



ELSOFT RESEARCH BERHAD (617504-K)

# We Innovate The Future

Annual Report 2016

# CONTENTS

2	CORPORATE STRUCTURE
3	FINANCIAL HIGHLIGHTS
4 - 6	MANAGEMENT DISCUSSION AND ANALYSIS
7 - 9	PROFILE OF DIRECTORS
10	KEY SENIOR MANAGEMENT PROFILE
11	CORPORATE INFORMATION
12 - 20	CORPORATE GOVERNANCE STATEMENT
21 - 22	AUDIT COMMITTEE REPORT
23 - 24	STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL
25 - 29	STATEMENT OF PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY
30	ADDITIONAL COMPLIANCE INFORMATION
31 - 74	FINANCIAL STATEMENTS
75 - 76	STATISTICS OF SHAREHOLDINGS
77	LIST OF LANDED PROPERTIES
78 - 81	NOTICE OF ANNUAL GENERAL MEETING
ENCLOSED	PROXY FORM ENCLOSED

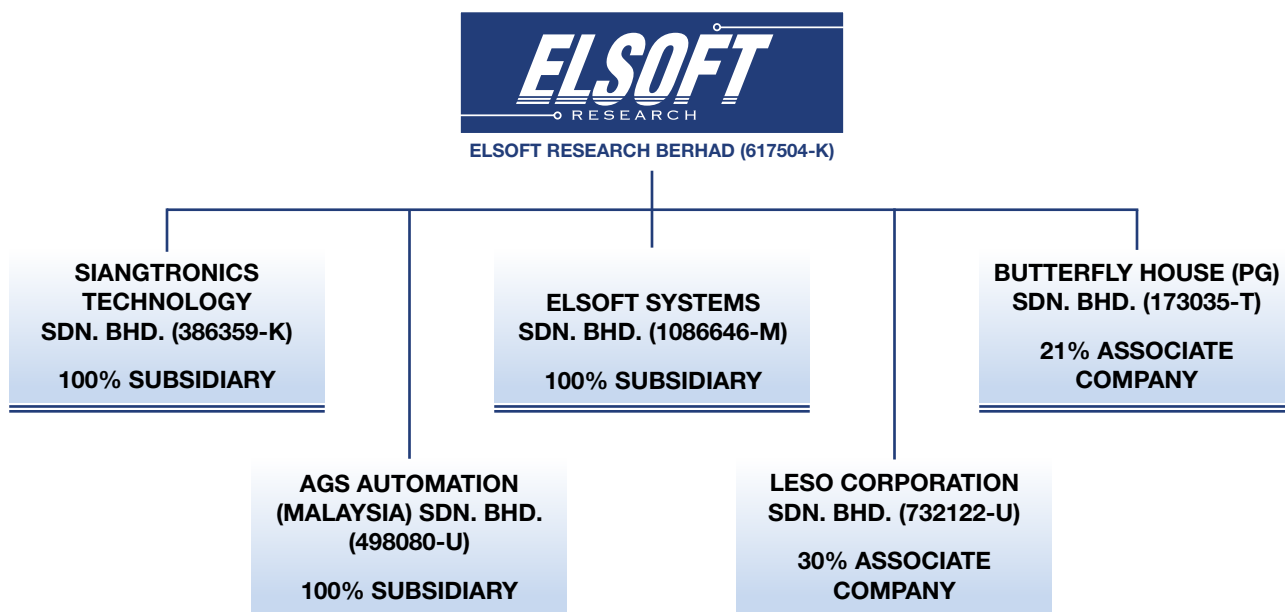
# CORPORATE STRUCTURE

Elsoft was incorporated in Malaysia under the Companies Act, 1965 on 4 June 2003 as a private limited company under the name of Elsoft Research Sdn. Bhd.. Subsequently, it was converted to a public limited company on 10 August 2004 and since then assumed its present name.

The details of the Elsoft Group are as follows:

Corporation	Date/Place of Incorporation	Issued and Paid-up Share Capital RM	Effective Equity Interest %	Principal Activities
Elsoft Research Berhad ("Elsoft")	04.06.2003/ Malaysia	27,169,800	–	Research, design and development of test and burn-in systems and application specific embedded systems.
<b>Subsidiaries/Associated Company of Elsoft</b>				
Siangtronics Technology Sdn. Bhd. ("STSB")	07.05.1996/ Malaysia	500,000	100.00	Electronic devices/modules assembly, test and burn-in system integration and customised manufacturing solutions.
AGS Automation (Malaysia) Sdn. Bhd. ("AGS")	03.11.1999/ Malaysia	500,000	100.00	Dormant Company
Elsoft Systems Sdn. Bhd. ("ESSB")	28.03.2014/ Malaysia	2,400,000	100.00	Design and production of test, burn-in and embedded test equipment and its related modules for electronic industry.
Leso Corporation Sdn. Bhd. ("LESO")	02.05.2006/ Malaysia	6,000,000	30.00	Leso's Group is principally involved in the sale of test and measurement equipment through the provision of supply chain management solutions for the Company's suppliers and customers.
Butterfly House (PG) Sdn. Bhd. ("BHSB")	18.08.1988/ Malaysia	17,016,750	21.16	Operating a butterfly farm.

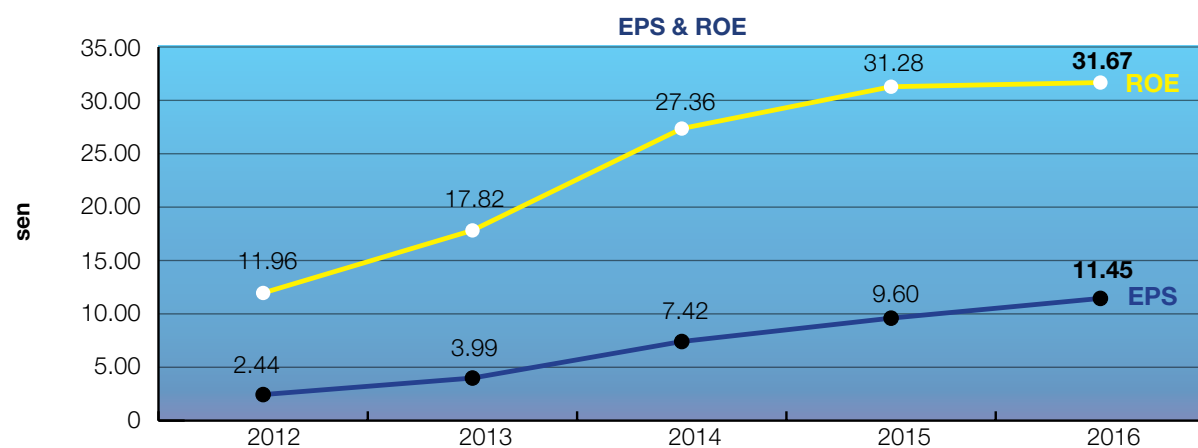
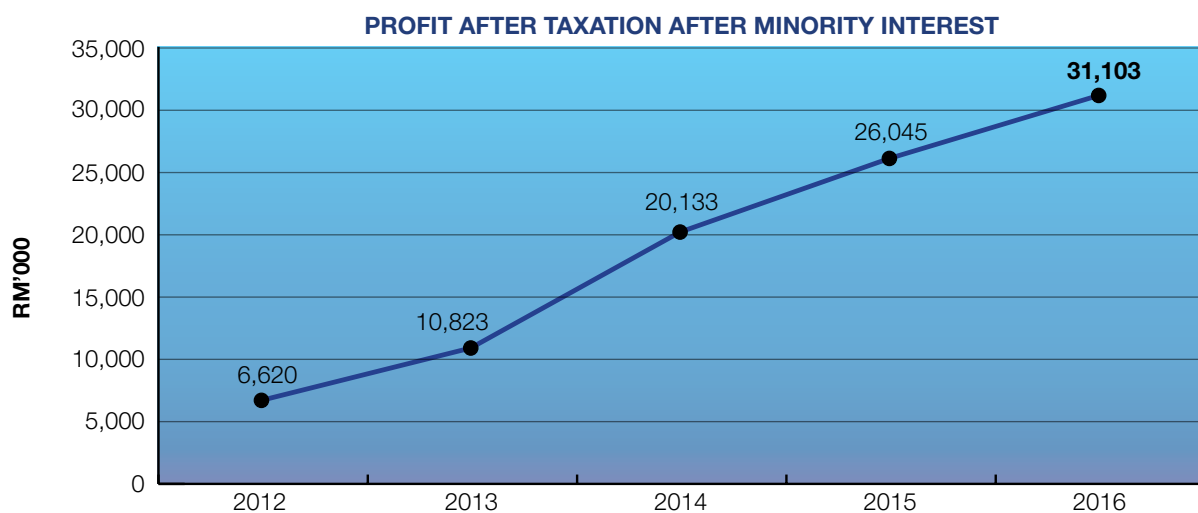
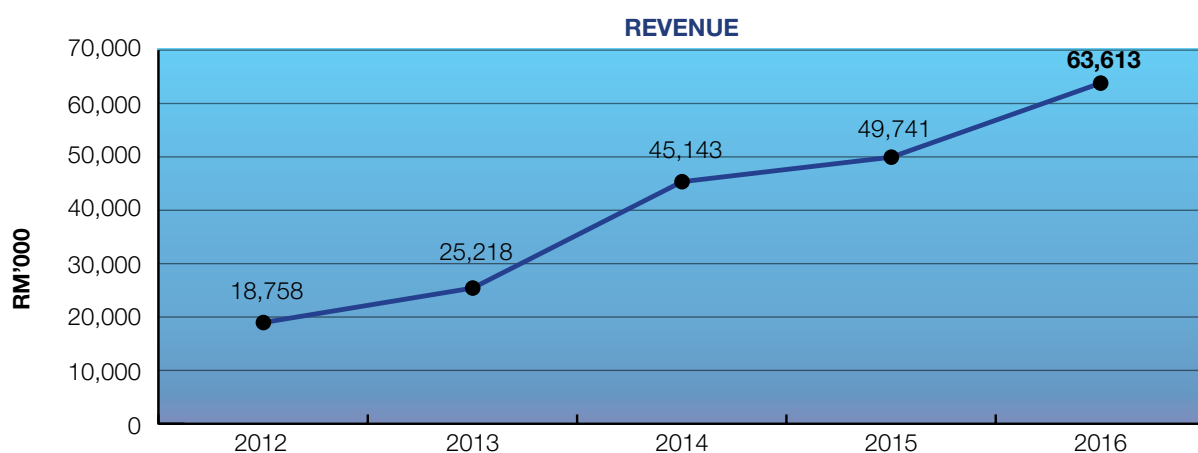
The structure of the Group is as set out below:



# FINANCIAL HIGHLIGHTS

	2012 RM' 000	2013 RM' 000	Group 2014 RM' 000	2015 RM' 000	2016 RM' 000
Revenue	18,758	25,218	45,143	49,741	<b>63,613</b>
Profit before taxation	6,664	11,344	20,792	26,387	<b>31,409</b>
Profit after taxation after minority interest	6,620	10,823	20,133	26,045	<b>31,103</b>
No. of shares assumed in issue (in Million) *	271,698	271,698	271,698	271,698	<b>271,698</b>
Earning per share ("EPS" in Sen)	2.44	3.99	7.42	9.60	<b>11.45</b>
Return on equity ("ROE" in percentage)	11.96	17.82	27.36	31.28	<b>31.67</b>

\* The number of shares has been adjusted for bonus issue retrospectively.



# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW OF THE GROUP'S BUSINESS AND OPERATIONS

The Group is principally involved in the research, design, development and manufacturing of automated test equipment (ATE), burn-in systems and application specific embedded control systems for the semiconductor industries in general and optoelectronics industries in particular. Currently Elsoft's primary markets are in the Automotive, Smart Devices and General Lighting sectors.

## GROUP FINANCIAL PERFORMANCE FOR THE FINANCIAL YEAR ENDED ("FYE") 31 DECEMBER 2016

	Financial Year Ended		
	31 Dec 2016	31 Dec 2015	Changes
	RM '000	RM '000	(%)
Revenue	<b>63,613</b>	49,741	27.9%
Cost of Sales	<b>(29,216)</b>	(27,130)	7.7%
Gross profit	<b>34,397</b>	22,611	52.1%
Other Income	<b>4,061</b>	7,655	-46.9%
Administrative Expenses	<b>(7,196)</b>	(3,953)	82.0%
Share of profit in associate	<b>147</b>	74	98.6%
Profit before tax	<b>31,409</b>	26,387	19.0%
Taxation	<b>(306)</b>	(342)	-10.5%
Net profit	<b>31,103</b>	26,045	19.4%
Shareholders' equity	<b>98,219</b>	83,258	
Basic Earning per share (Sen)	<b>11.45</b>	9.59*	
Net assets per share (Sen)	<b>0.36</b>	0.31*	
Dividend payout (%)	<b>70%</b>	56%	

\* Basis EPS is calculated based on the weighted average of ordinary shares has been adjusted for bonus issue retrospectively

### Revenue

The Group's revenue for FYE 2016 increased by 27.9% to RM63.613 million, compared to RM49.741 million in FYE 2015. The increase in revenue was mainly attributed to the greater demand from smart devices industry and also continuous demand from automotive industry.

### Cost of Sales

The Group's cost of sales for FYE 2016 amounted to RM29.216 million compared with RM27.130 million in FYE 2015. The 7.7% increase was mainly due to the increase in staff costs as well as the increase in raw material consumptions to support the sales growth.

### Other Income

The 46.95% decrease in other income of the Group from RM7.655 million in FYE 2015 to RM4.061 million in FYE 2016 was mainly due to lower contributions from other investment income and lesser foreign exchange gains for FYE 2016.

### Administrative expenses

The Group's administration expenses increase from RM3.953 million for FYE 2015 to RM7.196 million for FYE 2016. The increase was mainly due to greater professional fee incurred, fair value loss from other investments, increase in staff costs and also the recognition of share based payment as a result of the implementation of ESOS for the Group.

### Share of profit in associate

Share of profit from the Group's associated company for FYE 2016 increase from RM0.073 million for FYE 2015 to RM0.147 million for FYE 2016, an increase by 98.6%. This was due to re-opening of Butterfly Farm ("Entopia") by Butterfly House (PG) Sdn. Bhd. in year 2016 and also the consistent contribution from Leso Corporation Sdn. Bhd..

### Taxation

For both FYE 2016 and FYE 2015, the effective tax rate for the Group is lower than the statutory tax rate due to 100% tax exemption from Pioneer Status of Section 4D, Promotion of Investment Act, 1986 for Elsoft Systems Sdn. Bhd..

### Financial Position and Liquidity

The Group's inventories increased by 96.0% from RM2.610 million as at 31 December 2015 to RM5.116 million as at 31 December 2016. The increase was mainly due to the increase in work-in-progress to meet greater customer demand for the coming financial year.

# MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

## GROUP FINANCIAL PERFORMANCE FOR THE FINANCIAL YEAR ENDED ("FYE") 31 DECEMBER 2016 (cont'd)

### Financial Position and Liquidity (cont'd)

The Group's trade and other receivables increased by 13.8% from RM20.050 million as at 31 December 2015 to RM22.819 million as at 31 December 2016. The increase was mainly due to the increase in trade receivables as a result of higher sales generated during the current financial year as compared to collection.

As at 31 December 2016, the Group's cash and cash equivalents stood at RM11.642 million, registering a decrease of 23.0% compared to RM15.113 million as at 31 December 2015. The decrease was mainly due to the greater placement to money market funds with financial institutions. These money market fund placements are classified as other investment. As at 31 December 2016, the Group's other investment increase stood at RM33.435 million, registering an increase of 115.8% from RM15.493 million as at 31 December 2015.

The Group's trade and other payables increased by 37.7% from RM9.271 million as at 31 December 2015 to RM12.769 million as at 31 December 2016. The increase was mainly due to the increase in trade payables as a result of higher purchases during the current financial year.

Giving our strong financial position, the Group will continue to explore future investment opportunities to strengthen and enhance the position of the Group.

### OPERATING ACTIVITIES

As a technology company, the Group is continuously focusing on Research and Development (R&D) of new products and enhancement of our existing products. The Group spent RM6.616 million or 10.4% of revenue in R&D activities in 2016 (RM5.387 million or 10.8% of revenue in 2015).

Identification and recruitment of key human capital continues to be a key focus area for R&D Department. Currently the Group has grown to twenty seven (27) R&D engineers, and they are deployed in various development activities such as advance digital and analog design, mechanical design, firmware and application software development. The Group had increased its production and service workforce from twenty five (25) to thirty two (32) employees to cater for the increasing production capacity over the past year.

For a sustainable and smooth business operation, the Group strives to maintain a close to zero, if not zero, employee turnover rate and also regularly invest in and undertakes various staff development programs to strengthen the Group's human capital.

### PROSPECTS AND OUTLOOK

During the financial year ended 2016, approximately 86% of Elsoft's revenue for ATE are derived from the automotive and smart devices sectors. The demand for ATE is expected to remain steady with continuous demand in automotive, smart device and the general lighting sectors.

In the coming financial year, the Group plans to introduce a next generation test solution featuring a high-speed light emitting diode (LED) tile tester for both the automotive and the general lighting sectors. Plans are in place to ramp up marketing for the high-speed LED tile tester to customers.

In line with our strategy to diversify and participate in new markets, the Group will introduce new ATE for solar cells sectors with a goal to deliver our first system in the second quarter of 2017. This will reduce the Group's dependency on current market sectors.

Elsoft aims to be the world leading one-stop ATE solution provider across existing and new industry sectors. In order to achieve the aforesaid objective, the Group will intensify its R&D effort to develop next generation test equipment as well as enhance and improve the existing products portfolio so as to bring greater value to our customers and to stay ahead of our competitors.

### Associate Companies

Leso Corporation Sdn. Bhd. ("LESO"), a 30% owned associate company of Elsoft, had achieved RM22.557 million of revenue in financial year 2016, a slight decrease of 3.1% as compared to financial year 2015, despite a challenging economic environment in year 2016. The management of Leso is optimistic to meet the challenges in year 2017.

Butterfly House (PG) Sdn. Bhd. ("BHSB"), a 21% owned associate company of Elsoft, have re-opened its Butterfly Farm located in Teluk Bahang in May 2016. As part of a rebranding exercise, butterfly farm is now known as "Entopia". The management of BHSB is confident that with the rebranding and new marketing strategy, Entopia expects to be able to meet its projected growth.

# MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

## Corporate Proposal

As part of the Elsoft's effort to reward the shareholders for their loyalty and continued support to the Group, the Company had undertaken a bonus issue of 90,565,998 new ordinary shares of RM0.10 each on the basis of one (1) bonus share for every two (2) existing Elsoft's share held, the entitlement date has been fixed on 20 December 2016. The bonus issue:-

- (a) will enable the existing shareholders to have greater participation in the equity of the Company in terms of the number of Elsoft Shares held, whilst maintaining their percentage of equity interest;
- (b) will increase the issued and paid-up share capital of the Company to a level which better reflects the current size and scale of the Elsoft Group's operations and assets employed; and
- (c) is expected to enhance the marketability and trading liquidity of Elsoft Shares on the Main Market of Bursa Securities.

## RISK EXPOSURES

Our Group are exposed to the risks associated with currency fluctuations due to the sales to overseas customer and purchases from overseas supplier which are denominated in USD. Therefore, exchange rate fluctuations of USD against the Ringgit Malaysia may influence the group's financial results. However, foreign currency exchange risk is partially managed through a natural hedge between revenue and purchases in the same currencies.

## DIVIDEND

The Board has adopted a dividend policy to pay an annual dividend of not less than 40% of its annual net profit after taxation, on condition that such distribution will not be detrimental to the Group's cash flow requirements.

