and cash equivalents		(2,076,447)	(1,865,516)
Cash and cash equivalents brought forward		9,291,627	11,157,143
Cash and cash equivalents carried forward	13	7,215,180	9,291,627

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



# NOTES TO THE FINANCIAL STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

## 1. GENERAL INFORMATION

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

The principal activities of the Company are those of investment holding and provision of management services. The principal activities of the subsidiaries are disclosed in Note 8.

The registered office and principal place of business of the Company are located at 3rd Floor, Wisma Kobay, No. 42-B Jalan Rangoon, 10400 Georgetown, Penang.

The consolidated financial statements set out on pages 49 to 54 together with the notes thereto cover the Company and its subsidiaries ("the Group"). The separate financial statements of the Company set out on pages 55 to 58 together with the notes thereto cover the Company solely.

The presentation currency of the financial statements is Ringgit Malaysia ("RM").

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors dated 27 September 2018.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation of Financial Statements

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

The following FRSs became effective for the financial year under review:-

FRS	Effective for annual periods beginning on or after
Amendments to FRS 12 <i>Disclosure of Interests in Other Entities</i> (Annual Improvements to FRS Standards 2014 - 2016 Cycle)	1 January 2017
Amendments to FRS 107 <i>Disclosure Initiative</i>	1 January 2017
Amendments to FRS 112 <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	1 January 2017

The adoption of the above FRSs did not result in any significant changes in the accounting policies of the Group and the Company.

### 2.2 Malaysian Financial Reporting Standards

In November 2011, the Malaysian Accounting Standards Board ("MASB") issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards ("MFRS") Framework. The issuance was made in conjunction with the MASB's plan to converge with International Financial Reporting Standards ("IFRS") in 2012. The MFRS Framework is a fully IFRS-compliant framework and equivalent to IFRSs.

The MFRS Framework is to be applied by all entities other than private entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 *Agriculture* and/or IC Interpretation 15 *Agreements for the Construction of Real Estate*, including their parents, significant investors and joint venturers ("Transitioning Entities"). As announced by the MASB on 28 October 2015, Transitioning Entities are allowed to defer the adoption of the MFRS Framework to annual periods beginning on or after 1 January 2018.

Being a Transitioning Entity as defined above, the Group and the Company have elected to continue preparing their financial statements in accordance with the FRS Framework and will first present the financial statements in accordance with the MFRS Framework for the financial year ending 30 June 2019.

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.2 Malaysian Financial Reporting Standards (cont'd)

The Group and the Company will apply MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards* in their first MFRS financial statements for the financial year ending 30 June 2019 with a transition date of 1 July 2017. Management foresees that the transition to the MFRS Framework will not result in any significant changes in the accounting policies of the Group and the Company except as follows:-

#### MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards

MFRS 1 allows first-time adopters to elect certain exemptions from other MFRSs. Upon transition to the MFRS Framework, the Group will change its revaluation model of property, plant and equipment to the cost model and use the last valuation on or before the transition date as deemed cost under the MFRS Framework.

#### MFRS 9 Financial Instruments

MFRS 9, which replaces FRS/MFRS 139 *Financial Instruments: Recognition and Measurement*, sets out the requirements for recognising and measuring financial instruments. The major changes introduced by MFRS 9 (that are relevant to the Group and the Company) relate to the classification and measurement of financial assets. Under MFRS 9:-

- (i) Financial assets are classified as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the business model within which they are held and their contractual cash flow characteristics. Based on management's assessment, the adoption of the new guidance will not significantly affect the existing classification and measurement of financial assets of the Group and the Company.
- (ii) Impairment loss on financial assets is recognised using a new "expected credit loss" model as opposed to the "incurred credit loss" model currently used in FRS/MFRS 139. Under the new model, expected credit losses are recognised for financial assets using reasonable and supportable historical and forward-looking information even before a loss event occurs. Based on management's assessment, any additional impairment losses to be recognised using the new impairment model are not expected to be material to the Group and the Company.

As allowed by MFRS 1, the Group and the Company will apply the new requirements of MFRS 9 from 1 July 2018 with any cumulative effect of initial application recognised at that date without restating the comparative information presented under FRS 139.

#### MFRS 15 Revenue from Contracts with Customers

MFRS 15, which replaces FRS/MFRS 111 *Construction Contracts*, FRS/MFRS 118 *Revenue* and other related interpretations, establishes a single comprehensive model for revenue recognition. Under MFRS 15, revenue is recognised when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. Revenue is recognised either over time or at a point in time depending on the timing of transfer of control. Based on management's assessment, the adoption of the new revenue recognition model will not significantly affect the following current practices of recognising revenue:-

- (i) Revenue from the sale of goods is currently recognised based on the transfer of risks and rewards which generally coincides with the transfer of control at a point in time.
- (ii) Revenue from the rendering of services is currently recognised when the services are performed as the customer simultaneously receives and consumes the benefits from the performance of services over time.
- (iii) Property development revenue is currently recognised by reference to the stage of completion of the development activity as the control of development units sold is generally transferred to the purchasers over time.

Upon transition to the MFRS Framework, the Group and the Company will retrospectively apply the new requirements of MFRS 15 from the transition date.

## NOTES TO THE FINANCIAL STATEMENT (CONT'D) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 2.3 Basis of Consolidation

A subsidiary is an entity that is controlled by another entity. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the end of the reporting period using the acquisition method. Under the acquisition method, the consideration transferred, the identifiable assets acquired and the liabilities assumed are measured at their acquisition-date fair values. The components of non-controlling interests that are present ownership interests are measured at the present ownership instruments' proportionate share in the recognised amounts of the identifiable net assets acquired. All other components of non-controlling interests are measured at their acquisition-date fair values. In a business combination achieved in stages, the previously held equity interest in the acquiree is remeasured at its acquisition-date fair value and any resulting gain or loss is recognised in profit or loss. All acquisition-related costs, other than the costs to issue debt or equity securities, are recognised in profit or loss as incurred.

Goodwill at the acquisition date is measured as the excess of (a) over (b) below:-

- (a) the aggregate of:-
  - (i) the acquisition-date fair value of the consideration transferred;
  - (ii) the amount of any non-controlling interests; and
  - (iii) in a business combination achieved in stages, the acquisition-date fair value of the previously held equity interest in the acquiree.
- (b) the net of the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed.

Goodwill is recognised as an asset at the aforementioned amount less accumulated impairment losses, if any. The impairment policy is disclosed in Note 2.10. When the above (b) exceeds (a), the excess represents a bargain purchase gain and, after reassessment, is recognised in profit or loss.

A subsidiary is consolidated from the acquisition date, being the date on which control is obtained, and continues to be consolidated until the date when control is lost. Intragroup balances, transactions, income and expenses are eliminated in full on consolidation. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. 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.

Upon loss of control of a subsidiary, the assets (including any goodwill) and liabilities of, and any non-controlling interests in the subsidiary are derecognised. All amounts recognised in other comprehensive income in relation to the subsidiary are accounted for on the same basis as would be required if the related assets or liabilities had been directly disposed of. Any consideration received and any investment retained in the former subsidiary are recognised at their fair values. The resulting difference is then recognised as a gain or loss in profit or loss.

#### 2.4 Property, Plant and Equipment

Property, plant and equipment are stated at cost or at valuation less accumulated depreciation and accumulated impairment losses, if any. The impairment policy is disclosed in Note 2.10.

The last revaluation of certain land and buildings was made in 1997 and has not been updated. The Group has followed the transitional provisions of IAS 16 (Revised) *Property, Plant and Equipment* issued by the Malaysian Accounting Standards Board to retain the carrying amounts of the assets on the basis of their previous revaluation subject to continuity in their depreciation and impairment policies.

A revaluation increase is recognised in other comprehensive income and accumulated in equity as revaluation surplus or recognised in profit or loss to the extent that the increase reverses a revaluation decrease of the same asset previously recognised in profit or loss. A revaluation decrease is recognised in profit or loss or recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of the same asset.

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.4 Property, Plant and Equipment (cont'd)

Freehold land and capital work-in-progress are not depreciated. Leasehold land is depreciated on a straight-line basis over the lease terms of 43 to 80 years. Other property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets using the following annual rates:-

Buildings	2%
Building improvement and renovation	2-33%
Factory machinery, moulds and equipment	10-20%
Furniture, fittings, office equipment and computer software	10-33%
Tools and accessories	10%
Motor vehicles	10-20%

The residual value, useful life and depreciation method of an asset are reviewed at least at the end of each reporting period and any changes in expectations from previous estimates are accounted for prospectively as changes in accounting estimates.

### 2.5 Investment Properties

Investment property, being a property held to earn rentals and/or for capital appreciation, is stated at cost less accumulated depreciation and accumulated impairment losses, if any. The impairment policy is disclosed in Note 2.10.

Freehold land is not depreciated. Buildings are depreciated on a straight-line basis over their estimated useful lives of 50 years.

### 2.6 Property Development Activities

Land held for property development is stated at cost less accumulated impairment losses, if any. The impairment policy is disclosed in Note 2.10. The portion of land where no development activities have been carried out or where development activities are not expected to be completed within the normal operating cycle is classified as non-current assets.

Property development revenue comprises the selling price agreed in the sale and purchase agreement and any additional revenue due to variation in development work. Property development costs comprise costs associated with the acquisition of land, costs related directly to a specific development project and other costs attributable to development activities in general and can be allocated to the project.

When the outcome of a development activity can be estimated reliably, property development revenue and costs attributable to the development units sold are recognised in profit or loss by reference to the stage of completion of the development activity at the end of the reporting period. The stage of completion is determined by reference to the proportion that property development costs incurred to date bear to the estimated total costs.

When the outcome of a development activity cannot be estimated reliably, property development revenue is recognised in profit or loss only to the extent of property development costs incurred that are probable to be recoverable whereas property development costs attributable to the development units sold are recognised in profit or loss in the period in which they are incurred. Any expected loss on a development project is recognised in profit or loss immediately.

### 2.7 Intellectual Property

Intellectual property with an indefinite useful life is stated at cost less accumulated impairment losses, if any. The impairment policy is disclosed in Note 2.10.

### 2.8 Investments in Subsidiaries

As required by the Companies Act 2016, the Company prepares separate financial statements in addition to the consolidated financial statements. In the separate financial statements of the Company, investments in subsidiaries are stated at cost less impairment losses, if any. The impairment policy is disclosed in Note 2.10.

## NOTES TO THE FINANCIAL STATEMENT (CONT'D) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 2.9 Non-current Assets (or Disposal Groups) Held for Sale

A non-current asset (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Immediately before the initial classification as held for sale, the carrying amounts of the asset (or all the assets and liabilities of the disposal group) are measured in accordance with applicable FRSs. Upon classification as held for sale, the asset (or disposal group), other than deferred tax assets and financial assets within the scope of FRS 139 *Financial Instruments: Recognition and Measurement*, is measured at the lower of its carrying amount and fair value less costs to sell. Any initial or subsequent write-down to, or any subsequent increase in, fair value less costs to sell is recognised in profit or loss.