Accordingly, the Board had declared and paid a First Tax Exempt Interim Dividend of 3 sen per ordinary share on 29 September 2016 and Second Tax Exempt Interim Dividend of 3 sen per ordinary share on 23 December 2016. On 23 February 2017, the Company has announced a Third Tax Exempt Interim Dividend of 2 sen per ordinary share and a Special Dividend of 2 sen per ordinary share.

For the year 2016, the total dividend payout is 70% of our Group's PAT. This exceeds the financial year 2015 payout of 56% and way above our 40% payment policy.

## MESSAGE FROM BOARD & MENAGEMENT

Premised on the above, the board and the management is optimistic to meet challenges in the years to come and would deliver results to the shareholders and investors.

## PROFILE OF DIRECTORS

**DATO' DR CHONG ENG KEAT @ TEOH ENG KEAT** aged 71, male, Malaysian, is an Independent Non-Executive Director of Elsoft. He was appointed to the Board on 3 June 2005. He is the Chairman of the remuneration committee, nomination committee and ESOS committee. He is also a member of the audit committee. He was then elected and currently serves as the Non-Executive Chairman of Elsoft.

He graduated from Universiti Sains Malaysia in 1975 with a Bachelor (Hons) Degree in Chemistry and went on an Australian National University Scholarship to do his PhD in Chemistry in 1976. After obtaining his PhD in 1979, he returned to USM as a lecturer in the School of Chemistry.

In 1980, he left USM to join Intel Technology Sdn Bhd as a Senior Process Engineer. During his 22 years in Intel, he held various general management positions in manufacturing as well as in technology development. He started up the Intel Kulim site as the pioneer Managing Director in 1995 and at the time of his retirement in 2002 was the Vice-President and General Manager of Intel's worldwide Board and Systems operations. He was the former President and Chief Executive Officer of Kolej Distid Stamford and he is currently the Executive Vice Chairman of Global Edutech Management.

He attended all five Board of Directors Meetings held in the financial year 2016. He does not have any family relationship with any director and/or major shareholders of the Company. He has no conflict of interest with the Company and had no convictions for offences within the past 5 years other than traffic offences, if any.



**TAN CHEIK EAIK** aged 52, male, Malaysian, is the Executive Director and Chief Executive Officer of Elsoft. He is also a member of the remuneration committee and ESOS committee. He was appointed to the Board on 4 June 2003. He graduated with a Bachelor (Hons) Degree in Electrical Engineering from University Malaya in 1990. Upon graduation, he joined Hewlett Packard (M) Sdn Bhd as a Design Engineer and was soon promoted to Senior Design Engineer.

In 1992, due to the sudden death of his brother-in-law, he left his promising career with Hewlett Packard to start his entrepreneurial career, succeeding his late brother-in-law's electrical wiring business Siang Electronics Technology, a partnership company. Subsequently, Siang Electronics Technology was converted to STSB in which he became the Managing Director.

As an engineer, he specialises and is experienced in the areas of test metrology and embedded application system design that contribute to the fundamentals of the Group's success. Over the years, under his leadership and business entrepreneurship, his team started to build up a strong internal R&D capability and successfully developed a series of ATE systems for semiconductor and optoelectronic applications which contributed to the Group's success today.

He was appointed as Independent Non-Executive Chairman of FoundPac Group Berhad on 22 November 2016, a position he holds to date.

He attended all five Board of Directors Meetings held in the financial year 2016. He, Tan Ah Lek and Tan Ai Jiew who are the major shareholders and directors of the Company are siblings. He has no conflict of interest with the Company and had no convictions for offences within the past 5 years other than traffic offences, if any.



## PROFILE OF DIRECTORS (CONT'D)



**KOAY KIM CHIEW** aged 50, male, Malaysian, is an Executive Director of Elsoft. He is also a member of the ESOS committee. He was appointed to the Board on 4 June 2003. He graduated with a Bachelor (Hons) Degree in Electrical Engineering from University Malaya in 1992.

Upon his graduation, he served Intel Technology Sdn Bhd, a leading chip manufacturing multinational company as an Automation Engineer. He left Intel in 1994 and subsequently joined Elsoft.

He is currently the Chief Technology Officer and manages the Group's technological direction. He plays a key role in the hardware and software design and development of the Group.

He attended all five Board of Directors Meetings held in the financial year 2016. He does not have any family relationship with any director and/or major shareholders of the Company. He has no conflict of interest with the Company and had no convictions for offences within the past 5 years other than traffic offences, if any.



**TAN AH LEK** aged 61, male, Malaysian, is a Non-Independent Non-Executive Director of Elsoft. He was appointed as Executive Director on 3 June 2005 and was re-designated as Non-Independent Non-Executive Director with effect from 15 January 2014. He is a member of the Nomination Committee.

He started his career as an electrical wiring technician and later started a business in electrical wiring services. He has many years of experience in electrical wiring projects. He was one of the co-founders of STSB and has been crucial to the success of the Company since then.

He attended all five Board of Directors Meetings held in the financial year 2016. He, Tan Cheik Eaik and Tan Ai Jiew who are the major shareholders and Directors of the Company are siblings. He has no conflict of interest with the Company and had no convictions for offences within the past 5 years other than traffic offences, if any.

## PROFILE OF DIRECTORS (CONT'D)

**TAN AI JIEW** aged 67, female, Malaysian, is a Non-Independent Non-Executive Director of Elsoft. She was appointed to the Board on 3 June 2005. She is a member of the audit committee. Together with Tan Cheik Eaik and Tan Ah Lek, she co-founded STSB. She is the wife of the late Lau Gaik Siang (also known as "Siang") who laid out the fundamental business network for the inception of STSB and supported the initial function of administration. She has currently withdrawn from the day-to-day operations and remains as a Non-Executive Director.

She attended all five Board of Directors Meetings held in the financial year 2016. She, Tan Cheik Eaik and Tan Ah Lek who are the major shareholders and directors of the Company are siblings. She has no conflict of interest with the Company and had no convictions for offences within the past 5 years other than traffic offences, if any.



**OOI TOON KIT** aged 71, male, Malaysian, is an Independent Non Executive Director of Elsoft. He was appointed to the Board on 22 June 2011. He is the chairman of the audit committee, a member of the nomination committee, remuneration committee and ESOS committee. He is a Chartered Accountant, a member of the Malaysian Institute of Accountants, qualified Company Secretary and holds a Master of Commerce degree from The University of Auckland, New Zealand. His working experiences include a number of years in Fletcher Challenge group, a major New Zealand conglomerate, and in British Petroleum Company both in accountancy. He progressed to Inchape Malaysia Group as their Group Investment Manager and Director of Management Services. His last full time employment was with Unico Holdings Bhd as Group General Manager.

Prior to his retirement from full time employment in year 2000, he developed and effected the listing of the former Unico Desa Plantations Bhd on the Main Board of Bursa Malaysia Securities Berhad .

His 38 years working in foreign, regional and local companies. Industries served include forestry, timber and petroleum products, motor vehicle assembly and distribution, industrial and consumer products whole selling and retailing, electronic and consumer product manufacturing, property development, plantation and other services. His responsibility portfolio at various time includes accounting, project feasibility studies, merger and acquisition, investment and divestment, corporate advisory, personnel training and general management at CEO level.

He is currently a Vistage Chair and business coach, mentoring a group of business owners and CEOs and their direct reports.

He attended all five Board of Directors Meetings held in the financial year 2016. He does not have any family relationship with any director and/or major shareholders of the Company. He has no conflict of interest with the Company and had no convictions for offences within the past 5 years other than traffic offences, if any.



## KEY SENIOR MANAGEMENT PROFILE

**Eng Chin Peng**, aged 52, male, Malaysian, is the Chief Operating Officer of Elsoft. He joined Elsoft as Senior Operating Manager in June 2016 and was subsequently promoted to Chief Operating Officer on 10 April 2017. He graduated with a Bachelor of Engineering with Honours in Computer and Communication Engineering from University Science Malaysia in 1990.

He has more than 25 years of experience in Engineering, Product Development, Manufacturing and Quality Control. He started his career in Intel Technology as Equipment Development Engineer in 1990. He then joined Crest Ultrasonics in 1994, a leading ultrasonic cleaning manufacturer from USA as the Senior Automation Design Engineer for the Malaysia plant. He then rose to the rank of senior management from Engineering Manager to Product Quality Director. He oversaw the operations of Crest Ultrasonic Malaysia to support Crest sales worldwide.

He does not hold any directorship in public listed companies.

**Chan Hong Heng**, aged 49, male, Malaysian, is the Principal Engineer of Elsoft. He graduated with a Bachelor (Hons) Degree in Computer and Communication Engineering from University Science Malaysia in 1993 and later with a Master of Science Degree in 1998.

He is one of the pioneer staff who joined Elsoft since his graduation. He started his career as an engineer and over the years has been promoted from senior engineer to staff engineer and the current position. He is currently leading the Electronics Design Group and a key player in test and burn-in development.

He does not hold any directorship in public listed companies.

**Tan Cheik Kooi**, aged 62, male, Malaysian, is the Finance and Administration Manager of Elsoft. He started his career back in 1974 as an account assistant and was promoted to chief clerk in Plantation Latex (M) Sdn Bhd. In 1994, he joined Topglass Sdn Bhd as the Accounts Executive. He has more than 35 years of accounting and administration experience in various industries.

He joined Elsoft in 1996 as the Finance and Administration Manager and has been the key person setting up the entire accounting systems and administration policies. Currently, he is responsible for the overall accounting functions and oversees the human resource functions of Elsoft.

He does not hold any directorship in public listed companies.

**James Chow Khin Hoong**, aged 51, male, Malaysian, is the Senior Manager in Business Development of Elsoft. He graduated with a Bachelor of Engineering in Electrical and Electronic Engineering from RMIT University Australia in 1990 and later with a MBA in Technology Management in 1997.

He has more than 25 years of experience in Electrical and Electronic R&D, Product Development and Introduction, Equipment and Automation Design, IC Design and Project Management.

He started his career in Hewlett Packard as Manufacturing Engineer in 1990. He rose from the ranks to become Department Manager of Hewlett Packard in 1998. He then joined Agilent Technology as Business Unit Manager in 1999. He left Agilent Technology in 2001 and joined Lumileds until 2003. In 2003, he joined Displayworks Sdn Bhd as the CEO and he left his position as CEO in 2008 prior to joining Smartlab Sdn Bhd as General Manager. He joined Elsoft in 2012 as Senior Manager in Business Development, a position he held until today.

He does not hold any directorship in public listed companies.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Dato' Dr. Chong Eng Keat @ Teoh Eng Keat  
Chairman  
Independent Non-Executive Director

Tan Cheik Eaik  
Executive Director/Chief Executive Officer

Koay Kim Chiew  
Executive Director

Tan Ah Lek  
Non-independent Non-Executive Director

Tan Ai Jiew  
Non-independent Non-Executive Director

Ooi Toon Kit  
Independent Non-Executive Director

## AUDIT COMMITTEE

Ooi Toon Kit  
Chairman of Audit Committee  
Independent Non-Executive Director

Dato' Dr. Chong Eng Keat @ Teoh Eng Keat  
Member of Audit Committee  
Independent Non-Executive Director

Tan Ai Jiew  
Member of Audit Committee  
Non-independent Non-Executive Director

## REMUNERATION COMMITTEE

Dato' Dr. Chong Eng Keat @ Teoh Eng Keat  
Chairman of Remuneration Committee  
Independent Non-Executive Director

Ooi Toon Kit  
Member of Remuneration Committee  
Independent Non-Executive Director

Tan Cheik Eaik  
Member of Remuneration committee  
Executive Director/Chief Executive Officer

## NOMINATION COMMITTEE

Dato' Dr. Chong Eng Keat @ Teoh Eng Keat  
Chairman of Nomination Committee  
Independent Non-Executive Director

Ooi Toon Kit  
Member of Nomination Committee  
Independent Non-Executive Director

Tan Ah Lek  
Member of Nomination Committee  
Non-independent Non-Executive Director

## ESOS COMMITTEE

Dato' Dr. Chong Eng Keat @ Teoh Eng Keat  
Chairman of ESOS Committee  
Independent Non-Executive Director

Ooi Toon Kit  
Member of ESOS Committee  
Independent Non-Executive Director

Tan Cheik Eaik  
Member of ESOS Committee  
Executive Director/Chief Executive Officer

Koay Kim Chiew  
Member of ESOS Committee  
Executive Director

Other members of ESOS Committee:  
Chan Hong Heng  
Tan Cheik Kooi  
Lau Kheng Teong  
Ng Tzeh Chyuan

## COMPANY SECRETARIES

Datuk Tan Leh Kiah (MAICSA 0719692)  
Ooi Yoong Yoong (MAICSA 7020753)

## REGISTERED OFFICE

39 Salween Road  
10050 Penang  
Tel: 04-2109828  
Fax: 04-2109827

## HEAD/MAMAGEMENT OFFICE

Plot 85B, Lintang Bayan Lepas 9  
Bayan Lepas Industrial Park, Phase 4  
11900 Penang  
Tel: 04-646 8122  
Fax: 04-643 3918  
E-mail: [info@elsoftresearch.com](mailto:info@elsoftresearch.com)  
Website: <http://www.elsoftresearch.com>

## REGISTRARS AND TRANSFER OFFICE

AGRITEUM Share Registration Services Sdn Bhd  
(578473-T)  
2<sup>nd</sup> Floor, Wisma Penang Garden  
42, Jalan Sultan Ahmad Shah  
10050 Penang  
Tel: 04-2282321  
Fax: 04-2272391

## AUDITORS

BDO  
Chartered Accountants

## PRINCIPAL BANKERS

Hong Leong Bank Berhad (97141-X)  
HSBC Bank Malaysia Berhad (127776-V)

## STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad  
Stock Name : ELSOFT  
Stock Code : 0090

# CORPORATE GOVERNANCE STATEMENT

The Board of Directors ("Board") recognises the important of sustaining high standard of Corporate Governance in ensuring that the interest of the Group, shareholders and other stakeholders are protected.

The Board remains fully committed towards adhering to the Principles and Recommendations of the Malaysia Code of Corporate Governance 2012 ("MCCG 2012"). The Board will continue to review and enhance the corporate governance practice to ensure its ability in meeting future challenges and to establish long term sustainable shareholders' value.

This statement discloses the manner in which the Group has applied the principles of good corporate governance and the extent to which it has complied with the Code.

## PRINCIPLE 1: ESTABLISH CLEAR GOALS & RESPONSIBILITIES

### 1.1 Establish clear function reserved for board and delegation to management

The Board is responsible for the good corporate governance practices of the Group. It guides and monitors the affairs of the Group on behalf of the shareholders and other stakeholders consistent with the Board Charter and published Code of Conducts.

The chairman is responsible for the leadership of the Board and ensuring effective functioning of the Board. The Chief Executive is responsible for implementation the policies, strategies and decisions adopted by the Board as well as the day-to-day management of the Company's operations and shall adhere to the guidelines and instructions provided by the Board.

The Board has specifically reserved the following matters, amongst others, for its decision: -

- Corporate strategies;
- Annual budgets;
- Risk Management policies;
- Treasury policies;
- Authority limits;
- Major capital expenditure and acquisitions and disposal of assets which are not in the ordinary course of business of the Group
- Conflict of interest issues relating to a substantial shareholder or director.

The Board shall formally meet at least 4 times a year to review the group's business progress, discuss and decide on the deserved matters outlined above when they arise. Additional meetings will be convened when the needs arise.

### 1.2 Clear roles and responsibility in discharging fiduciary/leadership

The Board's responsibility include providing strategic direction and approving corporate plans and budgets, monitoring and reviewing corporate performance, ensuring adequate systems for good internal control and risk management are in place, overseeing succession planning and sound financial and operational management.

The Chief Executive will present and update the Board on his recommended strategy and proposed business plan at a dedicated session. The Board will review and comment on the recommended strategy and proposed business plan in order to deliver the best outcomes for the group.

The Chief Executive is responsible for the day-to-day operations and management of the Group with respect to both its regulatory and commercial functions. He is assisted by the Chief Technology Officer for implementing the policies, strategies and decisions adopted by the Board.

Board Committees are entrusted with specific responsibilities to oversee the Group's affairs, with authority to act on behalf of the Board in accordance with their respective Terms of Reference. The Board Committees established are the Audit Committee, the Nomination Committee, the Remuneration Committee and the ESOS Committee.

The Audit Committee, assisted by the appointed Internal Auditor, identifies the group's operational risks and makes recommendations to the Board on the procedures and internal control processes to address such risks. The Audit Committee also reviews information to be disclosed to ensure compliance with appropriate standards and regulatory requirements and makes recommendations to the Board on their release.

The Nomination Committee is responsible for reviewing any new candidate for Board appointment or filling key management positions. The Committee also actively engaged with senior management in identifying skill gaps and review succession planning and other human resource contingencies.

# CORPORATE GOVERNANCE STATEMENT (CONT'D)

## PRINCIPLE 1: ESTABLISH CLEAR GOALS & RESPONSIBILITIES (cont'd)

### 1.2 Clear roles and responsibility in discharging fiduciary/leadership (cont'd)

The Remuneration Committee undertakes the periodic review of Directors' fees to ensure that Directors are fairly remunerated and makes recommendations to the Board. Together with senior management, the Committee reviews performance and decides on the remunerations of key employees.

The ESOS Committee is responsible for reviewing the allocation of the ESOS to ensure that it is in accordance with criteria set out in the ESOS By-laws of the Company.

The Board keeps itself abreast of the key issues and decisions made by each Board Committee through the reports by the Chairman of the relevant Board Committees at their respective meetings. The ultimate responsibility for decision making lies with the Board.

### 1.3 Code of Conduct & Implementation

The Company's Codes of Conduct sets out the principles and standards of business ethics and conduct of the Group. The objective of the Code is to assist the Directors and employees in defining ethical standards and conduct at work. The Code of Conduct includes principles relating to duties of Directors and employees, confidential information, conflict of interest, dealings in securities, compliance to law & regulations and business conduct.

The Chief Executive shall oversee the communication, implementation and compliance of these principles and rules in the Group. All Directors and employees are to have free access to the code of conduct which are available at the Company's website.

The Board encourages all stakeholders and staff to inform the Company of their awareness of any instances of non-compliance with or violation of the Codes of Conduct. Such information can be conveyed to the Company on a confidential basis through our nominated Independent Non-Executive Director, Mr. Ooi Toon Kit, through his email [ooitoonkit@yahoo.com](mailto:ooitoonkit@yahoo.com) for investigation and further action.

The Board will monitor compliance with the Code and review the Code regularly to ensure that it continues to remain relevant and appropriate.

### 1.4 Access to Information and Advice

The Board members have access to all information pertaining to the Company and Management shall supply accurate and complete information to the board in a timely manner to enable the Board to discharge its duties effectively.

Board members are provided with information such as agenda and full set of Board papers at least seven days prior to meetings to enable them to have an overview of matters to be discussed or reviewed at the meetings and to seek further clarifications, if any.

All Directors have access to the advice and services of the Company Secretary.

A Director is entitled to seek independent professional advice, including but not limited to legal, accounting and financial, either collectively or individually as may be considered necessary in furtherance of their duties and responsibilities at the expense of the Company.

### 1.5 Qualified and Competent Company Secretary

The Board is supported by qualified, experienced and competent Company Secretaries who are also members of a professional body.

The Company Secretaries play an advisory role to the Board in relation to the Company's constitution and advises the Board on any updates relating to new statutory, relevant regulatory and listing requirements pertaining to the duties and responsibilities of Directors as and when necessary.

The Company Secretaries attend all Board and Board Committee meetings and ensures that meetings are properly convened.

The Company Secretaries also ensure that accurate and proper records of the proceedings and resolutions passed are taken and maintained.

# CORPORATE GOVERNANCE STATEMENT (CONT'D)

## PRINCIPLE 1: ESTABLISH CLEAR GOALS & RESPONSIBILITIES (cont'd)

### 1.6 Board Charter

The Board has formalised and adopted the Board Charter which clearly sets out the respective roles and responsibilities of the Board and the management to ensure accountability. The Board will monitor compliance with the Code and review the Code regularly to ensure that it continues to remain relevant and appropriate. The Board Charter is made available at the Company's website.

### 1.7 Strategies Promoting Sustainability

Strategies adopted by the Group to drive its business forward have always taken into account the commercial sustainability of the Group as well as their impact on the environment, society and government.

## PRINCIPLE 2: STRENGTHEN COMPOSITION

### 2.1 Nomination Committee

The Board has established a Nomination Committee comprising entirely Non-executive Directors and chaired by an Independent Director.

The composition of the Nomination Committee is as follows:

Name
Dato' Dr Chong Eng Keat @ Teoh Eng Keat Chairman/Independent Non-Executive Director
Mr. Ooi Toon Kit Member/Independent Non-Executive Director
Mr. Tan Ah Lek Member/Non-Independent Non-Executive Director

The terms of reference of the Nomination Committee can be viewed on the Company's website at [www.elssoftresearch.com](http://www.elssoftresearch.com).

Meetings of the Nomination Committee are held as and when necessary, and at least once a year. The Nomination Committee met once during the year and all members registered full attendance. The Nomination Committee, upon its annual review carried out, is satisfied that the size of the Board is optimum and that there is mix of experience and expertise in the composition of Board. The Nomination Committee conducted an evaluation of the effectiveness of the Board as a whole, the Board Committees and contribution of each individual Director during the financial year under review.

### 2.2 Develop, maintain and review criteria for recruitment and annual assessment of Directors

#### Appointment to the Board and Re-election of Directors

The Board delegates to the Nomination Committee the responsibility of recommending the appointment of any new Director. The Nomination Committee is responsible to ensure that the procedures for appointing new Directors are transparent and appointments are made on merits. In evaluating the suitability of candidates to fill any vacancies in the Board, the Nomination Committee shall ensure that the candidates selected possess the necessary skills, knowledge, expertise and experience and their personal characteristics befitting the positions.

#### Annual Assessment

The annual assessment involves members of the Board completing evaluation questionnaires to appraise the performance of the Board. The assessment also involved individual Director undertaking self and peer evaluation, whereby Directors will assess their own performance and that of their fellow Directors. Summary of the evaluation results by element will be reported to the Board by the Chairman of the Nomination Committee.

Board Committees were assessed on their composition, expertise and whether their functions and responsibilities were effectively discharged in accordance with their respective term of reference annually.

# CORPORATE GOVERNANCE STATEMENT (CONT'D)

## PRINCIPLE 2: STRENGTHEN COMPOSITION (cont'd)

### 2.2 Develop, maintain and review criteria for recruitment and annual assessment of Directors (cont'd)

#### Boardroom Diversity

The Board acknowledges the importance of gender, age, nationality, ethnicity and socio-economic background diversity and recognises the benefits that they can bring and will work towards maintaining this objective. The Board is of the view that while promoting boardroom diversity is essential, the normal selection criteria based on a balance mixture of skills, knowledge, expertise and experience to strengthen the Board should remain a priority.

Currently, the Board has of one (1) female Director namely, Tan Ai Jiew. The Board is satisfied that it has achieved most of the diversity as defined above and is comfortable with its current composition.

### 2.3 Formal & Transparent Remuneration Procedures

The Board has established a Remuneration Committee consisting of majority Non-Executive Directors.

The composition of the Remuneration Committee is as follows:

Name
Dato' Dr Chong Eng Keat @ Teoh Eng Keat Chairman/Independent Non-Executive Director
Mr. Ooi Toon Kit Member/Independent Non-Executive Director
Mr. Tan Cheik Eaik Member/Executive Director/Chief Executive Officer

The responsibilities of the Remuneration Committee are:-

- to recommend to the Board the remuneration package of executive directors in all its form, drawing from outside advice, if necessary.
- to recommend to the Board the remuneration of Non-Executive Directors which shall be a decision of the Board as a whole, save and except where the remuneration is in respect of any member or members of this Committee.

Executive Directors should play no part in decisions on their own remuneration. The determination of remuneration packages of Non-Executive Directors, including Non-Executive Chairman should be a matter for the Board as a whole.

Meetings of the Remuneration Committee are held as and when necessary, and at least once a year. The Remuneration Committee met once during the year and all members registered full attendance.

#### Directors' Remuneration

The Company makes regular survey and aims to set remuneration at levels which are sufficient to attract and retain the Directors needed to operate the Company successfully. In deciding on the remuneration levels, the Company takes into consideration all relevant factors including the function, workload, responsibilities involved and the results achieved by the group.

The aggregate remuneration, with categorization into appropriate components and distinguishing between Executive and Non-Executive Directors, paid or payable to all the Directors of the Company for the financial year ended 31 December 2016 and the number of Directors whose total remuneration falls in each successive band of RM50,000 are as follows: -

Remuneration	Fee RM	EPF and Other Emoluments RM	Share Based payment RM	Total RM
<b>Company:</b>				
Executive Directors	–	43,713	96,950	140,663
Non-Executive Directors	179,000	–	206,020	385,020
<b>Group:</b>				
Executive Directors	–	1,064,908	96,950	1,161,858
Non-Executive Directors	179,000	–	206,020	385,020

# CORPORATE GOVERNANCE STATEMENT (CONT'D)

## PRINCIPLE 2: STRENGTHEN COMPOSITION (cont'd)

### 2.3 Formal & Transparent Remuneration Procedures (cont'd)

#### Directors' Remuneration (cont'd)

Remuneration Band	Number of Directors	
	Executive	Non-Executive
50,000 and below	–	–
50,001 – 100,000	–	3
100,001 – 150,000	–	1
150,001 – 200,000	–	–
200,001 – 250,000	–	–
250,001 – 300,000	–	–
300,001 – 350,000	–	–
350,001 – 400,000	–	–
400,001 – 450,000	–	–
450,001 – 500,000	–	–
500,001 – 550,000	1	–
550,001 – 600,000	–	–
600,001 – 650,000	1	–

#### Employee Share Options Scheme (“ESOS”) Committee

The members of the ESOS Committee are as follows:-

Chairman : Dato' Dr Chong Eng Keat @ Teoh Eng Keat  
 Members : Ooi Toon Kit  
             Tan Cheik Eaik  
             Koay Kim Chiew  
             Chan Hong Heng  
             Tan Cheik Kooi  
             Lau Kheng Teong  
             Ng Tzeh Chyuan

Secretary : Michelle Ooi Yoong Yoong

The shareholders of the Company had via its Extraordinary General Meeting held on 26 November 2015, amongst others, approved the Establishment of an Employees' Share Option Scheme (“ESOS”) of up to 10% of the issued and paid-up share capital of the Company at any point of time during the duration of the ESOS Scheme. The rationale of the Scheme is to retain and reward eligible person by allowing them to participate in the Company's growth and profitability and eventually realise potential capital gains arising from any appreciation in the value of the Company's shares.

The Committee shall administer the Employees' Share Option Scheme in such manner as it shall in its discretion deem fit and with such powers and duties are conferred upon it by the Board.

Meetings may be called at any time by the Committee Chairman. The Committee met once during the financial year ended 31 December 2016.

## PRINCIPLE 3: REINFORCE INDEPENDENCE

### 3.1 Undertake assessment of ID annually

The Board assess the independence of the Independent Directors on an annual basis and when occasions arise that require such assessment.

The current Independent Directors of the Company namely, Dato' Dr Chong Eng Keat @ Teoh Eng Keat and Mr Ooi Toon Kit have fulfilled the criteria of “independence” as prescribed under Chapter 1 of the Listing Requirements of Bursa Securities. The Company also fulfills the requirement to have at least one-third (1/3) of its Board members being Independent Non-executive Directors.

# CORPORATE GOVERNANCE STATEMENT (CONT'D)

## PRINCIPLE 3: REINFORCE INDEPENDENCE (cont'd)

### 3.2 Tenure of Independent Directors

One of the recommendations of the Code provides that the tenure of Independent Director should not exceed nine (9) years of service. After completion of the nine (9) years, the Independent Director may continue to serve on the board subject to the Director's re-designation as a Non-Independent Director. In the event the Board intends to retain the Director as Independent after the latter has served a cumulative term of nine (9) years, the Board must justify the decision and seek shareholders' approval at the Annual General Meeting of the Company. In justifying the decision, the Board is required to assess the candidate's suitability to continue as an Independent Non-Executive Director based on the criteria of independence adopted by the Board.

Dato' Dr Chong Eng Keat @ Teoh Eng Keat was appointed as an Independent Non-Executive Director of the Company on 3 June 2005 and he has served for more than nine (9) years. The Board recognizes that Dr. Chong has demonstrated his ability and performance as Chairman and an Independent Director thus far and that his service and expertise are still required by the Group and hence will seek shareholders' approval at the forthcoming Annual General Meeting to retain him as Independent Director.

### 3.3 Separation of positions of the Chairman and CEO

There is a clear division of duties and responsibilities between the Chairman and the CEO to ensure a balance of power and authority such that no one individual has unfettered powers over decision making. The Chairman is responsible for the leadership and governance of the Board ensuring its effectiveness. The CEO is responsible for the day-to-day management of the Company's business and its operations as well as the implementation of the Board's policies and decisions.

### 3.4 Board Composition and Balance

The Board currently has six Directors, comprising two Independent Non-Executive Directors, two Non-Independent Non-Executive Directors and two Executive Directors.

The present composition of the Board is in compliance with Chapter 15.02 of the Listing Requirements of Bursa Malaysia Securities Berhad of at least one-third (1/3) of its members being Independent Directors.

## PRINCIPLE 4: FOSTER COMMITMENT

### 4.1 Time Commitment

The Board is satisfied with the level of commitment given by the Directors and that they have devoted sufficient time to carry out their responsibilities as directors and to regularly update their knowledge and enhance their skills through continuing education and learning so that they can perform their directors' duties more effectively.

The Board met six times during the year and the attendance of Directors at Board meetings are as set out below: -

Name	Attendance
Dato' Dr Chong Eng Keat @ Teoh Eng Keat Chairman/Independent Non-Executive Director	6/6
Mr Tan Cheik Eaik Executive Director	6/6
Mr Koay Kim Chiew Executive Director	6/6
Mr Tan Ah Lek Non-Independent Non-Executive Directors	6/6
Ms Tan Ai Jiew Non-Independent Non-Executive Directors	6/6
Mr Ooi Toon Kit Independent Non-Executive Directors	6/6

All Board members are required to notify the Chairman of the Board before accepting new directorships outside the Group and indicating the time that will be spent on the new directorship. Similarly, the Chairman of the Board shall also notify other Directors before taking up any additional appointment of directorships.

# CORPORATE GOVERNANCE STATEMENT (CONT'D)

## PRINCIPLE 4: FOSTER COMMITMENT (cont'd)

### 4.2 Directors' Training

All the Directors have attended and completed the Mandatory Accreditation Program prescribed by Bursa Malaysia Securities Berhad.

In addition, the Directors will continue to participate in other relevant training programs to further enhance their skills and knowledge in discharging their duties as Directors in an effective manner. Throughout the year, the Directors have received updates from time to time on relevant new laws and regulations.

The training programs and seminars attended by the Directors based on their own assessment of their training needs during the financial year ended 31 December 2016 include:

Name of Directors	Title of training programs and seminars	Mode of Training	No of Days
Dato' Dr Chong Eng Keat @ Teoh Eng Keat	Budget 2017 Tax Seminar Corporate Governance Statement Reporting Workshop	Seminar	2
Mr Tan Cheik Eaik	The Vistage Chief Executive Program	Seminar	12
Mr Koay Kim Chiew	Budget 2017 Tax Seminar	Seminar	1
Mr Tan Ah Lek	Budget 2017 Tax Seminar	Seminar	1
Ms Tan Ai Jiew	Budget 2017 Tax Seminar	Seminar	1
Mr Ooi Toon Kit	Use of Social Media in Corporate Communication & Marketing Formulation and Implementation of Corporate KRAs and KPIs Likely World Economic Scenario in 2017 and Impact on Malaysia	Seminar/Workshop	3

The Board will, on a continuous basis, evaluate and determine the other training needs of its members to assist them in the discharge of their duties as Directors.

## PRINCIPLE 5: UPHOLD INTEGRITY IN FINANCIAL REPORTING

### 5.1 Compliance with applicable financial reporting standards

The Audit Committee was set up in June 2005. The Audit Committee plays a crucial role in reviewing information to be disclosed to ensure its accuracy, adequacy and compliance to the appropriate financial standards.

The composition of the Audit Committee, its terms of reference, attendance of meetings by the individual members are set out on pages 21 to 22.

### 5.2 Assessment of suitability and independence of external auditors

The Audit Committee undertakes an annual assessment of the suitability and independence of the external auditors and will make recommendation to the Board for the re-appointment of the external auditors.

The Audit Committee maintain an appropriate and transparent relationship with the external auditors. In the course of audit of the Group's financial statements, the external auditors have highlighted to the Audit Committee and the Board, matters that require the Board's attention. Audit Committee meetings are attended by the external auditors for purposes of presenting their audit plan and report, presenting their comments on the audited financial statements and to make representations to the Committee on any other findings revealed in the course of their audit. The external auditor has carried out their audit plan diligently and timely.

The external auditors are required to declare their independence annually to the Audit Committee as specified by the By-Laws issued by the Malaysian Institute of Accountants. The external auditors have provided the declaration in their annual audit plan presented to the Audit Committee of the Company.

The Audit Committee had on 23 February 2017 assessed the independence of Messrs BDO as external auditors and was satisfied with BDO's competency and audit independence.

# CORPORATE GOVERNANCE STATEMENT (CONT'D)

## PRINCIPLE 6: RECOGNISE AND MANAGE RISKS

### 6.1 Sound framework to manage risk

The Board has established internal control procedures, primarily premised on the significant risks identified, to ensure that the internal control system is carried out effectively.

### 6.2 Internal audit function

The Board outsourced its internal audit function to an independent professional consulting firm, JWC Consulting Sdn. Bhd. effective from 6 May 2016.

The Statement on Risk Management and Internal Control set out on pages 23 to 24 of the Annual Report provides an overview on the state of internal controls within the Group.

## PRINCIPLE 7: ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

### 7.1 Corporate disclosure policy

The Board is mindful of the importance of ensuring timely dissemination of clear and complete information of the Company's position, financial and otherwise, and as in accordance with the Listing Requirements of Bursa Malaysia Securities Berhad.

On Corporate Disclosure practice, the Board follows closely the recommendations as set out in the Corporate Disclosure Guide issued by Bursa Malaysia Securities Berhad.

### 7.2 Leverage on information technology for effective dissemination of information

The Company's website at [www.elssoftresearch.com](http://www.elssoftresearch.com) provides information, including annual reports, quarterly reports, circulars and other announcements concerning the Company which is updated on a regular basis.

The Company releases all material information publicly through Bursa Malaysia Securities Berhad and the shareholders and the public in general may obtain such announcements and financial information from the website of Bursa Malaysia Securities Berhad.

## PRINCIPLE 8: STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

The Company dispatches its Notice of Annual General Meeting at least 21 days before the meeting date to allow the shareholders to make the necessary arrangements to attend and participate in the meeting.

The voting at the AGM will be conducted by poll. Poll Administrator and Independent Scrutineers will be appointed to conduct the polling process and verify the results of the poll, respectively.

The Board will be present at shareholders' meetings to engage directly with and be accountable to the shareholders for their stewardship of the Company.

Mr. Ooi Toon Kit is the Senior Independent Non-Executive Director, to whom shareholder concerns in relation to the Company may be conveyed through his e-mail [ooitoonkit@yahoo.com](mailto:ooitoonkit@yahoo.com).

## COMPLIANCE STATEMENT

The Board is satisfied that the Company has complied with the Principles and Recommendations of the MCCG 2012, as is applicable and as described in this statement.

This statement is issued in accordance with a Board Resolution dated 21 April 2017.

# CORPORATE GOVERNANCE STATEMENT (CONT'D)

## STATEMENT OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

Our Group's commitment to CSR is demonstrated and continuously improved by emphasising the importance of values, business ethics and good working conditions for sustainable growth. We develop and operate our networks in accordance with best environmental practices. We emphasize our commitment towards CSR by respecting all legislation in the territories in which our Group operates; creating working conditions that promote a healthy work-life balance in accordance with laws and agreements on working time; upgrading employees' skill and knowledge by attending relevant training and courses; avoid usage of hazardous materials and contaminated soils; adopt whenever possible components that are 'green' compliant and environmentally friendly and encourage participation in charitable organisation activities.

Elsoft, as a technology company, realises the importance to spark the interest in science and technology and to create a culture of innovation and entrepreneurship among our younger generation in Malaysia. In line with the above objective, Elsoft Group continue to participate in a financial sponsorship to Penang Science Cluster as part of the funding for Penang Science Café @ Heritage serving as a series of science-based public community centers to promote the learning of Science, Technology, Engineering and Mathematic subjects in a fun and innovative way.

Apart from that, our Group also contributed to the community through donations made to the below parties:-

- Persatuan Kebajikan Gurunanha Aasramam
- Pertubuhan Rumah Kebajikan Seri Cahaya Pulau Pinang
- Penang Fo Yi Haemodialysis Society

## STATEMENT OF DIRECTORS' RESPONSIBILITY FOR THE ANNUAL AUDITED FINANCIAL STATEMENTS

The Directors are required by the Companies Act, 1965 in Malaysia (the Act) to prepare financial statements for each financial year which have been made out in accordance with applicable Malaysian Financial Reporting Standards in Malaysia and the provisions of the Act and Main Market Listing Requirements.

The Directors are responsible to ensure that the financial statements give a true and fair view of the state of affairs, results and cash flows of the Group and the Company at the end of the financial year.

In preparing the financial statements, the Directors have:

- a. adopted the appropriate accounting policies and applied them consistently;
- b. made judgments and estimates that are reasonable and prudent;
- c. ensured that applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- d. prepared the financial statements on a going concern basis.

The Directors are responsible to ensure that the Group and the Company keep accounting records, which disclose with reasonable accuracy the financial position of the Group and the Company and which enable them to ensure that the financial statements comply with the Act.

The Directors are responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and to detect and prevent fraud and other irregularities.

# AUDIT COMMITTEE REPORT

## **Mr Ooi Toon Kit**

*Chairman of Audit Committee*

*Independent Non-Executive Director*

## **Dato' Dr Chong Eng Keat @ Teoh Eng Keat**

*Member of Audit Committee*

*Independent Non-Executive Chairman*

## **Madam Tan Ai Jiew**

*Member of Audit Committee*

*Non-Independent Non-Executive Director*

The Audit Committee consists of three (3) members, of whom all are Non-Executive Directors and majority of the members are Independent Directors.

### **1.0 Terms of Reference**

The terms of reference of the Audit Committee can be viewed on the Company's website at [www.elfsoftresearch.com](http://www.elfsoftresearch.com).