#### 2.10 Impairment of Non-financial Assets

At the end of each reporting period, the Group and the Company assess whether there is any indication that a non-financial asset, other than inventories, deferred tax assets and non-current assets (or disposal groups) classified as held for sale, may be impaired. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs of disposal and its value in use, is estimated. Irrespective of whether there is any indication of impairment, goodwill and other intangible assets with indefinite useful lives are tested for impairment annually. Any excess of the carrying amount of the asset over its recoverable amount represents an impairment loss and is recognised in profit or loss or, in respect of a revalued asset, treated as a revaluation decrease.

An impairment loss on an asset, other than goodwill, is reversed if there has been a change in the estimates used to determine the recoverable amount and it is reversed only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised. The reversal is recognised in profit or loss or, in respect of a revalued asset, treated as a revaluation increase. An impairment loss on goodwill is not reversed.

#### 2.11 Inventories

Inventories of materials and goods are valued at the lower of cost (determined principally on the first-in, first-out basis) and net realisable value. Cost consists of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale.

#### 2.12 Financial Assets

Financial assets of the Group and the Company consist of receivables, derivatives and cash and cash equivalents.

##### Recognition and Measurement

A financial asset is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, directly attributable transaction costs. The subsequent measurement of a financial asset depends on its classification as follows:-

##### (i) Financial assets at fair value through profit or loss

All derivatives, except for those designated as hedges, are classified as held for trading under this category. After initial recognition, such financial assets are measured at fair value. Any gain or loss arising from a change in the fair value is recognised in profit or loss.

##### (ii) Loans and receivables

All receivables and cash and cash equivalents are classified under this category. After initial recognition, such financial assets are measured at amortised cost using the effective interest method. Any gain or loss is recognised in profit or loss when the financial asset is derecognised or impaired as well as through the amortisation process.

A financial asset is derecognised when, and only when, the contractual rights to the cash flows from the financial asset have expired or all the risks and rewards of ownership have been substantially transferred.

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.12 Financial Assets (cont'd)

#### Impairment

At the end of each reporting period, the Group and the Company assess whether there is any objective evidence that a financial asset or group of financial assets classified under loans and receivables is impaired. If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted using the asset's original effective interest rate. The asset's carrying amount is reduced through the use of an allowance account and the impairment loss is recognised in profit or loss. The gross carrying amount and the associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the increased carrying amount does not exceed what the amortised cost would have been had no impairment loss been recognised at the reversal date. The reversal is recognised in profit or loss.

### 2.13 Financial Liabilities

Financial liabilities of the Group and the Company consist of payables, loans and borrowings and derivatives (including financial guarantee contracts).

#### Recognition and Measurement

A financial liability is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is initially recognised at fair value less, in the case of a financial liability not at fair value through profit or loss, directly attributable transaction costs. After initial recognition, all financial liabilities, except for financial liabilities at fair value through profit or loss and financial guarantee contracts, are measured at amortised cost using the effective interest method. Any gain or loss is recognised in profit or loss when the financial liability is derecognised as well as through the amortisation process.

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

All derivatives, except for financial guarantee contracts or those designated as hedges, are classified as held for trading under this category. After initial recognition, such financial liabilities are measured at fair value. Any gain or loss arising from a change in the fair value is recognised in profit or loss.

#### (ii) Financial guarantee contracts

After initial recognition at fair value, if any, financial guarantee contracts are measured at the higher of the amount initially recognised less appropriate amortisation and the estimate of any probable obligation.

A financial liability is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires.

### 2.14 Foreign Currency Transactions and Translation

The consolidated financial statements and separate financial statements of the Company are presented in Ringgit Malaysia, which is also the Company's functional currency, being the currency of the primary economic environment in which the entity operates. Items included in the financial statements of each individual entity within the Group are measured using the individual entity's own functional currency.

A foreign currency transaction is recorded in the functional currency using the exchange rate at transaction date. At the end of the reporting period, foreign currency monetary items are translated into the functional currency using the closing rate. Foreign currency non-monetary items measured at cost are translated using the exchange rate at transaction date whereas those measured at fair value are translated using the exchange rate at valuation date. Exchange differences arising from the settlement or translation of monetary items are recognised in profit or loss. Any exchange component of the gain or loss on a non-monetary item is recognised on the same basis as that of the gain or loss, i.e. in profit or loss or in other comprehensive income.

## NOTES TO THE FINANCIAL STATEMENT (CONT'D) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 2.14 Foreign Currency Transactions and Translation (cont'd)

In translating the financial position and results of a foreign operation whose functional currency is not the required presentation currency, i.e. Ringgit Malaysia, assets and liabilities are translated into the presentation currency using the closing rate whereas income and expenses are translated using the exchange rates at transaction dates. All resulting exchange differences are recognised in other comprehensive income and accumulated in equity as currency translation reserve until the foreign operation is disposed of, at which time the cumulative exchange differences previously recognised in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

Any goodwill and fair value adjustments arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation to be expressed in its functional currency and translated into the presentation currency using the closing rate.

#### 2.15 Share Capital

Ordinary shares are classified as equity. Transaction costs that relate to the issue of new shares are accounted for as a deduction from equity.

Own shares purchased are held as treasury shares in accordance with the requirements of Section 127 of the Companies Act 2016. The total amount of consideration paid, including directly attributable costs, is recognised directly in equity. When treasury shares are distributed as share dividends, the cost of the shares distributed is applied in the reduction of distributable reserves. When treasury shares are resold in the open market, the difference between the sale consideration and the cost of the shares resold is adjusted to share capital. When treasury shares are cancelled, the cost of the shares cancelled is applied in the reduction of distributable reserves and the issued share capital is diminished by the shares so cancelled.

Dividends on shares declared and unpaid at the end of the reporting period are recognised as a liability whereas dividends proposed or declared after the reporting period are disclosed in the notes to the financial statements.

#### 2.16 Fair Value Measurement

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.

The Group and the Company use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The valuation techniques used include the following:-

- (i) Market approach - which uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities.
- (ii) Cost approach - which reflects the amount that would be required currently to replace the service capacity of an asset.
- (iii) Income approach - which converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount.

The inputs to valuation techniques used to measure fair value are categorised into the following levels of fair value hierarchy:-

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

Any transfers between the levels of fair value hierarchy are deemed to have occurred at the end of the reporting period.

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.16 Fair Value Measurement (cont'd)

#### Financial Assets and Financial Liabilities

The carrying amounts of receivables, cash and cash equivalents, payables and loans and borrowings which are short-term in nature or repayable on demand are reasonable approximations of fair values. The fair values of long-term loans and borrowings are measured using present value technique by discounting the expected future cash flows using observable current market interest rates for similar liabilities (i.e. Level 2).

The fair value of forward exchange contract is measured using present value technique by discounting the difference between contractual forward price and observable current market forward price using risk-free interest rate (i.e. Level 2).

### 2.17 Income Recognition

Income from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Income from the rendering of services is recognised when the services are performed.

Property development revenue is recognised in accordance with Note 2.6.

Dividend income is recognised when the shareholder's right to receive payment is established.

Interest income is recognised using the effective interest method.

### 2.18 Government Grants

Government grants are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to the grants and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Grants related to assets are presented in the statement of financial position as deferred income which is amortised on a straight-line basis over the estimated useful lives of the assets. Grants related to income are presented under "other income" in the statement of comprehensive income.

### 2.19 Employee Benefits

#### Short-term Employee Benefits

Short-term employee benefits such as wages, salaries, bonuses and social security contributions are recognised in profit or loss or included in property development costs, where appropriate, in the period in which the associated services are rendered by the employee.

#### Defined Contribution Plans

As required by law, employers in Malaysia make contributions to the statutory pension scheme, Employees Provident Fund ("EPF"). The Group's foreign subsidiaries make contributions to their respective countries' statutory pension schemes. Contributions to defined contribution plans are recognised in profit or loss or included in property development costs, where appropriate, in the period in which the associated services are rendered by the employee.

### 2.20 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the asset, until such time as the asset is substantially ready for its intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 2.21 Income Taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax represents the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted or substantively enacted by the end of the reporting period.



## NOTES TO THE FINANCIAL STATEMENT (CONT'D) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 2.21 Income Taxes (cont'd)

Deferred tax is provided for under the liability method in respect of all temporary differences between the carrying amount of an asset or liability and its tax base except for those temporary differences associated with goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting nor taxable results at the time of the transaction.

A deferred tax liability is recognised for all taxable temporary differences whereas a deferred tax asset is recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### 2.22 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, term deposits that are withdrawable on demand and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

### 3. JUDGEMENTS AND ESTIMATION UNCERTAINTY

#### Judgements Made in Applying Accounting Policies

In the process of applying the accounting policies of the Group and the Company, management is not aware of any judgements, apart from those involving estimations, that can significantly affect the amounts recognised in the financial statements.

#### Sources of Estimation Uncertainty

The key assumptions about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:-

##### Property development activities

The Group recognises property development revenue and costs by reference to the stage of completion of the development activity. The determination of the stage of completion involves estimating the outcome of the development activity based on past experience and work of specialists. The carrying amounts of items relating to property development activities are disclosed in Note 6.

##### Valuation of inventories

Reviews are made periodically by management on inventories for excess inventories, obsolescence and decline in net realisable value below cost. These reviews require the use of judgements and estimates. Possible changes in these estimates may result in revisions to the valuation of inventories. The carrying amounts of inventories are disclosed in Note 11.

##### Impairment of receivables

The Group and the Company make allowance for impairment based on an assessment of the recoverability of receivables. Allowance is applied to receivables when there is objective evidence that the balances may not be recoverable. Management specifically analyses historical bad debts, customer concentration, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the allowance for impairment. Where expectations are different from previous estimates, the difference will impact on the carrying amounts of receivables as disclosed in Note 12.