### **2.0 Attendance at Meetings**

There were 5 meetings held for the financial year ended 31 December 2016 with 100% attendance. Details of attendance of the Committee members are as follows:-

<b>Name of Committee Member</b>	<b>No. of meetings attended</b>
Mr. Ooi Toon Kit	5/5
Dato Chong Eng Keat @ Teoh Eng Keat	5/5
Madam Tan Ai Jiew	5/5

### **3.0 Summary of Activities**

The Committee had carried out the following activities during the five (5) meetings during the financial year ended 31 December 2016 in discharging their duties and responsibilities:

- Reviewed the quarterly reports and audited financial statements of the group, particularly on changes in or implementation of major accounting policy changes, significant and unusual events and compliance with accounting standards and other legal requirements and made recommendation of the same to the board for approval prior to release to Bursa Malaysia Securities Berhad and Securities Commission.
- Reviewed corporate governance statement, statement about the state of Internal control and Risk Management and audit committee report and recommended the same to the Board for inclusion in the Annual Report.
- Reviewed with the external auditors their audit plan for the financial year 2016.
- Appraised and evaluated the performance of the external auditors.
- Reviewed and make recommendations concerning the appointment of the external auditors and their remuneration to the Board.
- The Committee met with the external auditors three (3) times during the year without the presence of the management.
- Reviewed the adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work.
- Reviewed with the internal auditors on the adequacy of the Group's risk management practices in identifying and considering significant financial and business risk and recommended to the Board of Directors the implementation of appropriate systems to manage these risks.
- Received and reviewed internal auditors report with the internal auditors on findings and recommendation on the followings:-
  - (i) Credit Control
  - (ii) Cash Management
  - (iii) Procurement
  - (iv) Human Resource Management
- Reviewed the appraisal of the performance of members of internal audit function.

# AUDIT COMMITTEE REPORT (CONT'D)

## 4.0 Internal Audit

At present, the Group does not have an in-house internal audit department. Nevertheless, the Board strongly recognizes the importance of a structured risk management and a risk-based internal audit to establish and maintain a sound system of internal control. The Board appointed JWC Consulting Sdn. Bhd. as the internal auditor for the financial year ended 2016.

During the financial year under review, the outsourced internal audit function conducted reviews based on an approved internal audit plan and the results of these reviews were tabled at the Audit Committee's meetings.

The internal auditors have also carried out follow-up reviews to ensure that recommendations for improving the internal control systems were being implemented satisfactorily.

During the course of internal audits, the internal auditors have identified areas that required improvement. These areas were duly highlighted in the internal audit reports along with internal audit recommendations.

In addition, the Audit Committee and the Senior Management work closely with the external auditors to review accounting and control issues to ensure significant issues are brought to the attention of the Board.

The expenditure incurred for the internal audit function for the financial year 2016 was RM20,600.

The Board of Directors and the Audit Committee relied on discussions with the management and Executive Directors, review of quarterly financial statements and input from the external and internal auditors to discharge its duties. The state of internal control is detailed in the Statement of Risk Management and Internal Control on pages 23 to 24.

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Malaysian Code on Corporate Governance 2012 (“MCCG 2012”) requires public listed companies to maintain a sound system of risk management and internal control to safeguard shareholders’ investments and company’s assets. Under the provisions of the Bursa Malaysia Securities Berhad Main Market Listing Requirements (“Main Listing Requirements”), paragraph 15.26(b), Directors of public listed companies are required to produce a statement on the state of the company’s internal control in their Annual Report.

The Board of Directors (“Board”) continues with its commitment to maintain sound systems of risk management and internal control throughout Elsoft Research Berhad and its subsidiaries (“Group”) and in compliance with the Main Listing Requirements and the Statement of Risk Management and Internal Control (Guidelines for Directors of Listed Issuers) (“Internal Control Guidelines”), the Board is pleased to provide the following statement which outlines the nature and scope of risk management and internal control of the Group during the financial year in review.

## BOARD RESPONSIBILITY

The Board acknowledges the importance of sound risk management and internal control being embedded into the culture, processes and structures of the Group. The systems of internal control cover risk management and financial, organizational, operational, project and compliance controls. The Board affirms its overall responsibility for the Group’s systems of internal control and for reviewing the effectiveness and efficiency of those systems to ensure its viability and robustness. It should be noted, however, that such systems are designed to manage, rather than eliminate, risks of failure to achieve corporate objectives. Inherently, it can only provide reasonable and not absolute assurance against material misstatement or loss.

## SENIOR MANAGEMENT AND KEY PERSONNEL OF THE GROUP

The Senior Management and key personnel of the Group are accountable to the Board for the implementation of the processes in identifying, evaluating, monitoring and reporting of risks and internal control. The Chief Executive Officer and Executive Director have provided the Board the assurance that the Group’s risk management and internal control systems are operating adequately and effectively, in all material aspects, to ensure achievement of corporate objectives.

## CONTROL STRUCTURE AND ENVIRONMENT

In furtherance to the Board’s commitment to maintain sound systems of risk management and internal control, the Board continues to maintain and implement a structure and environment for the proper conduct of the Group’s business operations as follows:

- The Board meets at least quarterly and has set a schedule of matters which is required to be brought to its attention for discussion, thus ensuring that it maintains full and effective supervision over appropriate controls. The Chief Executive Officer leads the presentation of board papers and provides explanation of pertinent issues. In addition, the Board is kept updated on the Group’s activities and its operations on a regular basis;
- An organization structure with well-defined scopes of responsibility, clear lines of accountability, and levels of delegated authority;
- A process of hierarchical reporting which provides for a documented and auditable trail of accountability;
- A set of documented internal policies and procedures for operational and human resource management, which is subject to review and improvement. A documented delegation of authority with clear lines of accountability and responsibility serves as a tool of reference in identifying the approving authority for various transactions including matters that require Board’s approval;
- Regular and relevant information provided by management, covering financial and operational performance and key business indicators, for effective monitoring and decision making;
- Regular visits to operating units by members of the Board and senior management.

## RISK MANAGEMENT

The Group has established risk management practices to safeguard the Group’s business interest from risk events that may impede the achievement of business strategy and provide assurance to the Groups’ various stakeholders.

The main components of the Group’s risk governance and structure consists of the Board, the Senior Management and the key personnel of the Group. The structure allows for strategic risk discussions to take place between the Board and the Senior Management on a periodical basis. The summary of the accountabilities of the Board, the Senior Management and the key personnel under the risk governance structure are as follows:

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

## (a) Board of Directors

- Overall risk oversight responsibility;
- Determines that the principal risks are identified, and appropriate as well as robust systems are implemented to manage these risks;
- Reviews the adequacy and the integrity of the Group's internal control systems and information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

## (b) Senior Management and key personnel of the Group

- Oversees the effective implementation of risk policies and guidelines, and cultivation of risk management culture within the organization;
- Reviews and monitors periodically the status of the Group's principal risks and their mitigation actions and update the Board accordingly.

Regular project-based discussions are conducted and attended by the Group's senior and middle management and key employees. This is part of the ongoing initiative to sustain risk awareness and risk management capabilities.

In essence, Risk Management is conducted through an ongoing process between the Board, the Management and employees in the Group. The Group believes that the risk management framework and guidelines adopted and implemented have strengthened the risk ownership and risk management culture amongst the employees.

## INTERNAL AUDIT FUNCTION

The Board acknowledges the importance of the internal audit function and has engaged the services of an independent professional and consulting firm, to provide much of the assurance it requires regarding the effectiveness as well as the adequacy and integrity of the Group's systems of internal control.

The internal audit adopts a risk-based approach in developing its audit plan which addresses the core business processes of the Group based on their risk profile. Scheduled internal audits are carried out by the internal auditors based on the audit plan presented to and approved by the Audit Committee.

The Audit Committee has full and direct access to the internal auditors and the Audit Committee receives reports on all internal audits performed. The Internal Auditors continue to independently and objectively monitor compliance with regard to policies and procedures, and the effectiveness of the internal controls systems. Significant findings and recommendations for improvement are highlighted to Management and the Audit Committee, with periodic follow-up of the implementation of action plans. The Management is responsible for ensuring that corrective actions were implemented accordingly.

Based on the internal auditors' reports for the financial year ended 31 December 2016, the Board has reasonable assurance that the Group's systems of internal control are generally adequate and appear to be working satisfactorily. A number of minor internal control weaknesses were identified during the financial year, all of which have been, or are being, addressed. None of the weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's annual report.

The Board continues to review and implement measures to strengthen the internal control environment of the Group.

This statement is issued in accordance with a resolution of the Directors dated 21 April 2017.

## REVIEW OF STATEMENT BY THE EXTERNAL AUDITORS

The external auditors have reviewed this Statement in accordance to Paragraph 15.23 of the MMLR of Bursa Securities. As set out in their terms of engagement, the limited assurance review was performed in accordance with Recommended Practice Guide ("RPG") 5 (revised 2015) issued by the Malaysian Institute of Accountants.

RPG 5 (revised 2015) does not required the external auditors to consider whether this Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk and control procedures.

Based on their review as to the factual accuracy of the processes and not their effectiveness or efficiency, the external auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement on Risk Management and Internal Control intended to be included in the annual report is not prepared, in all material aspects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of the Listed Issuers to be set out, nor is factually inaccurate.

# STATEMENT OF PROPOSED RENEWAL OF AUTHORITY

FOR ELSOFT RESEARCH BERHAD (ELSOFT OR THE COMPANY) TO PURCHASE ITS OWN ORDINARY SHARES OF UP TO 10% OF ITS TOTAL NUMBER OF ISSUED SHARES

## 1. INTRODUCTION

On 21 April 2017, Elsoft had announced that it will be seeking shareholders' approval at the forthcoming 14th Annual General Meeting (AGM) for the proposed renewal of authority for the purchase by the Company of its own shares of up to ten percent (10%) of the total number of issued shares of the Company (Proposed Renewal of Share Buy-Back Authority).

The purpose of this Statement is to provide you with the details of the Proposed Renewal of Share Buy-Back Authority, to set out the recommendation of the Board of Directors of the Company (Board) and to seek your approval for the ordinary resolution pertaining to the Proposed Renewal of Share Buy-Back Authority to be tabled at the 14<sup>th</sup> AGM of the Company.

The Notice of the 14th AGM and the Proxy Form are set out in page 78 and 83 respectively.

**SHAREHOLDERS OF THE COMPANY ARE ADVISED TO READ THE CONTENTS OF THIS STATEMENT CAREFULLY BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY AT THE 14TH AGM.**

## 2. DETAILS OF THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY

At the 13th AGM of Elsoft held on 20 May 2016, shareholders had approved the authority for the purchase by the Company of its own shares of up to ten percent (10%) of the issued and paid up share capital of the Company. The said approval will expire at the conclusion of the Company's 14th AGM to be held on 22 May 2017 unless renewed by an ordinary resolution passed by the shareholders.

The maximum number of shares that may be bought-back of up to ten percent (10%) of the total number of issued shares of the Company will include all shares which have been previously bought-back and retained as treasury shares.

Your approval for the Proposed Renewal of Share Buy-Back Authority will be effective immediately after the passing of the ordinary resolution to be tabled at the 14th AGM of the Company relating to the Proposed Renewal of Share Buy-Back Authority and will continue to be in force until:

- (a) The conclusion of the next annual general meeting of the Company following the general meeting at which such resolution was passed, at which time the authority will lapse unless renewed by ordinary resolution, either unconditionally or subject to conditions; or
- (b) The expiration of the period within which the next annual general meeting of the Company after that date is required by law to be held; or
- (c) The authority is revoked or varied by ordinary resolution passed by the shareholders of the Company in general meeting,

whichever occurs first.

The maximum amount of funds to be allocated for the Proposed Renewal of Share Buy-Back Authority shall not exceed the aggregate of retained profits of the Company. Based on the Audited Financial Statements of the Company as at 31 December 2016, the Company's audited retained profits amounted to RM21,817,564.

The Proposed Renewal of Share Buy-Back Authority is subject to compliance with the Companies Act, 2016 and any prevailing laws, rules and regulations, orders, guidelines and requirements issued by the relevant authorities ("Prevailing Law") at the time of the purchase. The Proposed Renewal of Share Buy-Back Authority will be in accordance with the Prevailing Law at the time of the purchase including compliance with the twenty-five percent (25%) public shareholding spread as required by the Listing Requirements of Bursa Malaysia Securities Berhad for the Main Market (Main LR). The public shareholding spread of our Company as at 31 March 2017 is approximately 31.88%. If the Proposed Renewal of Share Buy-Back Authority is approved for implementation, the Company will ensure that the minimum public shareholding spread of twenty-five percent (25%) is complied with.

The Proposed Renewal of Share Buy-Back Authority will be funded from internally generated funds and/or external borrowings. In the event that the Proposed Renewal of Share Buy-Back Authority is to be partly financed by external borrowings, our Board of Directors shall ensure that the Company will be capable of repaying such borrowings and that such funding is not expected to have any material effect on the cash flow of the Company.

Pursuant to Paragraph 12.17 of the Main LR, the Company shall purchase its own Shares on Bursa Securities at a price which is not more than fifteen percent (15%) above the weighted average market price of the Company's Shares for the five (5) market days immediately before to the date of the purchase(s).

# STATEMENT OF PROPOSED RENEWAL OF AUTHORITY <sup>(CONT'D)</sup>

FOR ELSOFT RESEARCH BERHAD (ELSOFT OR THE COMPANY) TO PURCHASE ITS OWN ORDINARY SHARES OF UP TO 10% OF ITS ISSUED AND PAID-UP SHARE CAPITAL

## 2. DETAILS OF THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (cont'd)

Pursuant to the provisions of Paragraph 12.18 of the Main LR, the Company may only resell the Elsoft Shares purchased pursuant to the Proposed Renewal of Share Buy-Back Authority (Purchased Elsoft Shares) held as treasury shares on Bursa Securities at:

- (a) a price which is not less than the weighted average market price for the shares for the five (5) market days immediately before the resale; or
- (b) a discounted price of not more than five percent (5%) to the weighted average market price for the share for the five (5) market days immediately before the resale provided that:
  - (i) the resale takes place not earlier than thirty (30) days from the date of purchase; and
  - (ii) the resale price is not less than the cost of purchase of the shares being resold.

## 3. RATIONALE FOR THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY

The implementation of the Proposed Renewal of Share Buy-Back Authority is envisaged to benefit the Company and its shareholders as follows:

- (i) the Company is able to utilize its surplus financial resources more efficiently. If implemented, this may help to stabilize the supply and demand of the Elsoft Shares traded on Bursa Securities and thereby support its fundamental value.
- (ii) the Earnings per share (EPS) of Elsoft Shares and the return on equity of the Company is expected to improve as a result of a reduced share capital base.
- (ii) the Purchased Elsoft Shares retained as treasury shares provide the Board of Directors of the Company with an option to resell the treasury shares at a higher price and increase the financial resources of the Company.
- (iv) the Purchased Elsoft Shares retained as treasury shares can be distributed as share dividends to our shareholders as a reward.

## 4. POTENTIAL ADVANTAGES AND DISADVANTAGES OF THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY

### 4.1 Potential Advantages

The potential advantages of the Proposed Renewal of Share Buy-Back Authority are as follows:

- (a) The Proposed Renewal of Share Buy-Back Authority would enable the Company to utilize its financial resources more efficiently especially where there is no immediate use and it may strengthen the consolidated EPS of the Group.
- (b) The Proposed Renewal of Share Buy-Back Authority will also provide the Company with opportunities to increase its financial resources if the Purchased Elsoft Shares which are retained as treasury shares are resold at prices higher than their cost of purchase.
- (c) In any event, the treasury shares may also be distributed as share dividends to the shareholders as a reward.
- (d) The Proposed Renewal of Share Buy-Back Authority may also stabilize the supply and demand of Elsoft Shares traded on Bursa Securities and reduce the volatility of the share prices. The stability of Elsoft Shares price is important to maintain investors' confidence and may also assist in facilitating future fund raising via the equity market.

# STATEMENT OF PROPOSED RENEWAL OF AUTHORITY (CONT'D)

FOR ELSOFT RESEARCH BERHAD (ELSOFT OR THE COMPANY) TO PURCHASE ITS OWN ORDINARY SHARES OF UP TO 10% OF ITS ISSUED AND PAID-UP SHARE CAPITAL

## 4. POTENTIAL ADVANTAGES AND DISADVANTAGES OF THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (cont'd)

### 4.2 Potential Disadvantages

The potential disadvantages of the Proposed Renewal of Share Buy-Back Authority are as follows:

- (a) The Proposed Renewal of Share Buy-Back Authority if implemented is expected to temporarily reduce the immediate financial resources of Elsoft and its subsidiaries (Elssoft Group).
- (b) The Proposed Renewal of Share Buy-Back Authority may also result in the Group foregoing better investment opportunities which may emerge in the future and/or any income that may be derived from other alternative uses of such funds such as deposit in interest bearing instruments.
- (c) The Proposed Renewal of Share Buy-Back Authority may also reduce the amount of resources available for distribution to the shareholders of the Company in the form of dividends as funds are utilized to purchase its own Shares.

Nevertheless, the Proposed Renewal of Share Buy-Back Authority is not expected to have any potential material disadvantages to the Company and our shareholders, as it will be implemented only after careful consideration of the financial resources of the Group and its resultant impact. The Board of Directors of the Company is mindful of the interest of the Company and our shareholders and will be prudent with respect to the above exercise.

## 5. EFFECTS OF THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY

The effects of the Proposed Renewal of Share Buy-Back Authority on share capital, net assets, working capital, earnings and shareholdings of Directors and Substantial Shareholders of the Company are set out below:

### 5.1 Share Capital

The effect of the Proposed Renewal of Share Buy-Back Authority on the issued and paid-up share capital of the Company will depend on whether the Purchased Elsoft Shares are cancelled or retained as treasury shares. The Proposed Renewal of Share Buy-Back Authority will result in a reduction of the issued and paid-up share capital of the Company if the Purchased Elsoft Shares are cancelled.

Based on the Company's issued and paid-up share capital as at 31 March 2017, the effect of the Proposed Renewal of Share Buy-Back Authority, assuming that all the Purchased Elsoft Shares will be cancelled, are as follows:

	<b>No. of Shares</b>
Total number of issued shares as at 31 March 2017*	273,203,498
Less:-	
Shares purchased amounting to ten percent (10%) of the Company's total number of issued shares pursuant to the Proposed Renewal of Share Buy-Back Authority (assuming the Purchased Elsoft Shares are fully cancelled)	(27,320,349)
After the Proposed Renewal of Share Buy-Back Authority	245,883,149

\* Including the treasury shares of 100,000 held by the Company as at 31 March 2017

However, the Proposed Renewal of Share Buy-Back Authority will have no effect on the issued and paid-up share capital of the Company if all the Purchased Elsoft Shares are to be retained as treasury shares, resold or distributed to the shareholders.

### 5.2 Net Assets

When the Company purchases its own shares, regardless of whether they are retained as treasury shares or subsequently cancelled, the net assets per Share of Elsoft Group will decrease if the cost per Share purchased exceeds the net assets per Share of Elsoft Group at the relevant point in time. However, if the cost per Share purchased is below the net assets per Share of Elsoft Group at the relevant point in time, the net assets per Share of Elsoft Group will increase.

# STATEMENT OF PROPOSED RENEWAL OF AUTHORITY (CONT'D)

FOR ELSOFT RESEARCH BERHAD (ELSOFT OR THE COMPANY) TO PURCHASE ITS OWN ORDINARY SHARES OF UP TO 10% OF ITS ISSUED AND PAID-UP SHARE CAPITAL

## 5. EFFECTS OF THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (cont'd)

### 5.2 Net Assets (cont'd)

In the case where the Purchased Elsoft Shares are treated as treasury shares and subsequently resold on Bursa Securities, the net assets per Share of Elsoft Group upon the resale will increase if the Company resell the treasury shares at higher price than the cost of purchase and vice-versa. If the treasury shares are distributed as share dividends, the net assets of Elsoft Group will decrease by the cost of the treasury shares at the point of purchase.