# NOTES TO THE FINANCIAL STATEMENT (CONT'D)

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

### 4. PROPERTY, PLANT AND EQUIPMENT

The Group

	Land and buildings	Building improvement and renovation	Factory machinery, moulds and equipment	Furniture, fittings, office equipment and computer software	Tools and accessories	Motor vehicles	Capital work-in-progress	Total
	RM	RM	RM	RM	RM	RM	RM	RM
<b>Cost/Valuation</b>								
Balance at 1 July 2016	39,390,600	6,214,067	81,213,679	7,941,567	1,180,409	1,568,327	920,676	138,429,325
Additions	0	707,937	2,345,548	556,330	47,598	127,950	243,332	4,028,695
Disposals/Write-offs	0	(125,571)	(2,289,930)	(472,205)	(19,494)	(28,000)	(3,500)	(2,938,700)
Reclassifications	0	482,273	4,778	6,807	(2,745)	(90)	(491,023)	0
Currency translation differences	0	5,585	216	18,549	0	0	0	24,350
Balance at 30 June 2017	39,390,600	7,284,291	81,274,291	8,051,048	1,205,768	1,668,187	669,485	139,543,670
<b>Representing:-</b>								
- Cost	28,946,600	7,284,291	81,274,291	8,051,048	1,205,768	1,668,187	669,485	129,099,670
- Valuation	10,444,000	0	0	0	0	0	0	10,444,000
	39,390,600	7,284,291	81,274,291	8,051,048	1,205,768	1,668,187	669,485	139,543,670
<b>Balance at 1 July 2017</b>	39,390,600	7,284,291	81,274,291	8,051,048	1,205,768	1,668,187	669,485	139,543,670
Additions	455,737	538,860	3,756,650	339,129	17,429	51,800	11,660	5,171,265
Disposals/Write-offs	0	(465,870)	(1,288,178)	(32,503)	(3,700)	(57,000)	(350,481)	(2,197,732)
Reclassifications	0	132,943	0	0	0	0	(132,943)	0
Balance at 30 June 2018	39,846,337	7,490,224	83,742,763	8,357,674	1,219,497	1,662,987	197,721	142,517,203
<b>Representing:-</b>								
- Cost	29,402,337	7,490,224	83,742,763	8,357,674	1,219,497	1,662,987	197,721	132,073,203
- Valuation	10,444,000	0	0	0	0	0	0	10,444,000
	39,846,337	7,490,224	83,742,763	8,357,674	1,219,497	1,662,987	197,721	142,517,203

# NOTES TO THE FINANCIAL STATEMENT (CONT'D)

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

### 4. PROPERTY, PLANT AND EQUIPMENT (cont'd)

The Group

	Land and buildings	Building improvement and renovation	Factory machinery, moulds and equipment	Furniture, fittings, office equipment and computer software	Tools and accessories	Motor vehicles	Capital work-in-progress	Total
	RM	RM	RM	RM	RM	RM	RM	RM
<b>Depreciation and Impairment Losses</b>								
Balance at 1 July 2016	9,714,673	2,509,220	57,821,553	4,777,019	887,914	1,314,073	0	77,024,452
Accumulated depreciation	0	0	604,252	100,837	77,789	34,332	127,220	944,430
Accumulated impairment losses	9,714,673	2,509,220	58,425,805	4,877,856	965,703	1,348,405	127,220	77,968,882
Depreciation	721,000	646,388	3,970,047	679,735	40,735	39,136	0	6,097,041
Impairment loss	0	0	0	0	0	0	343,971	343,971
Disposals/Write-offs	0	(113,947)	(2,279,282)	(403,032)	(19,481)	(27,999)	0	(2,843,741)
Currency translation differences	0	4,936	94	14,823	0	0	0	19,853
Balance at 30 June 2017	10,435,673	3,046,597	59,512,412	5,068,545	909,168	1,325,210	0	80,297,605
Accumulated depreciation	0	0	604,252	100,837	77,789	34,332	471,191	1,288,401
Accumulated impairment losses	10,435,673	3,046,597	60,116,664	5,169,382	986,957	1,359,542	471,191	81,586,006
Depreciation	809,617	675,583	3,909,183	646,690	42,233	49,713	0	6,133,019
Disposals/Write-offs	0	(56,410)	(1,234,470)	(23,846)	0	(56,999)	(343,971)	(1,715,696)
Balance at 30 June 2018	11,245,290	3,665,770	62,187,125	5,691,389	951,401	1,317,924	0	85,058,899
Accumulated depreciation	0	0	604,252	100,837	77,789	34,332	127,220	944,430
Accumulated impairment losses	11,245,290	3,665,770	62,791,377	5,792,226	1,029,190	1,352,256	127,220	86,003,329
<b>Carrying Amount</b>								
Balance at 1 July 2016	29,675,927	3,704,847	22,787,874	3,063,711	214,706	219,922	793,456	60,460,443
Balance at 30 June 2017	28,954,927	4,237,694	21,157,627	2,881,666	218,811	308,645	198,294	57,957,664
Balance at 30 June 2018	<b>28,601,047</b>	<b>3,824,454</b>	<b>20,951,386</b>	<b>2,565,448</b>	<b>190,307</b>	<b>310,731</b>	<b>70,501</b>	<b>56,513,874</b>

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 4. PROPERTY, PLANT AND EQUIPMENT (cont'd)

The details of land and buildings are as follows:-

The Group

	Freehold land RM	Leasehold land RM	Buildings RM	Total RM
<u>Cost/Valuation</u>				
Balance at 1 July 2016 / 30 June 2017	4,161,603	8,411,794	26,817,203	39,390,600
Additions	0	0	455,737	455,737
Balance at 30 June 2018	4,161,603	8,411,794	27,272,940	39,846,337
<u>Representing:-</u>				
- Cost	4,161,603	4,777,794	20,462,940	29,402,337
- Valuation	0	3,634,000	6,810,000	10,444,000
	4,161,603	8,411,794	27,272,940	39,846,337
<u>Accumulated Depreciation</u>				
Balance at 1 July 2016	0	2,934,283	6,780,390	9,714,673
Depreciation	0	151,780	569,220	721,000
Balance at 30 June 2017	0	3,086,063	7,349,610	10,435,673
Depreciation	0	151,780	657,837	809,617
Balance at 30 June 2018	0	3,237,843	8,007,447	11,245,290
<u>Carrying Amount</u>				
Balance at 1 July 2016	4,161,603	5,477,511	20,036,813	29,675,927
Balance at 30 June 2017	4,161,603	5,325,731	19,467,593	28,954,927
Balance at 30 June 2018	4,161,603	5,173,951	19,265,493	28,601,047

Certain leasehold land and buildings stated at valuation were revalued in 1997 based on the market values given by independent professional valuers using the comparison method. Had the leasehold land and buildings been carried at historical cost less accumulated depreciation, the total carrying amounts of their entire classes that would have been recognised in the financial statements are as follows:-

	The Group	
	2018 RM	2017 RM
Leasehold land	3,706,783	3,858,563
Buildings	18,400,412	18,602,512
	22,107,195	22,461,075

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 4. PROPERTY, PLANT AND EQUIPMENT (cont'd)

The carrying amounts of property, plant and equipment pledged as security for credit facilities granted to the Group and the Company are as follows:-

	The Group	
	2018 RM	2017 RM
Leasehold land	5,173,951	5,325,731
Buildings	14,657,291	14,751,392
	<b>19,831,242</b>	<b>20,077,123</b>

#### The Company

	Renovation RM	Furniture, fittings and office equipment RM	Motor vehicles RM	Total RM
<u>Cost</u>				
Balance at 1 July 2016	379,579	693,977	1,800	1,075,356
Additions	38,565	11,434	0	49,999
Disposals/Write-offs	0	(16,710)	0	(16,710)
Balance at 30 June 2017	418,144	688,701	1,800	1,108,645
Additions	0	5,986	0	5,986
Balance at 30 June 2018	<b>418,144</b>	<b>694,687</b>	<b>1,800</b>	<b>1,114,631</b>
<u>Accumulated Depreciation</u>				
Balance at 1 July 2016	55,551	531,477	1,799	588,827
Depreciation	36,932	58,300	0	95,232
Disposals/Write-offs	0	(10,522)	0	(10,522)
Balance at 30 June 2017	92,483	579,255	1,799	673,537
Depreciation	37,441	25,845	0	63,286
Balance at 30 June 2018	<b>129,924</b>	<b>605,100</b>	<b>1,799</b>	<b>736,823</b>
<u>Carrying Amount</u>				
Balance at 1 July 2016	324,028	162,500	1	486,529
Balance at 30 June 2017	325,661	109,446	1	435,108
Balance at 30 June 2018	<b>288,220</b>	<b>89,587</b>	<b>1</b>	<b>377,808</b>

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 5. INVESTMENT PROPERTIES

The Group

	Freehold land RM	Buildings RM	Total RM
<u>Cost</u>			
Balance at 1 July 2016 / 30 June 2017	854,550	1,216,826	2,071,376
Transfer to assets held for sale	(854,550)	(1,216,826)	(2,071,376)
Balance at 30 June 2018	<b>0</b>	<b>0</b>	<b>0</b>
<u>Accumulated Depreciation</u>			
Balance at 1 July 2016	0	46,645	46,645
Depreciation	0	24,336	24,336
Balance at 30 June 2017	0	70,981	70,981
Depreciation	0	24,336	24,336
Transfer to assets held for sale	0	(95,317)	(95,317)
Balance at 30 June 2018	<b>0</b>	<b>0</b>	<b>0</b>
<u>Carrying Amount</u>			
Balance at 1 July 2016	854,550	1,170,181	2,024,731
Balance at 30 June 2017	854,550	1,145,845	2,000,395
Balance at 30 June 2018	<b>0</b>	<b>0</b>	<b>0</b>

#### 6. PROPERTY DEVELOPMENT ACTIVITIES

The Group

##### Land Held for Property Development

	2018 RM	2017 RM
Balance at 1 July	<b>41,189,546</b>	37,698,509
Additions	<b>3,419,172</b>	5,997,440
Transfer to property development costs	<b>(5,457,895)</b>	(2,506,403)
Balance at 30 June	<b>39,150,823</b>	41,189,546
Represented by:-		
- Land costs	<b>21,943,643</b>	24,221,362
- Development costs	<b>5,977,524</b>	6,011,142
- Incidental costs incurred for acquisition of land	<b>4,438,925</b>	4,346,312
- Advance payments to landowners <sup>(a)</sup>	<b>6,190,731</b>	6,010,730
- Incidental costs incurred for joint venture agreement	<b>600,000</b>	600,000
	<b>39,150,823</b>	41,189,546

## NOTES TO THE FINANCIAL STATEMENT (CONT'D) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

### 6. PROPERTY DEVELOPMENT ACTIVITIES (cont'd)

#### Land Held for Property Development (cont'd)

<sup>(a)</sup> Being advance payments made pursuant to joint venture agreements entered into by subsidiaries with landowners to develop land owned by the latter

#### Property Development Costs

	2018 RM	2017 RM
Balance at 1 July		
- Land costs	11,392,740	8,886,337
- Development costs	3,632,798	1,501,407
	15,025,538	10,387,744
Development costs incurred	10,448,638	2,123,849
Borrowing costs capitalised	117,160	7,542
Transfer from land held for property development		
- Land costs	3,121,610	2,506,403
- Development costs	2,336,285	0
	5,457,895	2,506,403
Costs recognised in profit or loss		
- Prior year	(1,853,908)	0
- Current year	(10,031,240)	(1,853,908)
	(11,885,148)	(1,853,908)
Balance at 30 June	19,164,083	13,171,630