### 5.3 Working Capital

The Proposed Renewal of Share Buy-Back Authority, as and when implemented, will reduce the working capital and cash flow of Elsoft Group, the quantum of which depends on, amongst others, the number of Shares purchased and the purchase price(s) of the Shares.

For Shares so purchased which are kept as treasury shares, upon their resale, the working capital and the cash flow of the Group will increase upon the receipt of the proceeds of the resale. The quantum of the increase in the working capital and cash flow will depend on the actual selling price(s) of the treasury shares and the number of treasury shares resold.

### 5.4 Earnings

The effects of the Proposed Renewal of Share Buy-Back Authority on the earnings of Elsoft Group are dependent on the number Elsoft Shares purchased, the effective funding cost to finance such purchases and/or loss in interest income to Elsoft Group if internally generated funds are utilized. Further, the purchase of the Elsoft Shares will result in a lower number of shares being taken into account for purposes of EPS computation.

### 5.5 Dividends

Assuming the Proposed Renewal of Share Buy-Back Authority is implemented in full and the dividend quantum is maintained at historical levels, the Proposed Renewal of Share Buy-Back Authority will have an effect of increasing the dividend rate per ordinary share of the Company as a result of the reduction in the issued and paid-up share capital of the Company as described under Clause 5.1 above.

### 5.6 Directors' and Substantial Shareholders' Shareholdings

	As at 31 March 2017				After Proposed Renewal of Share Buy-Back Authority			
	Direct (Shares)	%	Indirect (Shares)	%	Direct (Shares)	%	Indirect (Shares)	%
<b><u>Directors and Substantial Shareholders</u></b>								
Tan Cheik Eaik	67,665,600	24.78	—	—	67,665,600	27.52	—	—
Koay Kim Chiew	31,865,025	11.67	—	—	31,865,025	12.96	—	—
Tan Ah Lek	26,349,375	9.65	22,500 <sup>(1)</sup>	0.01	26,349,375	10.72	22,500 <sup>(1)</sup>	0.01
Tan Ai Jiew	35,476,500	12.99	2,400,000 <sup>(1)</sup>	0.88	35,476,500	14.43	2,400,000 <sup>(1)</sup>	0.98
<b><u>Director</u></b>								
Dato Dr Chong Eng Keat								
@ Teoh Eng Keat	1,125,000	0.41	—	—	1,125,000	0.46	—	—
Ooi Toon Kit	720,000	0.26	—	—	720,000	0.29	—	—
<b><u>Substantial Shareholder</u></b>								
Tan Cheik Kooi	20,212,650	7.40	—	—	20,212,650	8.22	—	—

<sup>(1)</sup> Deemed interested through the shareholdings of his/her children pursuant to Section 59 (1)(C) of the Companies Act, 2016

# STATEMENT OF PROPOSED RENEWAL OF AUTHORITY (CONT'D)

FOR ELSOFT RESEARCH BERHAD (ELSOFT OR THE COMPANY) TO PURCHASE ITS OWN ORDINARY SHARES OF UP TO 10% OF ITS ISSUED AND PAID-UP SHARE CAPITAL

## 6. IMPLICATIONS OF THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY IN RELATION TO THE MALAYSIAN CODE ON TAKEOVERS AND MERGERS, 1998 (CODE)

There is no implication relating to the Code by the Company if the Proposed Renewal of Share Buy-Back Authority of up to ten percent (10%) of the total number of issued shares of the Company is carried out in full.

## 7. APPROVAL REQUIRED

The Proposed Renewal of Share Buy-Back Authority is conditional upon your approval at the forthcoming 14th AGM.

## 8. PURCHASE, RESALE AND CANCELLATION OF ELSOFT SHARES

As at 31 March 2017, the Company had purchased 100,000 Elsoft Shares and all the Elsoft Shares bought back were retained as treasury shares. There has been no resale or cancellation of the treasury shares by the Company since the first shares buy-back.

Details of Elsoft Shares bought back by the Company during the financial year ended 31 December 2016 are set out in Note 14 (b) of the Audited Financial Statements for the year ended 31 December 2016 in the 2016 Annual Report.

## 9. DIRECTORS' AND/OR SUBSTANTIAL SHAREHOLDERS' INTEREST

Save for the proportionate increase in percentage of shareholdings and/or voting rights of shareholders of our Company as a result of the Proposed Renewal of Share Buy-Back Authority, none of the Directors and substantial shareholders of Elsoft and/or persons connected with them have any interest, direct or indirect, in the proposed purchase of shares or resale of treasury shares, if any in the future.

## 10. DIRECTORS' RECOMMENDATION

The Board of Directors of the Company, after having considered all aspects of the Proposed Renewal of Share Buy-Back Authority, is of the opinion that the Proposed Renewal of Share Buy-Back Authority is fair, reasonable and in the best interest of the Company and accordingly recommend that you vote in favour of the ordinary resolution for the Proposed Renewal of Share Buy-Back Authority to be tabled at the forthcoming 14<sup>th</sup> AGM.

## 11. BURSA SECURITIES

Bursa Securities takes no responsibility for the contents of this Statement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Statement.

# ADDITIONAL COMPLIANCE INFORMATION

## 1. Audit Fees

The audit fees charged by the external auditors for the financial year ended 31 December 2016 amounted to RM16,000 for the Company and RM58,500 for the Group respectively (2015: RM34,000 for the Company and RM56,000 for the Group).

## 2. Non-Audit Fees

There were no Non-Audit Fees paid to the external auditors or corporation affiliated to the auditors' firm by the Group for the financial year ended 31 December 2016.

## 3. Material Contracts Involving Directors and Major Shareholders

There were no material contracts entered into by the Company and its subsidiaries involving Directors' and major shareholders' interests either still subsisting as at 31 December 2016 or entered into since the end of the previous financial year.

## 4. Recurrent Related Party Transactions of a Revenue or Trading Nature

The Company does not have any recurrent related party transaction of a revenue or trading nature during the financial year.

## 5. Employee Share Scheme

The shareholders of the Company had via its Extraordinary General Meeting held on 26 November 2015, amongst others, approved the Establishment of an Employees' Share Option Scheme ("ESOS") of up to 10% of the issued and paid-up share capital of the Company at any point of time during the duration of the ESOS Scheme. The implementation of the ESOS is effective from 1 April 2016.

During the financial year ended 31 December 2016, there were 6,550,000 of ESOS granted to the eligible Directors and employees of the Group and 6,550,000 number of ESOS have been adjusted pursuant to the Bonus Issues during the financial year.

The movement of ESOS granted, adjusted, exercised and outstanding are set out below:-

	Balance as at 1 January 2016	Number of ESOS as at 31 December 2016			Balance as at 31 December 2016
		Granted	Adjusted for Bonus Issues	Exercised	
Directors	–	1,250,000	625,000	–	1,875,000
Employees	–	5,300,000	2,650,000	–	7,950,000
<b>Total</b>	<b>–</b>	<b>6,550,000</b>	<b>3,275,000</b>	<b>–</b>	<b>9,825,000</b>

Pursuant to the Company's ESOS, not more than 50% of the options available under scheme shall be allotted, in aggregate, to Directors and senior management.

Since the commencement of the scheme, 30.15% of the options under the scheme have been granted to Directors and senior management.

The table below set out the ESOS granted to Non-Executive Directors:

	Balance as at 1 January 2016	Number of ESOS as at 31 December 2016			Balance as at 31 December 2016
		Granted	Adjusted for Bonus Issues	Exercised	
Dato' Dr Chong Eng Keat @ Teoh Eng Keat	–	250,000	125,000	–	375,000
Ooi Toon Kit	–	200,000	100,000	–	300,000
Tan Ai Jiew	–	200,000	100,000	–	300,000
Tan Ah Lek	–	200,000	100,000	–	300,000
<b>Total</b>	<b>–</b>	<b>850,000</b>	<b>425,000</b>	<b>–</b>	<b>1,275,000</b>

# CONTENTS

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<b>32 - 35</b>	<b>DIRECTORS' REPORT</b>
<b>36</b>	<b>STATEMENT BY DIRECTORS</b>
<b>36</b>	<b>STATUTORY DECLARATION</b>
<b>37 - 39</b>	<b>INDEPENDENT AUDITORS' REPORT TO THE MEMBERS</b>
	<b>FINANCIAL STATEMENTS</b>
<b>40</b>	<b>Consolidated Statement of Financial Position</b>
<b>41</b>	<b>Statement of Financial Position</b>
<b>42</b>	<b>Statements of Profit or Loss and Other Comprehensive Income</b>
<b>43</b>	<b>Consolidated Statement of Changes In Equity</b>
<b>44</b>	<b>Statement of Changes In Equity</b>
<b>45 - 46</b>	<b>Statements of Cash Flows</b>
<b>47 - 74</b>	<b>Notes to the Financial Statements</b>

# DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

## PRINCIPAL ACTIVITIES

The Company is principally involved in research, design and development of test, burn-in and application specific embedded system. The principal activities of the subsidiaries are set out in Note 8 to the financial statements.

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

## RESULTS

	Group RM	Company RM
Profit for the financial year	31,103,058	9,650,582
Attributable to:		
Owners of the parent	31,103,058	9,650,582

## DIVIDENDS

The dividends paid and declared since the end of the previous financial year were as follows:

	RM
In respect of the financial year ended 31 December 2015:	
Third interim dividend of RM0.04 per ordinary share, paid on 15 April 2016	7,237,676
In respect of the financial year ended 31 December 2016:	
First interim dividend of RM0.03 per ordinary share, paid on 29 September 2016	5,427,327
Second interim dividend of RM0.03 per ordinary share, paid on 23 December 2016	5,433,960
	<u>18,098,963</u>

On 23 February 2017, the Directors declared a third single tier interim dividend of RM0.02 per ordinary share and a special dividend of RM0.02 per ordinary share in respect of the financial year ended 31 December 2016, amounting to RM10,867,920, which is payable on 20 April 2017. The financial statements for the current financial do not reflect this dividend. This Dividend, will be accounted for as an appropriation of retained earning during the financial year ending 31 December 2017.

The Directors do not recommend any payment of final dividend for the current financial year.

## RESERVES AND PROVISIONS

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

## ISSUE OF SHARES AND DEBENTURES

During the financial year, the issued and paid-up capital of the Company was increased from RM18,113,200 to RM27,169,800 by way of bonus issue of 90,565,998 new ordinary shares of RM0.10 each at par entirely capitalised from the Company's share premium account, on the basis of one (1) bonus share for every two (2) existing shares held.

There were no other issues of shares or debentures during the financial year.

## OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued ordinary shares of the Company during the financial year apart from the issue of options pursuant to the Employees' Share Options Scheme ("ESOS").

The ESOS of the Company came into effect on 1 April 2016. The ESOS shall be in force for a period of five (5) years until 31 March 2021. The salient features and other terms of the ESOS are disclosed in Note 22 to the financial statements.

# DIRECTORS' REPORT (CONT'D)

## OPTIONS GRANTED OVER UNISSUED SHARES (cont'd)

The movement of options offered to take up unissued ordinary shares of RM0.10 each during the financial year are as follows:

Grant date	← Number of Options over ordinary shares of RM0.10 each →			Outstanding as at 31-12-2016
	Outstanding as at 1-1-2016	Granted	Adjustment*	
2 June 2016	0	6,550,000	3,275,000	9,825,000

\* Adjusted for bonus issues during the financial year

The Company has been granted exemption by the Companies Commission of Malaysia vide its letter dated 20 April 2017 from having to disclose the list of option holders to whom options have been granted during the financial year and details of their holdings pursuant to Section 169(11) of the Companies Act, 1965 in Malaysia except for information of employees who were granted 300,000 options and above.

Other than the Directors' options disclosed under the Directors' interests below, employees of the Company and of the subsidiaries who were granted 300,000 options and above under the ESOS during the financial year are as below:

Grant date	← Number of Options over ordinary shares of RM0.10 each →		
	2 June 2016	Adjustment*	31 December 2016
Albert Lim Wee Tap	250,000	125,000	375,000
James Chow Khin Hoong	250,000	125,000	375,000
Tan Ka Lun	250,000	125,000	375,000
Chan Hong Heng	200,000	100,000	300,000
Chew Chee Kong	200,000	100,000	300,000
Chong Hooi Min	200,000	100,000	300,000
Leong Ying Fong	200,000	100,000	300,000

\* Adjusted for bonus issues during the financial year

## DIRECTORS

The Directors who have held for office since the date of the last report are:

- |  |                 |
|--|-----------------|
| 1. Dato' Dr Chong Eng Keat @ Teoh Eng Keat | 4. Tan Ai Jiew  |
| 2. Tan Cheik Eaik                          | 5. Tan Ah Lek   |
| 3. Koay Kim Chiew                          | 6. Ooi Toon Kit |

## DIRECTORS' INTERESTS

The Directors holding office at the end of the financial year and their beneficial interests in ordinary shares of the Company during the financial year ended 31 December 2016 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965 in Malaysia were as follows:

Shares in the Company	← Number of Ordinary Shares of RM0.10 each →			
	Balance as at 1-1-2016	Bonus issues	Bought	Balance as at 31-12-2016
<b>Direct interests</b>				
Dato' Dr Chong Eng Keat @ Teoh Eng Keat	700,000	350,000	—	1,050,000
Tan Cheik Eaik	45,045,900	22,535,200	24,500	67,605,600
Koay Kim Chiew	21,203,350	10,601,675	—	31,805,025
Tan Ai Jiew	23,561,000	11,805,500	50,000	35,416,500
Tan Ah Lek	17,526,250	8,763,125	—	26,289,375
Ooi Toon Kit	440,000	220,000	—	660,000
<b>Deemed interests</b>				
Tan Ai Jiew #	1,565,000	782,500	—	2,347,500

# Deemed interest by virtue of the shareholdings held by her children pursuant to Section 134(12)(C) of the Companies (Amendment) Act 2007.

# DIRECTORS' REPORT (CONT'D)

## DIRECTORS' INTERESTS (cont'd)

	← Number of Options over ordinary shares of RM0.10 each →			
	Balance as at 1-1-2016	Granted	Adjustment*	Balance as at 31-12-2016
Dato' Dr Chong Eng Keat @ Teoh Eng Keat	–	250,000	125,000	375,000
Tan Cheik Eaik	–	200,000	100,000	300,000
Koay Kim Chiew	–	200,000	100,000	300,000
Tan Ai Jiew	–	200,000	100,000	300,000
Tan Ah Lek	–	200,000	100,000	300,000
Ooi Toon Kit	–	200,000	100,000	300,000

\* Adjusted for bonus issues during the financial year.

By virtue of his interests in the ordinary shares of the Company, Tan Cheik Eaik is also deemed to be interested in the ordinary shares of all the subsidiaries to the extent the Company has an interest.

## DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors has received or become entitled to receive any benefit (other than benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in 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 the transactions mentioned in Note 26 to the financial statements.

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

## TREASURY SHARES

The shareholders of the Company, by an ordinary resolution passed at the Annual General Meeting ("AGM") held on 20 May 2016, renewed the approval for the Company to repurchase its own shares.

During the financial year, the Company repurchased 41,000 of its issued ordinary shares from the open market at an average price of RM1.89 per share. The total consideration paid for the repurchased shares was RM77,470. The Company had also disposed of 221,100 treasury shares valued at RM2.02 for a total net consideration of RM446,893 in the open market, resulting in a surplus of RM211,500 which has been credited to the share premium account as disclosed in Note 14 to the financial statement.

As at 31 December 2016, there were no treasury shares held by the Company as disclosed in Note 14 to the financial statements.

## OTHER STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY

### (I) AS AT THE END OF THE FINANCIAL YEAR

- (a) Before the statements of profit or loss and other comprehensive income and statements of financial position of the Group and of the Company were made out, the Directors took reasonable steps:
  - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and have satisfied themselves that no known bad debts have been written off and that adequate provision have been made for doubtful debts; and
  - (ii) to ensure that any current assets other than debts, which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.
- (b) In the opinion of the Directors, the results of operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

# DIRECTORS' REPORT (CONT'D)

## OTHER STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY (cont'd)

### (II) FROM THE END OF THE FINANCIAL YEAR TO THE DATE OF THIS REPORT

- (c) The Directors are not aware of any circumstances:
  - (i) which would necessitate the writing off of bad debts or render the amounts of provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any material extent;
  - (ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; and
  - (iii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) In the opinion of the Directors:
  - (i) there has not arisen any item, transaction or event of a material and unusual nature which is likely to affect substantially the results of operations of the Group and of the Company for the financial year in which this report is made; and
  - (ii) no contingent or other liability has become enforceable or is likely to become enforceable, within the period of twelve (12) months after the end of the financial year which would or may affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

### (III) AS AT THE DATE OF THIS REPORT

- (e) There are no charges on the assets of the Group and of the Company which have arisen since the end of the financial year which secures the liabilities of any other person.
- (f) There are no contingent liabilities of the Group and of the Company which have arisen since the end of the financial year.
- (g) The Directors are not aware of any circumstances not otherwise dealt with in the report or financial statements, which would render any amount stated in the financial statements of the Group and of the Company misleading.

## SIGNIFICANT EVENTS DURING THE YEAR

Details of significant events during the year are disclosed in Note 30 to the financial statements.

## AUDITORS

The auditors, BDO, have expressed their willingness to continue in office.

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

**Tan Cheik Eaik**  
Director

**Koay Kim Chiew**  
Director

Penang  
21 April 2017

## STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 40 to 73 have been drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and of the financial performance and cash flows of the Group and of the Company for the financial year then ended.

In the opinion of the Directors, the information set out in Note 32 to the financial statements on page 74 has been compiled in accordance with the Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

On behalf of the Board,

**Tan Cheik Eaik**  
Director

**Koay Kim Chiew**  
Director

Penang  
21 April 2017

## STATUTORY DECLARATION

I, Tan Cheik Eaik, being the Director primarily responsible for the financial management of Elsoft Research Berhad, do solemnly and sincerely declare that the financial statements set out on pages 40 to 74 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed at  
Georgetown in the State of Penang this 21 April 2017

**Tan Cheik Eaik**

Before me,

Commissioner for Oaths

# INDEPENDENT AUDITORS' REPORT

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Elsoft Research Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, as set out on pages 40 to 73.

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

### Basis for Opinion

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

### Independence and Other Ethical Responsibilities

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

### Key Audit Matters

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

### Recoverability of trade receivables

As at 31 December 2016, trade receivables that were past due and not impaired amounted to RM8,747,519. The details of trade receivables and its credit risk have been disclosed in Note 11(f) and 28(i) to the financial statements.

Management recognised allowances for impairment losses on trade receivables based on specific known facts or circumstances on customers' abilities to pay.

The determination of whether trade receivables are recoverable involves significant management judgement.

### Audit response

Our audit procedures included the following:

- a) evaluated the credit process operated by management over the recoverability of trade receivables of the Group;
- b) critically assessed recoverability of receivables that were past due but not impaired with reference to their historical bad debt, ageing profiles of the counter parties and past historical repayment trends; and
- c) assessed cash receipts subsequent to the end of the reporting period for its effect in reducing amounts outstanding as at the end of the reporting period.