#### Progress Billings

	2018 RM	2017 RM
Billings to purchasers	17,663,683	2,641,126
Property development revenue recognised in profit or loss	(14,408,995)	(2,271,138)
	3,254,688	369,988

#### Security

Certain development land at costs totalling RM14,514,350 (2017 : RM14,514,350) has been pledged as security for credit facilities granted to the Group. The costs are included in:-

	2018 RM	2017 RM
Land held for property development	0	3,121,610
Property development costs	14,514,350	11,392,740
	14,514,350	14,514,350

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 7. INTANGIBLE ASSETS

The Group

	Goodwill RM	Intellectual property RM	Total RM
Balance at 1 July 2016	30,472	251,039	281,511
Currency translation differences	904	0	904
Impairment loss	0	(189,137)	(189,137)
Balance at 30 June 2017	31,376	61,902	93,278
Additions	997	5,068	6,065
Dissolution of subsidiary	(19,753)	0	(19,753)
Balance at 30 June 2018	<b>12,620</b>	<b>66,970</b>	<b>79,590</b>

#### 8. INVESTMENTS IN SUBSIDIARIES

The Company

	2018 RM	2017 RM
Unquoted shares, at cost	<b>122,776,185</b>	99,276,185
Impairment losses	<b>(7,792,944)</b>	(7,792,944)
	<b>114,983,241</b>	91,483,241

The details of the subsidiaries are as follows:-

Name of Subsidiary	Principal Place of Business/ Country of Incorporation	Effective Ownership Interest		Principal Activity
		2018	2017	
Kewjaya Sdn. Bhd.	Malaysia	100%	100%	Money lending
Kobay Assets Sdn. Bhd.	Malaysia	100%	100%	Property letting
Kobay G Sdn. Bhd.	Malaysia	100%	100%	Marketing and project management services for property developers
Kobay Industries Sdn. Bhd. (formerly known as Lipo Corporation Sdn. Bhd.)	Malaysia	100%	100%	Investment holding and management services
Kobay Land Sdn. Bhd.	Malaysia	100%	100%	Property development
Kobay Project Venture Sdn. Bhd.	Malaysia	100%	100%	Property development
Kobay Sawin Sdn. Bhd.	Malaysia	100%	100%	Property letting
Kobay Systems Sdn. Bhd.	Malaysia	100%	100%	Property development
LD Global Sdn. Bhd.	Malaysia	100%	100%	Property development
Lodge 18 Sdn. Bhd.	Malaysia	100%	100%	Hotel operation
Premierview Property Sdn. Bhd.	Malaysia	100%	100%	Property development
SMU Kobay Sdn. Bhd.	Malaysia	100%	100%	Property development
The 12 Avenues Sdn. Bhd.	Malaysia	70%	70%	Property development
Ultimate Sanctuary Sdn. Bhd.	Malaysia	100%	100%	Property development
Wirama Progresif Sdn. Bhd.	Malaysia	70%	70%	Inactive



## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 8. INVESTMENTS IN SUBSIDIARIES (cont'd)

Name of Subsidiary	Principal Place of Business/ Country of Incorporation	Effective Ownership Interest		Principal Activity
		2018	2017	
Subsidiaries of Kobay Industries Sdn. Bhd. (formerly known as Lipo Corporation Sdn. Bhd.)				
Bend Weld Engineering Sdn. Bhd.	Malaysia	100%	100%	Manufacture of metal works and structures, modules and parts for oil & gas production and extraction equipment
Kobay Premier Sdn. Bhd.	Malaysia	100%	100%	Inactive
Kobay SCM (S) Pte. Ltd.	Singapore	100%	100%	Investment holding
KT Microhandling Sdn. Bhd.	Malaysia	100%	100%	Manufacture of semiconductor assembly and testing equipment
Maker Technologies Sdn. Bhd.	Malaysia	100%	100%	Manufacture of precision moulds and parts
Micro Surface Treatment Sdn. Bhd.	Malaysia	90%	88%	Precision plating and surface treatment
Omni Value Chain Sdn. Bhd.	Malaysia	100%	100%	Supply chain management
Paradigm Aerospace Sdn. Bhd. (formerly known as Paradigm Aero Technology Sdn. Bhd.)	Malaysia	100%	0%	Inactive
Paradigm Metal Industries Sdn. Bhd.	Malaysia	100%	100%	Manufacture of precision metal stamping, sheet metal and die casting parts
Paradigm Precision Components Sdn. Bhd.	Malaysia	100%	100%	Manufacture of precision machined components
Polytool Technologies Sdn. Bhd.	Malaysia	100%	100%	Manufacture of industrial equipment, machinery parts and tooling, encapsulation moulds, trim and form dies and progressive tooling for lead frames
Super Tropica Development Sdn. Bhd.	Malaysia	100%	100%	Property development
Subsidiary of Kobay SCM (S) Pte. Ltd.				
Microhandling Asia Pte. Ltd.	Singapore	0%	100%	Dissolved

#### 9. DEFERRED TAX ASSETS/(LIABILITIES)

The Group

	2018 RM	2017 RM
Balance at 1 July	(4,293,000)	(4,342,333)
Deferred tax expense relating to origination and reversal of temporary differences	(192,000)	(207,000)
Deferred tax liabilities overprovided in prior year	12,000	256,780
Recognition of previously unrecognised deferred tax assets	289,000	0
Currency translation differences	0	(447)
Balance at 30 June	(4,184,000)	(4,293,000)
Disclosed as:-		
- Deferred tax assets	289,000	0
- Deferred tax liabilities	(4,473,000)	(4,293,000)
	(4,184,000)	(4,293,000)

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 9. DEFERRED TAX ASSETS/(LIABILITIES) (cont'd)

The Group

	2018 RM	2017 RM
In respect of:		
- (Taxable)/Deductible temporary differences of:-		
- Property, plant and equipment	(4,506,000)	(4,327,000)
- Property development costs	13,000	0
- Financial instruments	27,000	34,000
- Unused tax losses	282,000	0
	<b>(4,184,000)</b>	<b>(4,293,000)</b>

Save as disclosed above, as at 30 June 2018, deferred tax liabilities and deferred tax assets have also effectively been recognised and offset against each other by the Group and the Company to the extent of approximately RM396,000 and RM10,000 (2017 : RM460,000 and RM15,000) respectively. No further deferred tax assets have been recognised for the excess of the deductible temporary differences, unused capital allowances and tax losses over the taxable temporary differences as follows:-

	The Group		The Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Deductible temporary differences of:-				
- Property development costs	913,000	566,000	0	0
- Financial instruments	1,000	0	0	0
Unused capital allowances	2,569,000	2,302,000	609,000	608,000
Unused tax losses	24,495,000	24,703,000	1,323,000	1,323,000
Taxable temporary differences of property, plant and equipment	(1,649,000)	(1,915,000)	(42,000)	(64,000)
	<b>26,329,000</b>	<b>25,656,000</b>	<b>1,890,000</b>	<b>1,867,000</b>

#### 10. ASSETS HELD FOR SALE

The Group

	Freehold land RM	Buildings RM	Total RM
Balance at 1 July 2017	0	0	0
Transfer from investment properties	854,550	1,121,509	1,976,059
Balance at 30 June 2018	<b>854,550</b>	<b>1,121,509</b>	<b>1,976,059</b>

During the financial year, the Group committed to a plan to sell the investment properties and subsequently, through Kobay Sawin Sdn. Bhd., entered into a sale and purchase agreement in August 2018. The sale is expected to be completed by December 2018.

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 11. INVENTORIES

The Group

	2018	2017
	RM	RM
Raw materials and consumables	3,179,691	4,143,049
Work-in-progress	7,426,642	6,757,036
Finished goods	4,518,166	3,988,305
	<b>15,124,499</b>	<b>14,888,390</b>

#### 12. RECEIVABLES

	The Group		The Company	
	2018	2017	2018	2017
	RM	RM	RM	RM
Trade receivables	32,508,372	31,729,480	0	0
Allowance for impairment	(723,390)	(325,328)	0	0
	31,784,982	31,404,152	0	0
Loan receivable	50,000	0	0	0
Subsidiaries	0	0	8,650,133	24,245,112
Allowance for impairment	0	0	(3,417,970)	(3,738,981)
	0	0	5,232,163	20,506,131
Other receivables	4,897,138	4,589,059	55,446	55,796
Allowance for impairment	(3,400,000)	(3,400,000)	0	0
	1,497,138	1,189,059	55,446	55,796
	<b>33,332,120</b>	<b>32,593,211</b>	<b>5,287,609</b>	<b>20,561,927</b>

The currency profile of receivables is as follows:-

	The Group		The Company	
	2018	2017	2018	2017
	RM	RM	RM	RM
Ringgit Malaysia	19,583,809	22,612,568	5,287,609	20,561,927
US Dollar	13,211,262	8,866,437	0	0
Others	537,049	1,114,206	0	0
	<b>33,332,120</b>	<b>32,593,211</b>	<b>5,287,609</b>	<b>20,561,927</b>

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 12. RECEIVABLES (cont'd)

##### Trade Receivables

Trade receivables are unsecured, non-interest bearing and generally on 30 to 90 day terms.

The movements in allowance for impairment are as follows:-

	The Group	
	2018	2017
	RM	RM
Balance at 1 July	325,328	229,635
Impairment loss recognised	452,396	167,333
Impairment loss reversed	(54,334)	(42,000)
Impairment loss written off	0	(29,640)
Balance at 30 June	<u>723,390</u>	<u>325,328</u>

All the above impairment losses were individually determined after considering the adverse financial conditions of the debtors who have defaulted/delayed in payments.

The ageing analysis of trade receivables not impaired is as follows:-

	The Group	
	2018	2017
	RM	RM
Not past due	23,183,258	23,183,340
Past due 1 to 30 days	6,569,030	5,242,117
Past due 31 to 120 days	1,745,355	1,979,239
Past due more than 120 days	287,339	999,456
	<u>31,784,982</u>	<u>31,404,152</u>

Trade receivables that are neither past due nor impaired mainly relate to creditworthy customers who have regular transactions and good payment records with the Group.

Management determines credit risk concentrations in terms of counterparties and geographical areas. As at 30 June 2018, there were 2 (2017 : 2) major customers that accounted for 10% or more of the Group's trade receivables and the total outstanding balances due from these major customers amounted to RM8,641,229 (2017 : RM10,077,711). The credit risk concentration profile by geographical areas of trade receivables is as follows:-

	The Group	
	2018	2017
	RM	RM
Malaysia	21,780,100	22,895,729
Singapore	4,269,051	2,551,838
United States of America	3,316,426	4,241,847
Others	2,419,405	1,714,738
	<u>31,784,982</u>	<u>31,404,152</u>

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 12. RECEIVABLES (cont'd)

##### Loan Receivable

Loan receivable is unsecured, bearing interest at 7.00% per annum and repayable on demand.