### Information Other than the Financial Statements and Auditors' Report Thereon

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

# INDEPENDENT AUDITORS' REPORT (CONT'D)

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

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

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

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

## Responsibilities of Directors for the Financial Statements

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

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

## Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and ISAs 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 ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

# INDEPENDENT AUDITORS' REPORT (CONT'D)

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

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

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

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

## Report on Other Legal and Regulatory Requirements

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

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

## Other Reporting Responsibilities

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

## Other Matters

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

### BDO

AF: 0206  
Chartered Accountants

### Lee Ken Wai

3185/07/17 (J)  
Chartered Accountant

Penang  
21 April 2017

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

			Group
	Note	2016 RM	2015 RM
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	16,315,004	16,406,274
Prepaid lease payment	6	3,016,745	3,080,587
Investment properties	7	3,011,922	3,095,248
Investment in associates	9	16,232,786	16,841,582
		<b>38,576,457</b>	<b>39,423,691</b>
<b>Current assets</b>			
Inventories	10	5,115,624	2,609,903
Trade and other receivables	11	22,819,387	20,049,715
Current tax asset		–	412,521
Other investments	12	33,435,463	15,492,733
Cash and bank balances	13	11,642,228	15,112,568
		<b>73,012,702</b>	<b>53,677,440</b>
<b>TOTAL ASSETS</b>		<b>111,589,159</b>	<b>93,101,131</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	14	27,169,800	18,113,200
Treasury shares	14	–	(157,923)
Reserves	15	71,049,694	65,303,135
<b>TOTAL EQUITY</b>		<b>98,219,494</b>	<b>83,258,412</b>
<b>LIABILITIES</b>			
<b>Non-current liability</b>			
Deferred tax liabilities	16	587,979	571,293
<b>Current liability</b>			
Trade and other payables	17	12,769,406	9,271,426
Current tax liability		12,280	–
		<b>12,781,686</b>	<b>9,271,426</b>
<b>TOTAL LIABILITIES</b>		<b>13,369,665</b>	<b>9,842,719</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>111,589,159</b>	<b>93,101,131</b>

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

# STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

		Company	
		2016	2015
	Note	RM	RM
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	129,321	243,143
Investment in subsidiaries	8	28,208,731	26,924,137
Investment in associates	9	14,970,000	14,970,000
		<b>43,308,052</b>	<b>42,137,280</b>
<b>Current assets</b>			
Trade and other receivables	11	731,522	9,529,911
Current tax assets		63,116	444,126
Other investments	12	12,574,565	5,806,114
Cash and bank balances	13	435,420	6,718,206
		<b>13,804,623</b>	<b>22,498,357</b>
<b>TOTAL ASSETS</b>		<b>57,112,675</b>	<b>64,635,637</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	14	27,169,800	18,113,200
Treasury shares	14	–	(157,923)
Reserves	15	29,725,993	45,431,910
<b>TOTAL EQUITY</b>		<b>56,895,793</b>	<b>63,387,187</b>
<b>LIABILITIES</b>			
<b>Non-current liability</b>			
Deferred tax liability	16	–	2,400
<b>Current liability</b>			
Trade and other payables	17	216,882	1,246,050
<b>TOTAL LIABILITIES</b>		<b>216,882</b>	<b>1,248,450</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>57,112,675</b>	<b>64,635,637</b>

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

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		Group		Company	
	Note	2016 RM	2015 RM	2016 RM	2015 RM
Revenue	19	<b>63,613,371</b>	49,741,262	–	2,804,766
Cost of sales		<b>(29,216,614)</b>	(27,130,019)	–	(1,839,031)
Gross profit		<b>34,396,757</b>	22,611,243	–	965,735
Other income		<b>4,061,338</b>	7,655,035	<b>12,059,257</b>	27,113,561
Administrative expenses		<b>(7,195,974)</b>	(3,953,007)	<b>(2,383,600)</b>	(6,246,500)
Share of profit of associates	9(e)	<b>147,204</b>	73,772	–	–
Profit before tax	20	<b>31,409,325</b>	26,387,043	<b>9,675,657</b>	21,832,796
Taxation	23	<b>(306,267)</b>	(341,687)	<b>(25,075)</b>	353,053
Profit for the financial year		<b>31,103,058</b>	26,045,356	<b>9,650,582</b>	22,185,849
Other comprehensive income, net of tax		–	–	–	–
Total comprehensive income		<b>31,103,058</b>	26,045,356	<b>9,650,582</b>	22,185,849
Profit for the financial year attributable to: Owners of the parent		<b>31,103,058</b>	26,045,356	<b>9,650,582</b>	22,185,849
Total comprehensive income attributable to: Owners of the parent		<b>31,103,058</b>	26,045,356	<b>9,650,582</b>	22,185,849
Earnings per ordinary share attributable to equity holders of the Company (sen):					
Basic	24	<b>11.45</b>	9.59		
Diluted	24	<b>11.37</b>	9.59		

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Group	Note	Non-distributable			Distributable	Total RM
		Share capital RM	Share premium RM	Treasury shares RM	Retained earnings RM	
Balance as at 1 January 2015		18,113,200	15,165,965	(74,347)	40,379,985	73,584,803
Profit for the financial year		–	–	–	26,045,356	26,045,356
Other comprehensive income, net of tax		–	–	–	–	–
Total comprehensive income		–	–	–	26,045,356	26,045,356
<b>Transactions with owners</b>						
Purchase of treasury shares	14(b)	–	–	(83,576)	–	(83,576)
Dividends paid	25	–	–	–	(16,288,171)	(16,288,171)
Total transactions with owners		–	–	(83,576)	(16,288,171)	(16,371,747)
Balance as at 31 December 2015		18,113,200	15,165,965	(157,923)	50,137,170	83,258,412

Group	Note	Non-distributable			Share options reserve	Distributable	Total RM
		Share capital RM	Share premium RM	Treasury shares RM	RM	Retained earnings RM	
Balance as at 1 January 2016		18,113,200	15,165,965	(157,923)	–	50,137,170	83,258,412
Profit for the financial year		–	–	–	–	31,103,058	31,103,058
Other comprehensive income, net of tax		–	–	–	–	–	–
Total comprehensive income		–	–	–	–	31,103,058	31,103,058
<b>Transactions with owners</b>							
Purchase of treasury shares	14(b)	–	–	(77,470)	–	–	(77,470)
Disposal of treasury shares	14(b)	–	211,500	235,393	–	–	446,893
Ordinary shares issued pursuant to:							
- bonus issue	14(a)	9,056,600	(9,056,600)	–	–	–	–
Share options granted under ESOS	21	–	–	–	1,587,564	–	1,587,564
Dividends paid	25	–	–	–	–	(18,098,963)	(18,098,963)
Total transactions with owners		9,056,600	(8,845,100)	157,923	1,587,564	(18,098,963)	(16,141,976)
Balance as at 31 December 2016		27,169,800	6,320,865	–	1,587,564	63,141,265	98,219,494

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

# STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Company	Note	Non-distributable			Distributable	Total RM
		Share capital RM	Share premium RM	Treasury shares RM	Retained earnings RM	
Balance as at 1 January 2015		18,113,200	15,165,965	(74,347)	24,368,267	57,573,085
Profit for the financial year		—	—	—	22,185,849	22,185,849
Other comprehensive income, net of tax		—	—	—	—	—
Total comprehensive income		—	—	—	22,185,849	22,185,849
<b>Transactions with owners</b>						
Purchase of treasury shares	14(b)	—	—	(83,576)	—	(83,576)
Dividends paid	25	—	—	—	(16,288,171)	(16,288,171)
Total transactions with owners		—	—	(83,576)	(16,288,171)	(16,371,747)
Balance as at 31 December 2015		18,113,200	15,165,965	(157,923)	30,265,945	63,387,187

Company	Note	Non-distributable			Share options reserve	Distributable	Total RM
		Share capital RM	Share premium RM	Treasury shares RM	RM	Retained earnings RM	
Balance as at 1 January 2016		18,113,200	15,165,965	(157,923)	–	30,265,945	63,387,187
Profit for the financial year		–	–	–	–	9,650,582	9,650,582
Other comprehensive income, net of tax		–	–	–	–	–	–
Total comprehensive income		–	–	–	–	9,650,582	9,650,582
<b>Transactions with owners</b>							
Purchase of treasury shares	14(b)	–	–	(77,470)	–	–	(77,470)
Disposal of treasury shares	14(b)	–	211,500	235,393	–	–	446,893
Ordinary shares issued pursuant to:							
- bonus issue	14(a)	9,056,600	(9,056,600)	–	–	–	–
Share options granted under ESOS	21	–	–	–	1,587,564	–	1,587,564
Dividends paid	25	–	–	–	–	(18,098,963)	(18,098,963)
Total transactions with owners		9,056,600	(8,845,100)	157,923	1,587,564	(18,098,963)	(16,141,976)
Balance as at 31 December 2016		27,169,800	6,320,865	–	1,587,564	21,817,564	56,895,793

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

# STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		Group	Company		
	Note	2016 RM	2015 RM	2016 RM	2015 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before tax		<b>31,409,325</b>	26,387,043	<b>9,675,657</b>	21,832,796
Adjustments for:					
Property, plant and equipment written off		–	48,438	–	–
Dividend income from:					
- subsidiaries		–	–	<b>(10,080,000)</b>	(19,400,000)
- associate		–	–	<b>(756,000)</b>	(900,000)
- other investments		<b>(470,293)</b>	(423,346)	<b>(214,678)</b>	(309,424)
Dividend income from redeemable cumulative preference shares		<b>(728,000)</b>	–	<b>(728,000)</b>	–
Interest income		<b>(185,837)</b>	(74,425)	<b>(31,519)</b>	(35,150)
Inventories written off	10(d)	<b>84,574</b>	–	–	–
Unrealised gain on foreign exchange		<b>(640,952)</b>	(1,890,472)	<b>(24,073)</b>	(890,536)
Share of profit of associates	9(e)	<b>(147,204)</b>	(73,772)	–	–
Share options granted under ESOS		<b>1,587,564</b>	–	<b>302,970</b>	–
Amortisation of prepaid lease payment	6	<b>63,842</b>	63,842	–	10,640
Depreciation of investment properties	7	<b>83,326</b>	83,323	–	–
Gain on disposal of property, plant and equipment		–	–	–	(2,700,852)
Loss/(Gain) on fair value adjustment on other investments		<b>952,499</b>	(889,469)	<b>840,437</b>	(713,000)
Gain on disposal of other investments		<b>(105,746)</b>	(1,564,316)	<b>(73,071)</b>	(1,564,316)
Impairment loss on:					
- trade receivables	11(h)	<b>18,600</b>	–	–	–
- other receivables	11(h)	<b>82,226</b>	–	–	–
Impairment loss on investment in subsidiary	8(d)	–	–	–	4,940,708
Depreciation of property, plant and equipment	5	<b>520,550</b>	537,042	<b>113,822</b>	191,764
Operating profit/(loss) before working capital changes		<b>32,524,474</b>	22,203,888	<b>(974,455)</b>	462,630
(Increase)/Decrease in inventories		<b>(2,590,295)</b>	620,722	–	1,377,866
(Increase)/Decrease in trade and other receivables		<b>(1,541,876)</b>	(6,770,166)	<b>9,526,389</b>	(5,454,214)
Increase/(Decrease) in trade and other payables		<b>3,484,405</b>	2,140,472	<b>(1,029,168)</b>	(2,079,807)
Cash generated from/(used in) operations		<b>31,876,708</b>	18,194,916	<b>7,522,766</b>	(5,693,525)
Tax paid		<b>(303,153)</b>	(436,165)	<b>(70,250)</b>	(198,332)
Tax refunded		<b>438,373</b>	–	<b>423,785</b>	–
Net cash from/(used in) operating activities		<b>32,011,928</b>	17,758,751	<b>7,876,301</b>	(5,891,857)

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

# STATEMENTS OF CASH FLOWS (CONT'D)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		Group		Company	
	Note	2016 RM	2015 RM	2016 RM	2015 RM
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Dividend received from subsidiaries		–	–	<b>10,080,000</b>	19,400,000
Dividend received from an associate	9(e)	<b>756,000</b>	900,000	<b>756,000</b>	900,000
Interest received		<b>185,837</b>	74,425	<b>31,519</b>	35,150
Proceeds from disposal of other investments		<b>63,931,570</b>	48,504,024	<b>18,578,861</b>	28,297,296
Proceeds from disposal of property, plant and equipment		–	17,671	–	–
Purchase of other investments		<b>(82,250,760)</b>	(41,942,596)	<b>(25,900,000)</b>	(18,457,560)
Purchase of property, plant and equipment	5	<b>(429,280)</b>	(278,199)	–	(6,013)
Subscription for redeemable cumulative preference shares in an associate	9(c)	–	(8,400,000)	–	(8,400,000)
Net cash (used in)/from investing activities		<b>(17,806,633)</b>	(1,124,675)	<b>3,546,380</b>	21,768,873
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Purchase of treasury shares	14(b)	<b>(77,470)</b>	(83,576)	<b>(77,470)</b>	(83,576)
Disposal of treasury shares	14(b)	<b>446,893</b>	–	<b>446,893</b>	–
Dividends paid	25	<b>(18,098,963)</b>	(16,288,171)	<b>(18,098,963)</b>	(16,288,171)
Net cash used in financing activities		<b>(17,729,540)</b>	(16,371,747)	<b>(17,729,540)</b>	(16,371,747)
Net changes in cash and cash equivalents		<b>(3,524,245)</b>	262,329	<b>(6,306,859)</b>	(494,731)
Effects of exchange rate changes on cash and cash equivalents		<b>53,905</b>	1,688,948	<b>24,073</b>	890,536
Cash and cash equivalents at beginning of the financial year		<b>15,112,568</b>	13,161,291	<b>6,718,206</b>	6,322,401
Cash and cash equivalents at end of the financial year	13	<b>11,642,228</b>	15,112,568	<b>435,420</b>	6,718,206

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

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016

## 1. CORPORATE INFORMATION

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

The Company's registered office is located at 39, Salween Road, 10050 Penang.

The principal place of business of the Company is located at Plot 85B, Lintang Bayan Lepas 9, Bayan Lepas Industrial Park, Phase 4, 11900 Penang.

The consolidated financial statements for the financial year ended 31 December 2016 comprise the financial statements of the Company and its subsidiaries and the interests of the Group in associates. The financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency.

The financial statements were authorised for issue in accordance with a resolution by the Board of Directors on 21 April 2017.

## 2. PRINCIPAL ACTIVITIES

The Company is principally involved in research, design and development of test, burn-in and application specific embedded system. The principal activities of the subsidiaries are set out in Note 8 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

## 3. BASIS OF PREPARATION

The financial statements of the Group and of the Company set out on pages 40 to 73 have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the provisions of the Companies Act, 1965 in Malaysia.

However, Note 32 to the financial statements set out on page 74 has been prepared in accordance with Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad.

The financial statements of the Group and of the Company have been prepared under the historical cost convention except as otherwise stated in financial statements.

## 4. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs

### 4.1 New MFRSs adopted during the financial year

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2016, the Group and the Company adopted the following Standards that are mandatory for annual financial periods beginning on or after 1 January 2016.

Title	Effective Date
MFRS 14 <i>Regulatory Deferral Accounts</i>	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128 <i>Investment Entities: Applying the Consolidation Exception</i>	1 January 2016
Amendments to MFRS 11 <i>Accounting for Acquisitions of Interests in Joint Operations</i>	1 January 2016
Amendments to MFRS 101 <i>Disclosure Initiative</i>	1 January 2016
Amendments to MFRS 116 and MFRS 138 <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016
Amendments to MFRS 116 and MFRS 141 <i>Agriculture: Bearer Plants</i>	1 January 2016
Amendments to MFRS 127 <i>Equity Method in Separate Financial Statements</i>	1 January 2016
Amendments to MFRSs <i>Annual Improvements to MFRSs 2012-2014 Cycle</i>	1 January 2016

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 4. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs (cont'd)

### 4.1 New MFRSs adopted during the financial year (cont'd)

There is no material impact upon the adoption of these Standard and Amendments during the financial year, other than the adoption of Amendments MFRS 101 Disclosure Initiative, which resulted in the following:

- a) Grouping together supporting information for items presented in the statements of financial position, statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows, in the order in which each statement and each line item is presented.
- b) Disclosures of only significant accounting policies comprising the measurement bases used in preparing the financial statements and other accounting policies that are relevant to the financial statements.

### 4.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2017

The Standards that are issued but not yet effective up to the date of issuance of financial statements of the Group and of the Company are disclosed below. The Group and the Company intend to adopt these Standards, if applicable, when they become effective.

Title	Effective Date
Amendments to MFRS 12 <i>Annual Improvements to MFRS Standards 2014 - 2016 Cycle</i>	1 January 2017
Amendments to MFRS 107 <i>Disclosure Initiative</i>	1 January 2017
Amendments to MFRS 112 <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	1 January 2017
Amendments to MFRS 1 <i>Annual Improvements to MFRS Standards 2014 - 2016 Cycle</i>	1 January 2018
MFRS 9 <i>Financial Instruments (IFRS 9 as issued by IASB in July 2014)</i>	1 January 2018
MFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
Clarifications to MFRS 15	1 January 2018
Amendments to MFRS 2 <i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
Amendments to MFRS 128 <i>Annual Improvements to MFRS Standards 2014 - 2016 Cycle</i>	1 January 2018
Amendments to MFRS 140 <i>Transfers of Investment Property</i>	1 January 2018
IC Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
Amendments to MFRS 4 <i>Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts</i>	See MFRS 4 Paragraphs 46 and 48
MFRS 16 <i>Leases</i>	1 January 2019
Amendments to MFRS 10 and MFRS 128 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Deferred

The Group and the Company are in the process of assessing the impact of implementing these Standards, since the effects would only be observable for the future financial years.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 5. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold factory building RM	Industrial and research and development equipment RM	Motor vehicles RM	Furniture and fittings, office and other equipment RM	Electrical installation and renovation RM	Total RM
<b>At cost</b>						
Balance as at 1 January 2016	17,246,515	643,545	189,940	711,521	263,411	19,054,932
Additions	170,238	153,079	–	77,832	28,131	429,280
Balance as at 31 December 2016	17,416,753	796,624	189,940	789,353	291,542	19,484,212
<b>Accumulated depreciation</b>						
Balance as at 1 January 2016	1,273,862	527,451	160,014	457,313	230,018	2,648,658
Current charge	305,717	73,831	29,925	83,994	27,083	520,550
Balance as at 31 December 2016	1,579,579	601,282	189,939	541,307	257,101	3,169,208
<b>Carrying amount</b>						
Balance as at 31 December 2016	15,837,174	195,342	1	248,046	34,441	16,315,004
<b>At cost</b>						
Balance as at 1 January 2015	17,185,930	662,453	247,535	1,160,642	316,533	19,573,093
Additions	60,585	69,611	–	144,603	3,400	278,199
Disposal	–	(59,200)	–	–	–	(59,200)
Written off	–	(29,319)	(57,595)	(593,724)	(56,522)	(737,160)
Balance as at 31 December 2015	17,246,515	643,545	189,940	711,521	263,411	19,054,932
<b>Accumulated depreciation</b>						
Balance as at 1 January 2015	969,951	537,290	187,683	907,483	239,460	2,841,867
Current charge	303,911	58,239	29,926	114,420	30,546	537,042
Disposal	–	(41,529)	–	–	–	(41,529)
Written off	–	(26,549)	(57,595)	(564,590)	(39,988)	(688,722)
Balance as at 31 December 2015	1,273,862	527,451	160,014	457,313	230,018	2,648,658
<b>Carrying amount</b>						
Balance as at 31 December 2015	15,972,653	116,094	29,926	254,208	33,393	16,406,274