##### Subsidiaries

The amounts owing by subsidiaries are unsecured, non-interest bearing and repayable on demand except for certain amounts totalling RM19,683,319 as at 30 June 2017 which bore interest at 6.00% to 8.00% per annum.

The movements in allowance for impairment are as follows:-

	The Company	
	2018 RM	2017 RM
Balance at 1 July	3,738,981	3,738,981
Impairment loss recognised	17,970	0
Impairment loss reversed	(338,981)	0
Balance at 30 June	<u>3,417,970</u>	<u>3,738,981</u>

All the above impairment losses were individually determined after considering the adverse financial conditions of the debtors who have defaulted/delayed in payments.

##### Other Receivables

Other receivables are unsecured and non-interest bearing. The amounts mainly consist of refundable deposits and advances which have no fixed repayment terms.

#### 13. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Highly liquid investments	2,791,918	1,536,213	1,107,680	101,376
Term deposits (fixed rate)	7,051,371	3,464,372	8,000	8,000
Cash and bank balances	<u>31,972,072</u>	<u>22,699,105</u>	<u>8,101,346</u>	<u>9,190,251</u>
	<u>41,815,361</u>	<u>27,699,690</u>	<u>9,217,026</u>	<u>9,299,627</u>

Certain term deposits of the Group and the Company totalling RM6,201,370 and RM8,000 (2017 : RM2,614,372 and RM8,000) respectively have been pledged as security for credit facilities granted to the Group and the Company. Accordingly, these term deposits are not freely available for use.

Included in cash and bank balances of the Group are amounts totalling RM1,913,669 (2017 : RM637,731) held under Housing Development Accounts opened and maintained pursuant to Section 7A of the Housing Development (Control and Licensing) Act 1966.

The effective interest rates of term deposits as at 30 June 2018 ranged from 2.80% to 3.35% (2017 : 2.80% to 3.15%) per annum.

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 13. CASH AND CASH EQUIVALENTS (cont'd)

The currency profile of cash and cash equivalents is as follows:-

	The Group		The Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Ringgit Malaysia	37,423,307	25,175,207	9,217,026	9,299,627
US Dollar	3,788,849	1,869,908	0	0
Others	603,205	654,575	0	0
	<b>41,815,361</b>	<b>27,699,690</b>	<b>9,217,026</b>	<b>9,299,627</b>

For the purpose of statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits as follows:-

	The Group		The Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Cash and cash equivalents	41,815,361	27,699,690	9,217,026	9,299,627
Bank overdrafts	(1,993,846)	0	(1,993,846)	0
Term deposits pledged as security	(6,201,370)	(2,614,372)	(8,000)	(8,000)
	<b>33,620,145</b>	<b>25,085,318</b>	<b>7,215,180</b>	<b>9,291,627</b>

#### 14. PAYABLES

	The Group		The Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Trade payables:-				
- Related party <sup>(a)</sup>	460,207	582,186	0	0
- Unrelated parties	18,678,985	18,056,377	0	0
	<b>19,139,192</b>	<b>18,638,563</b>	<b>0</b>	<b>0</b>
Subsidiaries	0	0	0	2,120,000
Other payables	9,076,210	7,664,218	408,255	366,348
	<b>28,215,402</b>	<b>26,302,781</b>	<b>408,255</b>	<b>2,486,348</b>

<sup>(a)</sup> Being a company in which a director has a substantial financial interest

The currency profile of payables is as follows:-

	The Group		The Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Ringgit Malaysia	26,066,040	23,811,202	408,255	2,486,348
US Dollar	1,719,485	2,170,892	0	0
Others	429,877	320,687	0	0
	<b>28,215,402</b>	<b>26,302,781</b>	<b>408,255</b>	<b>2,486,348</b>

Payables are generally short-term in nature or repayable on demand and their carrying amounts will approximate to the remaining contractual undiscounted cash flows.

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 14. PAYABLES (cont'd)

##### Trade Payables

Trade payables are unsecured, non-interest bearing and generally on 30 to 90 day terms.

##### Subsidiaries

The amounts owing to subsidiaries were unsecured, non-interest bearing and repayable on demand except for an amount of RM220,000 as at 30 June 2017 which bore interest at 4.00% per annum.

##### Other Payables

Other payables are unsecured and non-interest bearing. The amounts mainly consist of sundry payables and accruals for operating expenses which are generally due within 30 to 90 days.

#### 15. LOANS AND BORROWINGS

	The Group		The Company	
	2018	2017	2018	2017
	RM	RM	RM	RM
Secured:-				
- Bank overdrafts (floating rate)	1,993,846	0	1,993,846	0
- Revolving credit (fixed rate)	2,000,000	0	2,000,000	0
- Term loans (floating rate)	7,823,080	10,275,450	7,823,080	8,586,337
	11,816,926	10,275,450	11,816,926	8,586,337
Unsecured:-				
- Revolving credit (fixed rate)	202,350	1,932,300	0	0
	12,019,276	12,207,750	11,816,926	8,586,337
Disclosed as:-				
- Current liabilities	4,693,322	3,433,825	4,490,972	481,299
- Non-current liabilities	7,325,954	8,773,925	7,325,954	8,105,038
	12,019,276	12,207,750	11,816,926	8,586,337

Secured loans and borrowings are secured against certain property, plant and equipment (Note 4) and development land (Note 6).

The effective interest rates of loans and borrowings as at 30 June 2018 ranged from 4.20% to 6.92% (2017 : 4.52% to 7.65%) per annum.

The currency profile of loans and borrowings is as follows:-

	The Group		The Company	
	2018	2017	2018	2017
	RM	RM	RM	RM
Ringgit Malaysia	11,816,926	10,275,450	11,816,926	8,586,337
US Dollar	202,350	1,932,300	0	0
	12,019,276	12,207,750	11,816,926	8,586,337

Except for term loans, loans and borrowings are generally short-term in nature or repayable on demand and their carrying amounts will approximate to the remaining contractual undiscounted cash flows.

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 15. LOANS AND BORROWINGS (cont'd)

Term loans are repayable over 2 to 20 years. The repayment analysis is as follows:-

	The Group		The Company	
	2018	2017	2018	2017
	RM	RM	RM	RM
Gross loan instalments:-				
- Within 1 year	859,512	1,986,409	859,512	859,512
- Later than 1 year and not later than 2 years	859,512	1,541,329	859,512	859,512
- Later than 2 years and not later than 5 years	2,578,536	2,578,536	2,578,536	2,578,536
- Later than 5 years	6,200,341	7,376,125	6,200,341	7,376,125
Total contractual undiscounted cash flows	10,497,901	13,482,399	10,497,901	11,673,685
Future finance charges	(2,674,821)	(3,206,949)	(2,674,821)	(3,087,348)
Present value of term loans:-				
- Within 1 year	497,126	1,501,525	497,126	481,299
- Later than 1 year and not later than 2 years	510,064	1,162,051	510,064	493,164
- Later than 2 years and not later than 5 years	1,680,870	1,617,315	1,680,870	1,617,315
- Later than 5 years	5,135,020	5,994,559	5,135,020	5,994,559
	<b>7,823,080</b>	<b>10,275,450</b>	<b>7,823,080</b>	<b>8,586,337</b>

The fair values of term loans are measured using present value technique by discounting the expected future cash flows using observable current market interest rates for similar liabilities (i.e. Level 2). The fair values measured are considered to be reasonably close to the carrying amounts reported as the observable current market interest rates also approximate to the effective interest rates of term loans.

#### 16. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group	
	2018	2017
	RM	RM
Derivatives classified as held for trading, at fair value	50,674	0

Derivatives consist of forward exchange contracts which are used to hedge the exposure to currency risk. The Group does not apply hedge accounting. As at 30 June 2018, the Group had contracts with financial institutions due within 1 year to buy RM2,374,500 (2017 : NIL) and sell USD600,000 (2017 : NIL) at contractual forward rates.

The fair values of forward exchange contracts were quoted by the financial institutions, which normally measured the fair values using present value technique by discounting the differences between contractual forward prices and observable current market forward prices using risk-free interest rate (i.e. Level 2).

#### 17. DEFERRED INCOME ON GOVERNMENT GRANTS

	The Group	
	2018	2017
	RM	RM
Balance at 1 July	1,629,946	1,977,566
Grants related to property, plant and equipment	515,000	0
Amortisation	(410,338)	(347,620)
Balance at 30 June	<b>1,734,608</b>	<b>1,629,946</b>



## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 18. SHARE CAPITAL

	No. of ordinary shares	RM
<u>Authorised</u>		
Balance at 1 July 2016 <sup>(a)</sup>	100,000,000	100,000,000
Increase in authorised share capital <sup>(a)</sup>	100,000,000	100,000,000
Cancellation upon abolition of par value <sup>(a)</sup>	(200,000,000)	(200,000,000)
Balance at 30 June 2017 / 30 June 2018	<b>0</b>	<b>0</b>
<u>Issued and fully paid</u>		
Balance at 1 July 2016 <sup>(a)</sup>	68,080,750	68,080,750
Bonus issue <sup>(a)</sup>	34,012,851	34,012,851
Balance at 30 June 2017 <sup>(b)</sup>	102,093,601	102,093,601
Reissue of treasury shares	0	10,306
Balance at 30 June 2018 <sup>(b)</sup>	<b>102,093,601</b>	<b>102,103,907</b>

<sup>(a)</sup> Ordinary shares of RM1 each

<sup>(b)</sup> Ordinary shares with no par value

Pursuant to Section 74 of the Companies Act 2016, all shares issued before or upon the commencement of the Act on 31 January 2017 shall have no par value.

The shareholders of the Company, by a resolution passed at the Extraordinary General Meeting held on 3 July 2002, approved the Company's plan to purchase its own shares. The details of the shares purchased from the open market using internally generated funds and held as treasury shares are as follows:-

	2018		2017	
	No. of ordinary shares	RM	No. of ordinary shares	RM
Balance at 1 July	55,000	67,143	181,500	221,473
Shares reissued	(55,000)	(67,143)	(126,500)	(154,330)
Balance at 30 June	<b>0</b>	<b>0</b>	55,000	67,143

The number of outstanding shares in issue after excluding the treasury shares is 102,093,601 (2017 : 102,038,601).