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

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

	Industrial and research and development equipment RM	Furniture and fittings, office and other equipment RM	Electrical installation and renovation RM	Total RM
<b>Company</b>				
<b>At cost</b>				
Balance as at 1 January 2016/ 31 December 2016	573,934	598,173	260,011	1,432,118
<b>Accumulated depreciation</b>				
Balance as at 1 January 2016	514,858	444,439	229,678	1,188,975
Current charge	30,111	58,798	24,913	113,822
Balance as at 31 December 2016	544,969	503,237	254,591	1,302,797
<b>Carrying amount</b>				
Balance as at 31 December 2016	28,965	94,936	5,420	129,321

	Leasehold factory building RM	Industrial and research and development equipment RM	Furniture and fittings, office and other equipment RM	Electrical installation and renovation RM	Total RM
<b>Company</b>					
<b>At cost</b>					
Balance as at 1 January 2015	17,185,930	573,934	592,160	260,011	18,612,035
Additions	–	–	6,013	–	6,013
Disposal	(17,185,930)	–	–	–	(17,185,930)
Balance as at 31 December 2015	0	573,934	598,173	260,011	1,432,118
<b>Accumulated depreciation</b>					
Balance as at 1 January 2015	969,951	476,622	366,823	204,386	2,017,782
Current charge	50,620	38,236	77,616	25,292	191,764
Disposal	(1,020,571)	–	–	–	(1,020,571)
Balance as at 31 December 2015	–	514,858	444,439	229,678	1,188,975
<b>Carrying amount</b>					
Balance as at 31 December 2015	–	59,076	153,734	30,333	243,143

- (a) All items of property, plant and equipment are initially measured at cost. After initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.
- (b) Depreciation is calculated to write off the cost of the assets to their residual values on a straight line basis over their estimated useful lives. The principal annual depreciation rates are as follows:

Leasehold factory building	2%
Industrial and research and development equipment	14 - 33%
Motor vehicles	20%
Furniture and fittings, office and other equipment	8 - 33%
Electrical installation and renovation	10 - 20%

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 6. PREPAID LEASE PAYMENT

	Balance as at 1.1.2016 RM	Amortisation charge for the financial year RM	Balance as at 31.12.2016 RM
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### Group

#### Carrying amount

Short term leasehold land	3,080,587	(63,842)	3,016,745
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	At 31.12.2016	
	Cost RM	Accumulated amortisation RM
Short term leasehold land	3,830,522	(813,777)

	Balance as at 1.1.2015 RM	Amortisation charge for the financial year RM	Balance as at 31.12.2015 RM
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### Group

#### Carrying amount

Short term leasehold land	3,144,429	(63,842)	3,080,587
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	At 31.12.2015	
	Cost RM	Accumulated amortisation RM
Short term leasehold land	3,830,522	(749,935)

	Balance as at 1.1.2015 RM	Amortisation charge for the financial year RM	Disposal RM	Balance as at 31.12.2015 RM
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### Company

#### Carrying amount

Short term leasehold land	3,144,429	(10,640)	(3,133,789)	—
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	At 31.12.2015	
	Cost RM	Accumulated amortisation RM
Short term leasehold land	3,830,522	(696,733)

The short term leasehold land of the Group has remaining tenure of 48 (2015: 49) years.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 7. INVESTMENT PROPERTIES

	Balance as at 1.1.2016 RM	Depreciation charge for the financial year RM	Balance as at 31.12.2016 RM
<b>Group</b>			
<b>Carrying amount</b>			
Leasehold land and building	3,095,248	(83,326)	3,011,922
	←	At 31.12.2016	→
	Cost RM	Accumulated depreciation RM	Carrying amount RM
Leasehold land and building	4,413,197	(1,401,275)	3,011,922
	Balance as at 1.1.2015 RM	Depreciation charge for the financial year RM	Balance as at 31.12.2015 RM
<b>Carrying amount</b>			
Leasehold land and building	3,178,571	(83,323)	3,095,248
	←	At 31.12.2015	→
	Cost RM	Accumulated depreciation RM	Carrying amount RM
Leasehold land and building	4,413,197	(1,317,949)	3,095,248

- (a) Investment properties are properties which are held to earn rental yields or for capital appreciation or for both and are not occupied by the Group.

Investment properties are initially measured at cost, which includes transaction costs. After initial recognition, investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Investment properties are amortised on a straight line basis to write off the cost of the asset to their residual value over the estimated useful life at an annual rate of 2%.

At the end of each reporting period, the carrying amount of investment properties are assessed for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

- (b) Included in the investment properties is a leasehold office with a carrying amount of RM135,926 (2015: RM140,206) for which strata title has yet to be issued by the relevant authority to the Group.
- (c) The fair value of the investment properties for disclosure purposes, which are at Level 3 fair value are estimated at approximately RM5.6 million (2015: RM5.1 million) based on Directors' estimation by reference to market evidence of transaction prices for similar properties and recent experience in the location and category of the properties being valued.
- (d) Direct operating expenses arising from investment properties generating rental income during the financial year are as follows:

	<b>Group</b>	
	<b>2016 RM</b>	<b>2015 RM</b>
Repairs and maintenance	10,500	38,990
Quit rent and assessment	33,749	33,695

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 7. INVESTMENT PROPERTIES (cont'd)

- (e) Rental income from investment properties recognised in profit or loss during the financial year is disclosed in Note 20 to the financial statements.

## 8. INVESTMENT IN SUBSIDIARIES

	Company	
	2016 RM	2015 RM
Unquoted shares, at cost	31,864,845	31,864,845
Share option paid to employees of a subsidiary	1,284,594	–
Less: Impairment losses	(4,940,708)	(4,940,708)
	<b>28,208,731</b>	<b>26,924,137</b>

- (a) Investment in subsidiaries are stated in the separate financial statements at cost less impairment losses.

- (b) Details of the subsidiaries are as follows:

Name	Country of in-corporation	Equity interest held		Principal activities
		2016 %	2015 %	
Elsoft Systems Sdn. Bhd.	Malaysia	100	100	Design and production of test, burn-in and embedded test equipment and its related modules for electronic industry
Siangtronics Technology Sdn. Bhd.	Malaysia	100	100	Electronic devices and module assembly, test and burn-in system integration and producing customised manufacturing solutions
AGS Automation (Malaysia) Sdn. Bhd.	Malaysia	100	100	Dormant

- (c) In the previous financial year, the Company disposed off a property to its subsidiary, Elsoft Systems Sdn. Bhd. ("ESSB") for a total consideration of RM22,000,000. The settlement was made by way of issuance of 2,000,000 ordinary shares in ESSB at an issue price of RM11 per ordinary share comprising RM1 nominal amount and RM10 premium.
- (d) Impairment losses on investments in subsidiaries amounting to RM4,940,708 in respect of Siangtronics Technology Sdn. Bhd. and AGS Automation (Malaysia) Sdn. Bhd. have been recognised in the previous financial year due to declining business operations. The recoverable amounts were determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by the management covering a five (5) years period. The discount rate applied to the cash flow projections was eight point four percent (8.4%) based on the weighted average cost of capital of the Company.

## 9. INVESTMENT IN ASSOCIATES

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
<b>At cost:</b>				
Unquoted ordinary shares	6,570,000	6,570,000	6,570,000	6,570,000
Redeemable cumulative preference shares*	8,400,000	8,400,000	8,400,000	8,400,000
Negative goodwill	139,804	139,804	–	–
Share of post acquisition profit, net of dividend received	1,122,982	1,731,778	–	–
	<b>16,232,786</b>	<b>16,841,582</b>	<b>14,970,000</b>	<b>14,970,000</b>

- \* During the financial year, the Group and the Company held 38.5% (2015: 50%) in the Redeemable Cumulative Preference Shares ("RCPS").

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 9. INVESTMENT IN ASSOCIATES (cont'd)

(a) Investment in associates are stated in the separate financial statements at cost less impairment losses.

(b) The details of the associates are as follows:

Name	Country of in-incorporation	Equity interest held		Principal activities
		2016 %	2015 %	
Leso Corporation Sdn. Bhd.	Malaysia	30.00	30.00	Investment holding
Butterfly House (PG) Sdn. Bhd. *	Malaysia	21.16	21.16	Operate a butterfly farm

\* The financial statements of the associate are coterminous with those of the Group. In applying the equity method of accounting, the most recent available unaudited financial statements of the associate have been used. The use of unaudited financial statements is not expected to have any significant effects on the financial statements of the Group.

(c) In the previous financial year, the Company subscribed for 8,400,000 Redeemable Cumulative Preference Share ("RCPS") of its associate company, Butterfly House (PG) Sdn. Bhd. at an issue price of RM1 per RCPS for a total cash consideration of RM8,400,000.

(d) The summarised financial information of the associates are as follows:

	Leso Corporation Sdn. Bhd. RM	Butterfly House (PG) Sdn. Bhd. RM	Total RM
<b>2016</b>			
<b>Assets and liabilities</b>			
Non-current assets	2,891,575	50,246,273	53,137,848
Current assets	21,744,519	7,329,933	29,074,452
Non-current liabilities	–	(36,839,053)	(36,839,053)
Current liabilities	(3,059,302)	(14,311,123)	(17,370,425)
Net assets	21,576,792	6,426,030	28,002,822
<b>Results</b>			
Revenue	22,556,610	12,365,732	34,922,342
Profit/(Loss) for the financial year	3,952,951	(4,908,699)	(955,748)
Total comprehensive income/(loss)	3,952,951	(4,908,699)	(955,748)
Cash flows from operating activities	1,559,222	625,191	2,184,413
Cash flows from investing activities	1,469,197	(7,155,493)	(5,686,296)
Cash flows from financing activities	(2,520,000)	3,583,590	1,063,590
Net increase/(decrease) in cash and cash equivalents	508,419	(2,946,712)	(2,438,293)
<b>2015</b>			
<b>Assets and liabilities</b>			
Non-current assets	2,900,588	32,289,670	35,190,258
Current assets	19,794,872	11,436,296	31,231,168
Non-current liabilities	(1,700)	(22,430,040)	(22,431,740)
Current liabilities	(2,549,919)	(9,961,197)	(12,511,116)
Net assets	20,143,841	11,334,729	31,478,570
<b>Results</b>			
Revenue	23,268,361	3,166,606	26,434,967
Profit/(Loss) for the financial year	4,759,996	(6,399,938)	(1,639,942)
Total comprehensive income/(loss)	4,759,996	(6,399,938)	(1,639,942)
Cash flows from operating activities	2,896,769	317,404	3,214,173
Cash flows from investing activities	4,324,080	(21,739,664)	(17,415,584)
Cash flows from financing activities	(3,000,000)	21,366,045	18,366,045
Net increase/(decrease) in cash and cash equivalents	4,220,849	(56,215)	4,164,634

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 9. INVESTMENT IN ASSOCIATES (cont'd)

(e) The reconciliation of net assets of the associates to the carrying amount of the investment in associates are as follows:

	<b>Leso Corporation Sdn. Bhd. RM</b>	<b>Butterfly House (PG) Sdn. Bhd. RM</b>	<b>Total RM</b>
<b>As at 31 December 2016</b>			
Share of net assets of the Group/ Carrying amount in the statement of financial position	<b>6,473,038</b>	<b>9,759,748</b>	<b>16,232,786</b>
Share of profit or loss of the Group	<b>1,185,885</b>	<b>(1,038,681)</b>	<b>147,204</b>
Share of other comprehensive income of the Group	<b>–</b>	<b>–</b>	<b>–</b>
Share of total comprehensive income of the Group	<b>1,185,885</b>	<b>(1,038,681)</b>	<b>147,204</b>
<b>Other information</b>			
Dividend received	<b>756,000</b>	<b>–</b>	<b>756,000</b>
<b>As at 31 December 2015</b>			
Share of net assets of the Group/ Carrying amount in the statement of financial position	6,043,153	10,798,429	16,841,582
Share of profit or loss of the Group	1,427,999	(1,354,227)	73,772
Share of other comprehensive income of the Group	–	–	–
Share of total comprehensive income of the Group	1,427,999	(1,354,227)	73,772
<b>Other information</b>			
Dividend received	900,000	–	900,000

## 10. INVENTORIES

	<b>2016 RM</b>	<b>2015 RM</b>
<b>At cost:</b>		
Raw materials	<b>1,502,402</b>	1,392,154
Work-in-progress	<b>3,613,222</b>	1,217,749
	<b>5,115,624</b>	2,609,903

- Inventories are stated at the lower of cost and net realisable value.
- Cost of raw materials and work-in-progress is determined based on a weighted average basis.
- During the financial year, inventories of the Group and of the Company recognised as cost of sales amounted to RM17,828,268 (2015: RM16,064,911) and RM Nil (2015: RM1,438,803) respectively.
- The Group has written off inventories amounting to RM84,574 (2015: RM Nil) during the financial year.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 11. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
<b>Trade receivables</b>				
Third parties	21,505,355	19,254,647	–	67,031
Less: Impairment losses	(18,600)	(67,031)	–	(67,031)
	21,486,755	19,187,616	–	–
Amounts owing by subsidiaries	–	–	–	9,400,000
	21,486,755	19,187,616	–	9,400,000
<b>Other receivables</b>				
Other receivables	1,202,070	310,322	728,817	15,038
Less: Impairment losses	(82,226)	–	–	–
Amount owing by an associate	4,659	3,785	–	–
Deposits	184,755	353,655	2,705	113,605
	1,309,258	667,762	731,522	128,643
<b>Loans and receivables</b>	22,796,013	19,855,378	731,522	9,528,643
<b>Prepayments</b>				
Prepayments	23,374	194,337	–	1,268
<b>Total receivables</b>	22,819,387	20,049,715	731,522	9,529,911

- (a) Trade and other receivables classified as loans and receivables are measured at amortised cost using the effective interest method.
- (b) The Group and the Company's normal trade credit terms ranges from 30 to 90 days (2015: 30 to 90 days). They are recognised at their original invoice amount which represent their fair values on initial recognition.
- (c) Included in other receivables of the Group and the Company is dividend income from redeemable cumulative preference shares amounting to RM728,000 (2015: RM Nil).
- (d) Amounts owing by subsidiaries and an associate are unsecured, interest-free and payable on demand in cash and cash equivalents.
- (e) The currency exposure profile of loans and receivables are as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Ringgit Malaysia	5,435,332	6,554,163	731,522	9,528,643
US Dollar	17,360,681	13,301,215	–	–
	22,796,013	19,855,378	731,522	9,528,643

- (f) The ageing analysis of trade receivables of the Group and of the Company are as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Neither past due nor impaired	12,739,236	12,704,722	–	–
Past due, not impaired				
1 to 30 days	2,089,000	2,627,949	–	–
31 to 60 days	739,936	1,983,644	–	–
61 to 90 days	1,642,639	1,486,223	–	–
More than 90 days	4,275,944	385,078	–	–
	21,486,755	19,187,616	–	–
Past due and impaired	18,600	67,031	–	67,031
	21,505,355	19,254,647	–	67,031

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 11. TRADE AND OTHER RECEIVABLES (cont'd)

- (f) The ageing analysis of trade receivables of the Group and of the Company are as follows (cont'd):

### Trade receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group and the Company.

None of the Group's and the Company's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

### Trade receivables that are past due but not impaired

The Group have trade receivables amounting to RM8,747,519 (2015: RM6,482,894) respectively that are past due at the end of the reporting period but not impaired. Trade receivables of the Group that are past due but not impaired are unsecured in nature. The Group closely monitors the financial standing of these counter parties on an ongoing basis to ensure that the Group is exposed to minimal credit risk.

The management has assessed and concluded that these receivables are recoverable as these accounts are still active and is of the view that the amounts are recoverable based on past payment history.

- (g) Trade receivables of the Group that are past due and impaired at the end of the reporting period are as follows:

<b>Group and Company</b>	<b>Individually impaired</b>	
	<b>2016 RM</b>	<b>2015 RM</b>
Trade receivables, gross	<b>18,600</b>	67,031
Less: Impairment losses	<b>(18,600)</b>	(67,031)
	<b>–</b>	<b>–</b>

- (h) The reconciliation of movement in the impairment losses are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2016 RM</b>	<b>2015 RM</b>	<b>2016 RM</b>	<b>2015 RM</b>
<b>Trade receivables</b>				
At 1 January	<b>67,301</b>	67,301	<b>67,301</b>	67,301
Charge for the financial year (Note 20)	<b>18,600</b>	–	<b>–</b>	–
Written off	<b>(67,301)</b>	–	<b>(67,301)</b>	–
At 31 December	<b>18,600</b>	67,301	<b>–</b>	67,301
<b>Other receivables</b>				
At 1 January	<b>–</b>	–	<b>–</b>	–
Charge for the financial year (Note 20)	<b>82,226</b>	–	<b>–</b>	–
At 31 December	<b>82,226</b>	–	<b>–</b>	–
	<b>100,826</b>	67,301	<b>–</b>	67,301

Trade receivables that are past due and impaired are individually determined to be impaired at the end of the reporting period relate to those debtors that exhibit significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

The Group makes impairment of receivables based on an assessment of the recoverability of receivables. Impairment is applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyses historical bad debt, ageing profiles of the customers and past historical payment trends when making a judgement to evaluate the adequacy of impairment of receivables. Where expectations differ from the original estimates, the differences would impact the carrying amount of receivables.

- (i) Information on financial risks of trade and other receivables is disclosed in Note 28 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 12. OTHER INVESTMENTS

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Financial assets at fair value through profit or loss				
- quoted shares	493,500	1,581,000	493,500	1,581,000
- unit trust and bond funds	32,941,963	13,911,733	12,081,065	4,225,114
	<b>33,435,463</b>	<b>15,492,733</b>	<b>12,574,565</b>	<b>5,806,114</b>

- (a) Other investments classified as financial assets at fair value through profit or loss are measured at fair value.
- (b) These investments are grouped under Level 1 of the fair value hierarchy based on the degree to which the fair value is observable.

Level 1 fair value measurement are those derived from quoted prices (unadjusted) in active market for identical assets and liabilities.

## 13. CASH AND BANK BALANCES

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Short term funds	449,738	429,000	–	–
Cash and bank balances	11,192,490	14,683,568	435,420	6,718,206
	<b>11,642,228</b>	<b>15,112,568</b>	<b>435,420</b>	<b>6,718,206</b>

- (a) Short term funds represent highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.
- (b) Information on financial risk of cash and bank balances are disclosed in Note 28 to the financial statements.
- (c) The currency exposure profile of cash and bank balances are as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Ringgit Malaysia	1,375,528	1,894,846	308,656	187,146
US Dollar	10,245,680	13,208,211	126,764	6,531,060
Others	21,020	9,511	–	–
	<b>11,642,228</b>	<b>15,112,568</b>	<b>435,420</b>	<b>6,718,206</b>

## 14. SHARE CAPITAL AND TREASURY SHARES

### (a) Share capital

	Group and Company			
	Number of ordinary shares		Amount	
	2016	2015	2016 RM	2015 RM
Ordinary shares of RM0.10 each:				
Authorised	250,000,000	250,000,000	25,000,000	25,000,000
Issued and fully paid				
At 1 January	181,132,000	181,132,000	18,113,200	18,113,200
Bonus issue capitalised from share premium account	90,565,998	–	9,056,600	–
At 31 December	<b>271,697,998</b>	<b>181,132,000</b>	<b>27,169,800</b>	<b>18,113,200</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 14. SHARE CAPITAL AND TREASURY SHARES (cont'd)

### (a) Share capital (cont'd)

- (i) During the financial year, the issued and paid-up capital of the Company was increased from RM18,113,200 to RM27,169,800 by way of bonus issue of 90,565,998 new ordinary shares of RM0.10 each at par entirely capitalised from the Company's share premium account, on the basis of one (1) bonus share for every two (2) existing shares held.
- (ii) The owners of the parent (except treasury shares) are entitled to receive dividends as and when declared by the Company and are entitled to one (1) vote per ordinary share at meetings of the Company. All ordinary shares rank pari passu with regard to the residual asset of the Company.