#### 19. NON-CONTROLLING INTERESTS ("NCI")

The Group

	Accumulated NCI		Profit/(Loss) Allocated to NCI	
	2018	2017	2018	2017
	RM	RM	RM	RM
The 12 Avenues Sdn. Bhd.	14,990	16,168	(1,178)	(821)
Wirama Progresif Sdn. Bhd.	71,651	51,278	20,373	21,940
Micro Surface Treatment Sdn. Bhd.	397,571	369,388	190,045	101,864
	<b>484,212</b>	<b>436,834</b>	<b>209,240</b>	<b>122,983</b>

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 19. NON-CONTROLLING INTERESTS ("NCI") (cont'd)

The details of the subsidiaries that have NCI are as follows:-

Name of Subsidiary	Principal Place of Business/ Country of Incorporation	Effective Ownership Interest Held by NCI		Principal Activity
		2018	2017	
The 12 Avenues Sdn. Bhd.	Malaysia	30%	30%	Property development
Wirama Progresif Sdn. Bhd.	Malaysia	30%	30%	Inactive
Micro Surface Treatment Sdn. Bhd.	Malaysia	10%	12%	Precision plating and surface treatment

The summarised financial information about the assets, liabilities, profit or loss and cash flows of the above subsidiaries has not been disclosed as their NCI are not material to the Group.

#### Change in Ownership Interest in Subsidiary

During the financial year, Kobay Industries Sdn. Bhd. (formerly known as Lipo Corporation Sdn. Bhd.) acquired an additional 2% ownership interest in Micro Surface Treatment Sdn. Bhd. from NCI for cash consideration of RM66,690. The effect of the change in ownership interest on the equity attributable to owners of the Company is as follows:-

	RM
Amount by which NCI are adjusted	68,862
Cash consideration paid	(66,690)
Increase in equity attributable to owners of the Company	<u>2,172</u>

#### 20. REVENUE

	The Group		The Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Sale of goods	137,730,395	117,284,327	0	0
Rendering of services	5,795,106	4,780,381	1,455,100	1,130,657
Property development revenue	12,137,857	2,271,138	0	0
Dividend income	0	0	8,774,442	7,957,614
Interest income	11	137	0	0
Rental income	946,552	1,093,220	0	0
	<u>156,609,921</u>	<u>125,429,203</u>	<u>10,229,542</u>	<u>9,088,271</u>

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 21. PROFIT BEFORE TAX

	The Group		The Company	
	2018	2017	2018	2017
	RM	RM	RM	RM
Profit before tax is arrived at after charging:-				
Auditors' remuneration:-				
- Current year	195,428	196,904	31,000	30,000
- Prior year	(3,600)	5,388	2,000	2,000
Bad debts written off	1,191,225	0	0	0
Depreciation of investment properties	24,336	24,336	0	0
Depreciation of property, plant and equipment	6,133,019	6,097,041	63,286	95,232
Direct operating expenditure for investment properties:-				
- Generating rental income	0	6,536	0	0
- Not generating rental income	10,527	0	0	0
Employee benefits expense (Note 22)	37,076,851	35,420,338	3,486,108	3,138,946
Fee expense for financial instruments not at fair value through profit or loss	426,541	463,504	76,184	80,329
Impairment loss on intangible assets <sup>(a)</sup>	0	189,137	0	0
Impairment loss on investments in subsidiaries <sup>(a)</sup>	0	0	0	291,125
Impairment loss on property, plant and equipment <sup>(a)</sup>	0	343,971	0	0
Impairment loss on receivables:-				
- Subsidiary	0	0	17,970	0
- Unrelated parties	452,396	167,333	0	0
Interest expense for financial liabilities not at fair value through profit or loss	215,179	101,949	184,978	47,018
Loss on financial instruments at fair value through profit or loss (classified as held for trading)	50,674	0	0	0
Loss on foreign exchange:-				
- Realised	1,607,915	0	0	0
- Unrealised	0	232,190	0	0
Property, plant and equipment written off	413,714	88,200	0	544
Rental expense	644,332	530,004	149,490	149,490
and crediting:-				
Amortisation of deferred income on government grants	410,338	347,620	0	0
Bad debts recovered	0	163,672	0	0
Gain on disposal of property, plant and equipment	168,582	258,397	0	0

<sup>(a)</sup> Included in administrative and general expenses

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 21. PROFIT BEFORE TAX (cont'd)

	The Group		The Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Gain on disposal of subsidiaries	0	0	0	1,185,189
Gain on dissolution of subsidiary	375,206	0	0	0
Gain on foreign exchange:-				
- Realised	0	608,928	0	8,444
- Unrealised	386,760	0	0	0
Interest income for financial assets not at fair value through profit or loss	488,622	295,834	1,053,001	1,000,311
Rental income from investment properties	0	167,333	0	0
Reversal of impairment loss on receivables:-				
- Subsidiary	0	0	338,981	0
- Unrelated parties	54,334	42,000	0	0

#### 22. EMPLOYEE BENEFITS EXPENSE (INCLUDING DIRECTORS' REMUNERATION)

	The Group		The Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Directors of the Company:-				
- Fees	22,500	22,500	22,500	22,500
- Other short-term employee benefits	1,053,496	1,010,867	1,012,853	971,424
- Defined contribution plans	105,694	102,418	103,081	99,883
	1,181,690	1,135,785	1,138,434	1,093,807
Directors of subsidiaries:-				
- Fees	6,847	50,560	0	0
- Other short-term employee benefits	409,663	484,664	409,663	288,011
- Defined contribution plans	49,014	48,771	49,014	34,469
	465,524	583,995	458,677	322,480
Other employees:-				
- Short-term employee benefits	32,670,764	30,993,251	1,702,413	1,539,417
- Defined contribution plans	2,758,873	2,707,307	186,584	183,242
	35,429,637	33,700,558	1,888,997	1,722,659
	37,076,851	35,420,338	3,486,108	3,138,946

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 23. TAX EXPENSE

	The Group		The Company	
	2018	2017	2018	2017
	RM	RM	RM	RM
Tax based on results for the year:-				
Current tax	5,309,403	3,003,400	120,000	86,000
Deferred tax	(97,000)	207,000	0	0
	5,212,403	3,210,400	120,000	86,000
Tax under/(over) provided in prior year:-				
Current tax	264,857	(171,796)	31,533	41,074
Deferred tax	(12,000)	(256,780)	0	0
Real Property Gains Tax	0	(16,427)	0	(16,427)
	5,465,260	2,765,397	151,533	110,647

The numerical reconciliation between the applicable tax rate, which is the statutory income tax rate, and the average effective tax rate on results for the year is as follows:-

	The Group		The Company	
	2018	2017	2018	2017
	%	%	%	%
Applicable tax rate	24.00	24.00	24.00	24.00
Non-deductible expenses	6.93	12.60	7.54	2.76
Non-taxable income	(0.72)	(5.00)	(29.92)	(32.58)
Tax incentives claimed	(3.42)	(9.11)	0.00	0.00
Increase in unrecognised deferred tax assets	0.85	19.60	0.08	7.10
Average effective tax rate	27.64	42.09	1.70	1.28

#### 24. EARNINGS PER SHARE

The Group

The basic earnings per share is calculated by dividing the Group's profit for the financial year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the financial year as follows:-

	2018	2017
Profit for the financial year attributable to owners of the Company (RM)	13,183,598	4,738,971
Number of shares in issue as at 1 July	102,038,601	67,899,250
Effect of shares reissued	18,383	66,543
Effect of bonus issue	0	33,982,897
Weighted average number of shares in issue	102,056,984	101,948,690
Basic earnings per share (sen)	12.92	4.65

The diluted earnings per share equals the basic earnings per share as the Company did not have any dilutive potential ordinary shares during the financial year.

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 25. NOTES TO STATEMENT OF CASH FLOWS

##### Short-term Loans and Borrowings

	The Group		The Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Balance at 1 July	1,932,300	975,775	0	0
Net cash flow changes	266,040	892,440	2,000,000	0
Currency translation differences	4,010	64,085	0	0
Balance at 30 June (Note 15)	2,202,350	1,932,300	2,000,000	0

##### Term Loans

	The Group		The Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Balance at 1 July	10,275,450	10,448,183	8,586,337	9,413,298
Drawdowns	0	1,681,951	0	0
Repayments	(2,445,208)	(1,861,846)	(763,257)	(826,961)
Other changes	(7,162)	7,162	0	0
Balance at 30 June (Note 15)	7,823,080	10,275,450	7,823,080	8,586,337

#### 26. RELATED PARTY DISCLOSURES

Significant transactions with related parties during the financial year are as follows:-

	The Group		The Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Key management personnel compensation:-				
- Short-term employee benefits	1,552,920	1,677,674	1,505,430	1,391,018
- Defined contribution plans	161,908	164,197	159,295	147,360
	1,714,828	1,841,871	1,664,725	1,538,378
Capital repayment from subsidiary	0	0	400,000	0
Disposal of property, plant and equipment to subsidiary	0	0	0	5,644
Disposal of subsidiaries to subsidiary	0	0	0	1,200,000
Dividends received from subsidiaries	0	0	8,774,442	7,957,614
Interest charged by subsidiaries	0	0	8,800	8,174
Interest charged to subsidiaries	0	0	1,003,299	972,558
Management fees charged to subsidiaries	0	0	1,455,100	1,130,657
Purchase of goods from other related party <sup>(a)</sup>	1,439,652	1,010,413	0	0
Rental of premises charged by other related party <sup>(a)</sup>	247,698	247,698	149,490	149,490
Subscription for shares in subsidiaries	0	0	23,900,000	1,799,900

<sup>(a)</sup> Being companies in which certain directors have substantial financial interests

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 27. SEGMENT REPORTING

The Group

##### Operating Segments

For management purposes, the Group is organised into business units based on their products and services and has the following reportable operating segments:-

- (i) Manufacturing                      -    Manufacture of precision machined components, precision stamping, sheet metal parts, surface treatment, precision moulds, tooling and dies, semiconductor assembly and testing equipment, metal works and structures, modules and parts for oil & gas production and extraction equipment
- (ii) Property development        -    Property development

Except as indicated above, no operating segments have been aggregated to form the above reportable segments. "Other operating segments" category consists of small operations related to money lending, property letting, hotel operation, supply of engineering parts and supply chain management.

The accounting policies and measurement bases of the segment items reported are the same as those disclosed in Note 2. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with external parties.

# NOTES TO THE FINANCIAL STATEMENT (CONT'D)

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

### 27. SEGMENT REPORTING (cont'd)

#### Operating Segments (cont'd)

	Manufacturing RM	Property development RM	Other operating segments RM	Unallocated non-operating segments RM	Consolidation adjustments and eliminations RM	Total RM
2018						
STATEMENT OF FINANCIAL POSITION						
Segment assets	111,560,377	72,640,616	16,730,397	133,019,312	(124,031,911)	209,918,791
Included in the measure of segment assets are:-						
- Additions to non-current assets	4,674,984	4,835,998	46,819	12,165	(973,464)	8,596,502
Segment liabilities	22,525,419	13,551,201	2,324,530	22,417,662	(9,984,945)	50,833,867
STATEMENT OF COMPREHENSIVE INCOME						
Segment profit/(loss)	17,598,191	(1,260,989)	506,006	6,740,401	(10,190,771)	13,392,838
Included in the measure of segment profit/(loss) are:-						
- External revenue	140,402,333	12,137,857	4,069,731	0	0	156,609,921
- Intersegment revenue	0	0	1,486,816	25,590,102	(27,076,918)	0
- Interest income	320,256	8,809	55,495	1,107,362	(1,003,300)	488,622
- Non-cash income	1,172,304	0	54,334	0	0	1,226,638
- Interest expense	39,001	548,257	0	222,687	(594,766)	215,179
- Depreciation	5,329,203	245,631	508,407	74,114	0	6,157,355
- Impairment losses	452,396	0	0	0	0	452,396
- Other non-cash expenses	1,246,153	409,460	0	0	0	1,655,613
- Tax expense/(income)	5,321,287	(287,000)	212,037	218,936	0	5,465,260



# NOTES TO THE FINANCIAL STATEMENT (CONT'D)

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

### 27. SEGMENT REPORTING (cont'd)

#### Operating Segments (cont'd)

	2017	Manufacturing RM	Property development RM	Other operating segments RM	Unallocated non- operating segments RM	Consolidation adjustments and eliminations RM	Total RM
STATEMENT OF FINANCIAL POSITION							
Segment assets		105,207,203	60,043,876	17,334,341	124,775,538	(116,119,327)	191,241,631
Included in the measure of segment assets are:-							
- Additions to non-current assets		3,552,882	6,721,249	84,350	59,423	(391,769)	10,026,135
Segment liabilities		30,291,492	24,512,489	2,264,480	14,679,025	(26,697,565)	45,049,921
STATEMENT OF COMPREHENSIVE INCOME							
Segment profit/(loss)		9,487,455	(2,337,492)	663,413	6,415,469	(9,366,891)	4,861,954
Included in the measure of segment profit/(loss) are:-							
- External revenue		118,644,180	2,271,138	4,513,885	0	0	125,429,203
- Intersegment revenue		720,000	0	513,694	18,667,081	(19,900,775)	0
- Interest income		201,679	8,809	47,212	1,010,692	(972,558)	295,834
- Non-cash income		347,620	0	42,000	0	0	389,620
- Interest expense		63,106	463,917	0	47,018	(472,092)	101,949
- Depreciation		5,298,530	227,422	502,219	99,252	(6,046)	6,121,377
- Impairment losses		533,108	0	167,333	0	0	700,441
- Other non-cash expenses		319,846	0	0	544	0	320,390
- Tax expense		2,416,796	0	206,721	141,880	0	2,765,397

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 27. SEGMENT REPORTING (cont'd)

##### Geographical Information

In presenting information about geographical areas, segment revenue is based on the geographical location of customers whereas segment assets are based on the geographical location of assets.

	External Revenue		Non-current Assets	
	2018	2017	2018	2017
	RM	RM	RM	RM
Malaysia	103,551,213	81,264,578	95,744,287	101,221,130
Singapore	25,271,998	13,683,570	0	19,753
United States of America	20,734,777	20,931,460	0	0
Others	7,051,933	9,549,595	0	0
	<b>156,609,921</b>	<b>125,429,203</b>	<b>95,744,287</b>	<b>101,240,883</b>

##### Major Customers

For the financial year ended 30 June 2018, there was 1 (2017 : 1) major customer of the manufacturing segment that contributed 10% or more of the Group's total revenue and the total revenue generated from this major customer amounted to RM26,777,678 (2017 : RM21,812,542).

#### 28. CONTRACTUAL COMMITMENTS

##### The Group

	2018	2017
	RM	RM
Purchase of property, plant and equipment	<b>14,400,000</b>	261,000

#### 29. MATERIAL LITIGATION

##### The Group

In July 2016, a customer appointed a subsidiary to carry out certain fabrication works. In view of the delay on the work progress due to certain reasons, both parties agreed that the customer would take over the remaining works and bear all the financial and monetary costs arising therefrom. After completing the works, the customer contended that the subsidiary had failed and/or neglected to complete the works and filed a legal claim demanding RM2,868,713 (plus interest and costs) for costs incurred in completing the remaining works taken over from the subsidiary. The subsidiary also filed a legal claim seeking RM1,473,002 (plus interest and costs) for works performed and billed.

In March 2018, both parties agreed and entered into a consent judgement to withdraw their respective claims with no order as to costs, no interests and no liberty to file afresh. As full and final settlement, the customer paid a sum of RM200,000 to the subsidiary in June 2018.

#### 30. FINANCIAL GUARANTEE CONTRACTS

##### The Company

The Company has entered into financial guarantee contracts to provide financial guarantees to financial institutions for credit facilities granted to certain subsidiaries up to a total limit of RM64,898,000 (2017 : RM46,767,000). The total utilisation of these credit facilities as at 30 June 2018 amounted to approximately RM1,314,000 (2017 : RM4,186,000).

The aforementioned financial guarantee contracts should have been recognised in the statement of financial position in accordance with the recognition and measurement policies as stated in Note 2.13. After considering that the probability of the subsidiaries defaulting on the credit lines is remote, the financial guarantee contracts have not been recognised as the fair values on initial recognition are not expected to be material.

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 31. FINANCIAL RISK MANAGEMENT

The activities of the Group expose it to certain financial risks, including credit risk, liquidity risk, currency risk and interest rate risk. The overall financial risk management objective of the Group is to ensure that adequate financial resources are available for business development whilst minimising the potential adverse impacts of financial risks on its financial position, performance and cash flows.

The aforementioned financial risk management objective and its related policies and processes explained below have remained unchanged from the previous financial year.

##### Credit Risk

The Group's exposure to credit risk arises mainly from receivables, derivative financial assets and deposits placed with financial institutions. The maximum credit risk exposure of these financial assets is best represented by their respective carrying amounts in the statement of financial position. The Company is also exposed to credit risk in respect of its financial guarantees provided for credit facilities granted to certain subsidiaries. The maximum credit risk exposure of these financial guarantees is the total utilisation of the credit facilities granted as disclosed in Note 30.

As the Group only deals with reputable financial institutions, the credit risk associated with derivative financial assets and deposits placed with them is minimal. The Group manages its credit risk exposure of receivables by assessing counterparties' financial standings on an ongoing basis, setting and monitoring counterparties' limits and credit terms.

##### Liquidity Risk

The Group's exposure to liquidity risk relates to its ability to meet obligations associated with financial liabilities as and when they fall due. The remaining contractual maturities of financial liabilities are disclosed in their respective notes.

The Group practises prudent liquidity risk management to minimise the mismatch of financial assets and liabilities whilst maintaining sufficient cash and the availability of funding through standby credit facilities.

##### Currency Risk

The Group's exposure to currency risk arises mainly from transactions entered into by individual entities within the Group in currencies other than their functional currencies. The major functional currency within the Group is Ringgit Malaysia ("RM") whereas the major foreign currency transacted is US Dollar ("USD").

The Group observes the movements in exchange rates and acts accordingly to minimise its exposure to currency risk. Where necessary, the Group enters into derivative contracts to hedge the exposure. Such exposure is also partly mitigated in the following ways:-

- (i) The Group's foreign currency sales and purchases provide a natural hedge against fluctuations in foreign currencies.
- (ii) The Group maintains part of its cash and cash equivalents in foreign currency accounts to meet future obligations in foreign currencies.

Based on a symmetric basis which uses the foreign currency as a stable denominator, the following table demonstrates the sensitivity of profit or loss to changes in exchange rates that were reasonably possible at the end of the reporting period, with all other variables held constant:-

	The Group	
	Increase/ (Decrease) in Profit	Increase/ (Decrease) in Profit
	2018	2017
	RM	RM
Appreciation of USD against RM by 10%	1,146,761	490,563
Depreciation of USD against RM by 10%	(1,146,761)	(490,563)

## NOTES TO THE FINANCIAL STATEMENT (CONT'D)

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

#### 31. FINANCIAL RISK MANAGEMENT (cont'd)

##### Interest Rate Risk

The Group's exposure to interest rate risk arises mainly from interest-bearing financial instruments, namely term deposits and loans and borrowings.

The Group observes the movements in interest rates and always strives to obtain the most favourable rates available for new financing or during repricing. It is also the Group's policy to maintain a mix of fixed and floating rate financial instruments.

As the Group does not account for its fixed rate financial instruments at fair value through profit or loss or as available-for-sale, any change in interest rates at the end of the reporting period would not affect its profit or loss or other comprehensive income. For floating rate financial instruments stated at amortised cost, the following table demonstrates the sensitivity of profit or loss to changes in interest rates that were reasonably possible at the end of the reporting period, with all other variables held constant:-

	The Group and the Company	
	Increase/ (Decrease) in Profit	Increase/ (Decrease) in Profit
	2018	2017
	RM	RM
Increase in interest rates by 50 basis points	(49,085)	(42,932)
Decrease in interest rates by 50 basis points	49,085	42,932

#### 32. CAPITAL MANAGEMENT

The overall capital management objective of the Group is to safeguard its ability to continue as a going concern so as to provide fair returns to owners and benefits to other stakeholders. In order to meet this objective, the Group always strives to maintain an optimal capital structure to reduce the cost of capital and sustain its business development.

The Group considers its total equity (including non-controlling interests) and total loans and borrowings to be the key components of its capital structure and may, from time to time, adjust the dividend payouts, purchase own shares, issue new shares, sell assets, raise or redeem debts, where necessary, to maintain an optimal capital structure. The Group monitors capital using a debt-to-equity ratio, which is calculated as total loans and borrowings divided by total equity as follows:-

	The Group		The Company	
	2018	2017	2018	2017
	RM	RM	RM	RM
Total loans and borrowings	12,019,276	12,207,750	11,816,926	8,586,337
Total equity	159,084,924	146,191,710	117,663,275	110,698,618
Total capital	171,104,200	158,399,460	129,480,201	119,284,955
Debt-to-equity ratio	8%	8%	10%	8%

The aforementioned capital management objective, policies and processes have remained unchanged from the previous financial year.

## SHAREHOLDING STATISTIC AS AT 30 SEPTEMBER 2018

Issued Shares	:	102,093,601 shares
Class of Equity Shares	:	Ordinary shares at an issue price of RM1.00 each
Voting Rights	:	One vote per shareholder on a show of hands or one vote per share on a poll

### ANALYSIS OF SHAREHOLDINGS

Size of Holdings	No. of Holders	%	No. of Shares	%
1 - 99	563	15.36	38,090	0.04
100 - 1,000	218	5.95	107,657	0.11
1,001 - 10,000	2,428	66.25	8,282,125	8.11
10,001 - 100,000	419	11.43	11,207,725	10.98
100,001 - 5,104,679*	34	0.93	29,029,794	28.43
5,104,680 and above **	3	0.08	53,428,210	52.33
<b>TOTAL</b>	<b>3,665</b>	<b>100.00</b>	<b>102,093,601</b>	<b>100.00</b>

### SUBSTANTIAL SHAREHOLDERS

Name of Substantial Shareholders	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
Kobay Holdings Sdn. Bhd.	26,284,510	25.75	—	—
Norinv Kapital Sdn. Bhd.	19,904,700	19.50	—	—
Premiergrow Capital Sdn. Bhd.	7,239,000	7.09	—	—
Dato' Seri Koay Hean Eng	2,481,231	2.43	26,284,510^	25.75
Koay Cheng Lye	1,588,492	1.56	26,284,510^	25.75
Koay Ah Bah @ Koay Cheng Hock	1,326,997	1.30	27,236,260#	26.68

### DIRECTORS' & PERSON CONNECTED TO THE DIRECTOR'S SHAREHOLDING

Name of Directors	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
Dato' Seri Koay Hean Eng	2,481,231	2.43	26,284,510^	25.75
Koay Cheng Lye	1,588,492	1.56	26,284,510^	25.75
Koay Ah Bah @ Koay Cheng Hock	1,326,997	1.30	27,236,260#	26.68
Lim Swee Chuan	—	—	—	—
Dr. Mohamad Zabdi Bin Zamrod	—	—	—	—
Khaw Eng Peng	—	—	—	—

#### Notes:-

\* less than 5% of the issued share capital of 102,093,601 shares

\*\* 5% and above of the issued share capital of 102,093,601 shares

^ Deemed interest by virtue of shares held by company in which the director has interest

# Deemed interest by virtue of 26,284,510 shares held by company in which the director has interest and 951,750 shares held by his sons

By virtue of their interests in shares in the Company, Dato' Seri Koay Hean Eng, Koay Cheng Lye and Koay Ah Bah @ Koay Cheng Hock are also deemed to have interests in shares in the subsidiaries to the extent of the Company's interests, pursuant to Section 8 of the Companies Act 2016.

Save as disclosed above, none of the other Directors in office at the end of the financial year held any interests in shares in the Company or its related corporations

## SHAREHOLDING STATISTIC (CONT'D)

### AS AT 30 SEPTEMBER 2018

#### THIRTY (30) LARGEST SHAREHOLDERS (AS AT 30 SEPTEMBER 2018)

Name of Shareholders	No. of	%
	Shares Held	Shareholding
1. Kobay Holdings Sdn. Bhd.	26,284,510	25.75
2. Norinv Kapital Sdn. Bhd.	13,350,300	13.08
3. Premiergrow Capital Sdn. Bhd.	7,239,000	7.09
4. Norinv Kapital Sdn. Bhd.	6,554,400	6.42
5. Ch'ng Chuon Ghee	4,664,550	4.57
6. Inna Capital Sdn. Bhd.	2,683,074	2.63
7. Koay Hean Eng	2,481,231	2.43
8. Inna Capital Sdn. Bhd.	2,386,550	2.34
9. Ng Mun Fye	2,059,800	2.02
10. Koay Cheng Lye	1,588,492	1.56
11. Ooi Ruey Yng	1,293,500	1.27
12. CIMB Group Nominees (Asing) Sdn. Bhd. Exempt an for DBS Bank Ltd (SFS)	1,127,100	1.10
13. Tan Lai Hock	1,102,000	1.08
14. Tan Jin Tuan	1,018,900	1.00
15. Tan Jin Tuan	1,007,300	0.98
16. Koay Ah Bah @ Koay Cheng Hock	854,497	0.84
17. CITIGroup Nominees (Tempatan) Sdn. Bhd. Employees Provident Fund Board (PHEIM)	781,800	0.76
18. Lai Chin Loy	729,900	0.71
19. Koay Wooi Seong	475,875	0.47
20. Koay Wooi Tatt	475,875	0.47
21. Koay Ah Bah @ Koay Cheng Hock	472,500	0.46
22. Ch'ng Chuon Ghee	396,100	0.39
23. Sapiah Binti Abu	243,750	0.24
24. Hilary Fernandez	234,600	0.23
25. HLB Nominees (Tempatan) Sdn. Bhd. Pledged securities account for Wong Siu Chung	201,000	0.19
26. Maybank Nominees (Tempatan) Sdn. Bhd. Lee Chin Ark	200,000	0.19
27. Maybank Nominees (Tempatan) Sdn. Bhd. PHEIM Asset Management Sdn. Bhd. for CB Industrial Product Holding Bhd. (A/c 229)(211669)	200,000	0.19
28. Rajan Bhatt @ Achai	197,100	0.19
29. CITIGroup Nominees (Tempatan) Sdn. Bhd. CEP for PHEIM SICAV SIF	182,900	0.18
30. Ooi Kok Kee	173,400	0.17
<b>TOTAL :</b>	<b>80,660,004</b>	<b>79.00</b>

## LIST OF PROPERTIES AS AT 30 JUNE 2018

Location	Description/Existing use	Land Area (Built-up Area)	Date of Acquisition	Tenure (Age of Buildings)	Net Book Value @ 30.6.18 (RM'000)
* PN5918, Lot 12383, Mukim 12, Daerah Barat Daya, Pulau Pinang Plot 30, Hilir Sungai Kluang 1, Bayan Lepas Industrial Park, Phase 4, 11900 Pulau Pinang	Single storey factory with an annexed two storey office block in front	Approx. 130,652 sq. ft/ (85,007 sq. ft)	01.07.1991	Leasehold for 60 years expiring on 26.12.2051/ (23 years)	7,032
PN4028, Lot 12461, Mukim 12, Daerah Barat Daya, Pulau Pinang Plot 83, Medan Bayan Lepas, Bayan Lepas Industrial Park, Phase 4, 11900 Pulau Pinang	Single storey factory building with an annexed two storey office block	Approx. 87,599 sq. ft/ (53,840 sq. ft)	24.06.1998	Leasehold for 60 years expiring on 17.01.2062/ (18 years)	6,664
HS(D) No. 38116, PT 1528 & HS(D) No. 47236, PT 1530, Mukim 1, Daerah Seberang Prai Tengah, Pulau Pinang 2631, Lot 376 & 377, Lorong Perusahaan 10, Phase 3, Prai Industrial Estate, 13600 Pulau Pinang	Single storey factory building with an annexed single storey office block	Approx. 118,099 sq. ft/ (86,900 sq. ft)	20.05.1997	Leasehold for 60 years expiring on 07.08.2045/ (27 years)	5,417
HS(D) No. 42050, PT 5, Mukim 1, Daerah Seberang Perai Tengah, Pulau Pinang 967, Jalan Perusahaan, Kawasan Perusahaan Prai, 13600 Pulau Pinang	Single storey factory building	Approx. 22,500 sq. ft/ (20,000 sq. ft)	19.09.1991	Leasehold for 99 years expiring on 21.01.2071/ (25 years)	718
GRN459888, Lot No. 6348, GRN459887, Lot No. 6341, Mukim Rimba Terjun, Daerah Pontian, Negeri Johor Lot 3611, Batu 30, Jalan Johor, 81500 Pekan Nenas, Johor	Single storey factory building	Approx. 4.22 hectares (25,630 sq. ft)	09.06.2009	Freehold/ (7 years)	4,630
GRN24324, Lot No. 2628, Sek 4, Daerah Seberang Prai Utara, Butterworth, Pulau Pinang No. 1, Lorong Bagan Luar, 12000 Butterworth, Pulau Pinang.	8 storey hotel building	Approx 4,305 sq. ft (36,822 sq.ft)	06.01.2011	Freehold/ (36 years)	4,140

## LIST OF PROPERTIES (CONT'D)

### AS AT 30 JUNE 2018

Location	Description/Existing use	Land Area (Built-up Area)	Date of Acquisition	Tenure (Age of Buildings)	Net Book Value @ 30.6.18 (RM'000)
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#### Land Held For Property Development

GRN47092 Lot 34, GRN46881 Lot 35, GRN46882 Lot 36, GRN28204 Lot 249, GRN44961 Lot 251, GRN52732 Lot 990, GRN52733 Lot 992, GRN27217 Lot 993, GRN28218 Lot 995, GRN28219 Lot 996, HS (D) No. 18014, PT143 Bandar Tanjung Bungah, Daerah Timur Laut, Pulau Pinang	Vacant land for future development	Approx. 67,336 sq. ft.	01.12.2009/ 25.02.2010/ 18.05.2011/ 29.02.2012	Freehold	13,802
GM 653, Lot 1671, Mukim 12, Daerah Barat Daya, Pulau Pinang	Vacant land for future development	Approx. 33,018 sq. ft.	12.02.2015/ 29.06.2015/ 17.02.2016/ 21.04.2017	Freehold	13,179
GM 654, Lot 1672, Mukim 12, Daerah Barat Daya, Pulau Pinang	266/275 undivided shares of the Land	Approx 38,843 sq. ft.	11.09.2015	Freehold	
	Vacant land for future development				
GM3427, Lot 71125, Mukim 12, Daerah Barat Daya, Pulau Pinang	Vacant land for future development	Approx. 16,910 sq. ft.	24.04.2015	Freehold	

Location	Land Area	Tenure	Advances to Landowners & Development Cost (RM'000)
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#### Development Land Under Landowner and Developer Agreement

Seberang Perai Tengah, Pulau Pinang	239,843 sq. ft.	Freehold	1,266
Mukim Lumut, Manjung, Perak	849,509 sq.ft.	Leasehold for 99 years expiring on 07.02.2112	8,904
GM652, Lot 1670, Mukim 12, Daerah Barat Daya, Pulau Pinang	43,124 sq. ft	Freehold	2,000

#### Note:-

- \* The property was revalued at 22 August 1996. The Group carried its leasehold land and buildings at revalued amounts and placed reliance on the transitional provision when Malaysian Accounting Standards Board first adopted International Accounting Standards 16 which provides exemption from the need to make regular revaluations for such properties.





## Current Project

LAVANYA RESIDENCES  
Pantai Tengah,  
Langkawi, Kedah



“ The Partnership Signing Ceremony between Kobay Property Development Group and Ri-Yaz Hotels and Resorts held on 23 September 2018 @ Langkawi ”

## Upcoming Development

Sungai Nibong,  
Penang Island



**Kobay Technology Bhd.** (Company No : 308279-A)

2<sup>nd</sup> & 3<sup>rd</sup> Floor, Wisma Kobay, No. 42-B, Jalan Rangoon,  
10400 Georgetown, Penang, Malaysia.

Tel: 604-371 1350 (2<sup>nd</sup> Floor) / 604-371 1338 (3<sup>rd</sup> Floor)

Fax : 604-226 1363

***[www.kobaytech.com](http://www.kobaytech.com)***