### (b) Treasury shares

The shareholders of the Company, by an ordinary resolution passed at the Annual General Meeting ("AGM") held on 20 May 2016, renewed the approval for the Company to repurchase its own shares.

	Group and Company			
	Number of ordinary shares of RM0.10 each		Amount	
	2016	2015	2016 RM	2015 RM
<b>Treasury shares</b>				
Balance at 1 January	(180,100)	(120,100)	(157,923)	(74,347)
Purchase of treasury shares	(41,000)	(60,000)	(77,470)	(83,576)
Disposal of treasury shares	221,100	–	235,393	–
Balance at 31 December	–	(180,100)	–	(157,923)

- (i) When the Group repurchase its own shares, the shares repurchased would be accounted for using the treasury stock method.

Where the treasury stock method is applied, the shares repurchased and held as treasury shares shall be measured and carried at the cost of repurchase on initial recognition and subsequently. It shall not be revalued for subsequent changes in the fair value or market price of the shares.

The carrying amount of the treasury shares shall be offset against equity in the statement of financial position. To the extent that the carrying amount of the treasury shares exceeds the share premium account, it shall be considered as a reduction of any other reserves as may be permitted by the Companies Act, 1965 in Malaysia.

No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the own equity instruments of the Company. If such shares are issued by resale, any difference between the sales consideration and the carrying amount is shown as a movement in equity.

- (ii) The amount relates to the acquisition cost of treasury shares net of the proceeds received on their subsequent sale or issuance.

During the financial year, the Company repurchased 41,000 (2015: 60,000) issued ordinary shares from the open market at an average price of RM1.89 (2015: RM1.39) per share. The total consideration paid for the repurchased shares was RM77,470 (2015: RM 83,576). Subsequently, the Company had disposed of 221,100 (2015: Nil) treasury shares valued at RM2.02 (2015: RM Nil) for a total net consideration of RM446,893 in the open market, resulting in a surplus of RM211,500 which has been credited to the share premium account.

Of the total 271,697,998 (2015: 181,132,000) issued and fully paid ordinary shares as at 31 December 2016, Nil (2015: 180,100) are held as treasury shares by the Company. As at 31 December 2016, the number of outstanding ordinary shares in issue after the set-off against the treasury shares is therefore 271,697,998 (2015: 180,951,900) ordinary shares of RM0.10 each.

Treasury shares have no rights to voting, dividends or participate in other distribution.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 15. RESERVES

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
<b>Non-distributable:</b>				
Share premium	6,320,865	15,165,965	6,320,865	15,165,965
Share options reserve	1,587,564	–	1,587,564	–
	<b>7,908,429</b>	15,165,965	<b>7,908,429</b>	15,165,965
<b>Distributable:</b>				
Retained earnings	63,141,265	50,137,170	21,817,564	30,265,945
	<b>71,049,694</b>	65,303,135	<b>29,725,993</b>	45,431,910

The share options reserve represents the equity-settled share options granted to employees. This reserve is made up of the cumulative value of services received from employees recorded on the grant date of share options.

## 16. DEFERRED TAX LIABILITIES

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Balance as at 1 January	571,293	524,500	2,400	457,800
Recognised in profit or loss	16,686	46,793	(2,400)	(455,400)
Balance as at 31 December	<b>587,979</b>	571,293	–	2,400

The components and movements of deferred tax liabilities during the financial year are as follows:

Group	Property, plant and equipment RM
Balance as at 1 January 2016	571,293
Recognised in profit or loss	16,686
Balance as at 31 December 2016	<b>587,979</b>
Balance as at 1 January 2015	524,500
Recognised in profit or loss	46,793
Balance as at 31 December 2015	<b>571,293</b>
<b>Company</b>	
Balance as at 1 January 2016	2,400
Recognised in profit or loss	(2,400)
Balance as at 31 December 2016	–
Balance as at 1 January 2015	457,800
Recognised in profit or loss	(455,400)
Balance as at 31 December 2015	<b>2,400</b>

## 17. TRADE AND OTHER PAYABLES

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
<b>Trade payables</b>				
Third parties	5,510,892	2,710,220	–	–
<b>Other payables</b>				
Other payables	99,759	699,735	10,616	632,811
Accruals	6,837,405	5,617,121	206,266	613,239
Deposits received	321,350	244,350	–	–
	<b>12,769,406</b>	9,271,426	<b>216,882</b>	1,246,050

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 17. TRADE AND OTHER PAYABLES (cont'd)

- (a) Trade and other payables classified as other financial liabilities are measured at amortised cost using the effective interest method.
- (b) Trade and other payables are non-interest bearing and the normal credit term granted to the Group and to the Company ranged from 30 to 120 days (2015: 30 to 120 days).
- (c) The currency exposure profile of trade and other payables are as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Ringgit Malaysia	10,514,276	8,463,930	216,882	1,018,536
Singapore Dollar	86,098	15,169	–	–
US Dollar	2,169,032	792,327	–	227,514
	<b>12,769,406</b>	<b>9,271,426</b>	<b>216,882</b>	<b>1,246,050</b>

## 18. COMMITMENTS

Operating lease commitments

- (a) The Group as lessor
- (i) The Group has entered into a cancellable operating lease arrangement on its investment property which is required to give a three-month notice for the termination of the agreement.
- (ii) The Group has also entered into a non-cancellable operating lease arrangement on certain investment property for a term of two (2) years. The lease includes a clause to enable upward revision of the rental charge on an annual basis depending on prevailing market conditions.
- (b) The future aggregate minimum lease receivables under non-cancellable operating lease contracted for as at the reporting date are as follows:

	Group	
	2016 RM	2015 RM
Future minimum lease receivables:		
Not later than 1 year	16,560	2,760
Later than 1 year and not later than 5 years	2,760	–
	<b>19,320</b>	<b>2,760</b>

## 19. REVENUE

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Sale of goods	63,613,371	49,741,262	–	2,804,766

Revenue from sale of goods is recognised when significant risk and rewards of ownership of the goods has been transferred to the customer and where the Group retains neither continuing managerial involvement over the goods, which coincides with the delivery of goods and acceptance by customers, net of discounts.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 20. PROFIT BEFORE TAX

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Profit before tax is arrived after charging:				
Auditors' remuneration:				
- current provision	58,500	56,000	16,000	34,000
Amortisation of prepaid lease payment (Note 6)	63,842	63,842	-	10,640
Depreciation of property, plant and equipment (Note 5)	520,550	537,042	113,822	191,764
Depreciation of investment properties (Note 7)	83,326	83,323	-	-
Employees benefits (Note 21)	11,336,650	8,378,118	525,683	664,052
Impairment loss on trade receivable (Note 11(h))	18,600	-	-	-
Impairment loss on other receivable (Note 11(h))	82,226	-	-	-
Impairment loss on investment in subsidiaries (Note 8(d))	-	-	-	4,940,708
Inventories written off (Note 10(d))	84,574	-	-	-
Loss on fair value adjustment on other investments	952,499	-	840,437	-
Property, plant and equipment written off	-	48,438	-	-
Realised loss on foreign exchange	-	-	576,446	-
and crediting:				
Rental income				
- property, plant and equipment	682,500	433,000	-	78,000
- investment properties	700,560	670,560	-	-
Compensation received	25,000	-	25,000	-
Dividend income received from:				
- subsidiaries	-	-	10,080,000	19,400,000
- associate	-	-	756,000	900,000
- other investments	470,293	423,346	214,678	309,424
Dividend income from redeemable cumulative preference shares	728,000	-	728,000	-
Gain on disposal of:				
- other investments	105,746	1,564,316	73,071	1,564,316
- short term funds	489,407	290,924	123,000	160,174
Gain on disposal of property, plant and equipment	-	-	-	2,700,852
Gain on fair value adjustment on other investments	-	889,469	-	713,000
Income from government grant	-	210,616	-	210,616
Realised gain on foreign exchange	29,127	1,207,906	-	151,493
Unrealised gain on foreign exchange	640,952	1,890,472	24,073	890,536
Interest income	185,837	74,425	31,519	35,150

(a) Dividend income is recognised when the right to receive payment is established.

(b) Interest income is recognised as it accrues, using the effective interest method.

(c) Rental income is recognised on accruals basis.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 21. EMPLOYEE BENEFITS

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Research and development staff:				
Director's				
- remuneration	916,770	766,410	-	418,850
- defined contribution plan	102,942	145,619	-	79,582
- social security contribution	1,483	1,240	-	620
	<b>1,021,195</b>	913,269	-	499,052
Other staff				
- salaries, wages and bonus	4,362,326	3,838,359	-	-
- defined contribution plan	335,768	489,790	-	-
- social security contribution	17,731	14,500	-	-
- share options granted under ESOS	745,307	-	-	-
	<b>6,482,327</b>	5,255,918	-	499,052
Non-research and development staff:				
Director's				
- fee	179,000	165,000	179,000	165,000
- remuneration	14,178	-	14,178	-
- defined contribution plan	28,662	-	28,662	-
- social security contribution	873	-	873	-
- share options granted under ESOS	302,970	-	302,970	-
Other staff				
- salaries, wages and bonus	3,509,875	2,612,246	-	-
- defined contribution plan	253,167	324,214	-	-
- social security contribution	26,311	20,740	-	-
- share options granted under ESOS	539,287	-	-	-
	<b>4,854,323</b>	3,122,200	<b>525,683</b>	165,000
<b>Total employee benefits</b>	<b>11,336,650</b>	8,378,118	<b>525,683</b>	664,052

## 22. EMPLOYEES SHARE OPTION SCHEME ("ESOS")

The ESOS of the Company came into effect on 1 April 2016. The ESOS shall be in force for a period of five (5) years until 31 March 2021. The main features of the ESOS are as follows:

- The total number of new ordinary shares which are available to be issued under the ESOS shall not exceed ten percent (10%) of the total issued and fully paid-up share capital of the Company (excluding treasury shares) at any time throughout the duration of the ESOS.
- Any employee (including executive directors) of the Group shall be eligible to participate in the ESOS if, as at the date of offer, the employee is at least 18 years of age and is a full time employee.
- Any director of the Company or any company in the Group who have been appointed to the Board shall be eligible to participate in the ESOS if, as at the date of offer, the director is at least 18 years of age.
- The ESOS shall be valid for a duration of 5 years from the effective date.
- The exercise price shall be determined based on the weighted average market price of shares for the 5 market days immediately preceding the date of offer with a discount of not more than 10% or at the par value of the shares, whichever is higher.
- The options granted are exercisable on a time proportion basis over the duration of the ESOS. The employee's entitlement to the options is vested as soon as they become exercisable.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 22. EMPLOYEES SHARE OPTION SCHEME ("ESOS") (cont'd)

- (g) The new shares to be allotted and issued upon exercise of any options granted under the scheme will, upon allotment and issuance, rank pari passu in all respects with the then existing shares and paid-up shares in the Company, save and except that the new shares so allotted and issued will not be entitled to any right, dividend, allotment and/or distribution declared, made or paid, the entitlement date of which precedes the date of exercise of the options.

During the financial year, the exercise prices and number of options over ordinary shares have been adjusted in accordance with the provision of the By-Laws as a result of the bonus issues.

The details of the options over ordinary shares of the Company are as follows :

	← Number of options over ordinary shares of RM0.10 each →				
	Outstanding as at 1-1-2016	Granted	Bonus issued	Outstanding as at 31-12-2016	Exercisable as at 31-12-2016
<b>Grant date</b>					
2 June 2016	—	6,550,000	3,275,000	<b>9,825,000</b>	<b>1,965,000</b>
Weighted average exercise price (RM)	—	1.50	(0.50)	<b>1.00</b>	<b>1.00</b>
Weighted average remaining contractual life (months)	—				<b>51</b>

The adjustment to the exercise price of ESOS are as follows:

	Exercise price per Share Option	
	Before adjustment	After bonus issues
<b>Grant date</b>		
2 June 2016	1.50	1.00

The details of share options outstanding at the end of the reporting period are as follows:

	Weighted average exercise price 2016 RM	Exercise period
<b>Grant date</b>		
2 June 2016	1.00	2.6.2016 - 31.3.2021

There were no share options exercised during the financial year.

The fair value of share options granted during the financial year was estimated by using the Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The risk-free rate is based on Malaysian Government Securities ("MGSs"). The fair value of share options measured at grant date and the assumptions are as follows:

	2 June 2016 RM
Fair value of share options at the following grant dates (RM)	<b>0.51</b>
Weighted average share price (RM)	<b>1.52</b>
Weighted average exercise price (RM)	<b>1.50</b>
Expected volatility (%)	<b>41.68</b>
Expected life (years)	<b>4.83</b>
Risk free rate (%)	<b>3.77</b>
Expected dividend yield (%)	<b>2.53</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 23. TAXATION

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Current year provision	<b>299,928</b>	293,372	<b>7,134</b>	101,087
(Over)/Underprovision of tax expense in prior years	<b>(10,347)</b>	1,522	<b>20,341</b>	1,260
	<b>289,581</b>	294,894	<b>27,475</b>	102,347
Deferred tax:				
Relating to origination and reversal of temporary differences	<b>46,333</b>	35,293	<b>(3,200)</b>	(472,900)
(Over)/Underprovision of deferred tax liabilities in prior years	<b>(29,647)</b>	11,500	<b>800</b>	17,500
	<b>16,686</b>	46,793	<b>(2,400)</b>	(455,400)
Total taxation	<b>306,267</b>	341,687	<b>25,075</b>	(353,053)

The Malaysian income tax is calculated at the statutory tax rate of twenty-four percent (24%) (2015: 25%) of the estimated taxable profits for the fiscal year.

The numerical reconciliations between the taxation and the product of accounting profit multiplied by the applicable tax rates of the Group and of the Company are as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Profit before tax	<b>31,409,325</b>	26,387,043	<b>9,675,657</b>	21,832,796
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	<b>7,538,300</b>	6,596,761	<b>2,322,200</b>	5,458,199
Income not subject to tax	<b>(590,740)</b>	(1,434,018)	<b>(2,887,100)</b>	(6,461,197)
Tax exempt income under pioneer status	<b>(7,721,800)</b>	(5,614,236)	–	–
Expenses not deductible for tax purposes	<b>1,155,801</b>	798,600	<b>568,834</b>	631,185
Effect on share of profit in associate	<b>(35,300)</b>	(18,442)	–	–
	<b>346,261</b>	328,665	<b>3,934</b>	(371,813)
(Over)/Underprovision of taxation in prior years	<b>(10,347)</b>	1,522	<b>20,341</b>	1,260
(Over)/Underprovision of deferred tax liabilities in prior years	<b>(29,647)</b>	11,500	<b>800</b>	17,500
Taxation for the financial year	<b>306,267</b>	341,687	<b>25,075</b>	(353,053)

## 24. EARNINGS PER SHARE

### (a) Basic earnings per share (sen)

Basic earnings per share of the Group is calculated by dividing profit for the financial year attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the financial year (adjusted for treasury shares) held by the Company.

	2016 RM	2015 RM
Profit attributable to equity holders of the parent	<b>31,103,058</b>	26,045,356
Weighted average number of ordinary shares in issue	<b>181,151,885</b>	180,985,653
Effect of:		
- Bonus issue	<b>90,565,998</b>	90,565,998
Adjusted weighted average number of ordinary shares applicable to basic earnings per ordinary share	<b>271,717,883</b>	271,551,651
Basic earnings per ordinary share (sen)	<b>11.45</b>	9.59

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 24. EARNINGS PER SHARE (cont'd)

(b) Diluted earnings per share

Diluted earnings per ordinary share for the financial year is calculated by dividing the profit for the financial year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the financial year adjusted for the effects of dilutive potential ordinary shares.

	2016 RM	2015 RM
Profit attributable to equity holders of the parent	<b>31,103,058</b>	26,045,356
Weighted average number of ordinary shares in issue applicable to basic earnings per ordinary share	<b>271,717,883</b>	271,551,651
Effect of dilution:		
- employee share options	<b>1,901,600</b>	–
Adjusted weighted average number of ordinary shares applicable to diluted earnings per ordinary share	<b>273,619,483</b>	271,551,651
Basic earnings per ordinary share (sen)	<b>11.37</b>	9.59

## 25. DIVIDENDS

	Group and Company			
	2016		2015	
	Gross dividend per share sen	Amount of dividend net of tax RM	Gross dividend per share sen	Amount of dividend net of tax RM
In respect of the financial year ended 31 December 2016				
First interim dividends	3	5,427,327	–	–
Second interim dividends	3	5,433,960	–	–
In respect of the financial year ended 31 December 2015				
Third interim dividends	4	7,237,676	–	–
	<b>10</b>	<b>18,098,963</b>	–	–
In respect of the financial year ended 31 December 2015				
First interim dividends	–	–	2	3,619,038
Second interim dividends	–	–	2	3,619,038
In respect of the financial year ended 31 December 2014				
Second interim dividends	–	–	5	9,050,095
	–	–	9	16,288,171
Total dividends	<b>10</b>	<b>18,098,963</b>	9	16,288,171

On 23 February 2017, the Directors declared a third single tier interim dividend of RM0.02 per ordinary share and a special dividend of RM0.02 per ordinary share in respect of the financial year ended 31 December 2016, amounting to RM10,867,920, which is payable on 20 April 2017. The financial statements for the current financial do not reflect this dividend. This Dividend, will be accounted for as an appropriation of retained earning during the financial year ending 31 December 2017.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 26. SIGNIFICANT RELATED PARTY DISCLOSURES

### (a) Identities of related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties could be individuals or other parties.

The Company has controlling related party relationship with its direct subsidiaries.

### (b) In addition to the transactions and balances detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year:

	<b>Company</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
Subsidiaries:		
Sales of raw materials	–	1,045,046
Dividend income	<b>10,080,000</b>	19,400,000
Sales of property, plant and equipment	–	22,000,000
Associate:		
Dividend income	<b>756,000</b>	900,000
Dividend income from redeemable cumulative preference shares	<b>728,000</b>	–
Rental income	–	12,000

The related party transactions described above were carried out on negotiated terms and conditions and mutually agreed with the related parties.

Information regarding outstanding balances arising from related party transactions as at 31 December 2016 is disclosed in Note 11 to the financial statements.

### (c) Compensation of key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly and indirectly, including any director (whether executive or otherwise) of the Group and of the Company.

The remuneration of Directors and other key management personnel during the financial year was as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>Directors</b>				
Fees	<b>179,000</b>	165,000	<b>179,000</b>	165,000
Remuneration	<b>930,948</b>	766,410	<b>14,178</b>	418,850
Defined contribution plan	<b>131,604</b>	145,619	<b>28,662</b>	79,582
Share options granted under share option scheme	<b>302,970</b>	–	<b>302,970</b>	–
<b>Other key management personnel</b>				
Short term employee benefits	<b>216,500</b>	195,850	–	–
Defined contribution plan	<b>41,135</b>	37,212	–	–

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 27. FINANCIAL INSTRUMENTS

### (a) Capital management

The primary objective of the capital management of the Group is to ensure that entities of the Group would be able to continue as going concerns whilst maximising return to shareholders through the optimisation of the debt and equity ratios. The overall strategy of the Group remains unchanged from that in the previous financial year.

The Group manages its capital structure and makes adjustments to it in response to changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial years ended 31 December 2016 and 31 December 2015.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debts. The Group includes within net debt, trade and other payables, less cash and bank balances. Capital includes equity attributable to the equity holders of the Group less the fair value adjustment reserve.

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Trade and other payables	12,769,406	9,271,426	216,882	1,246,050
Less: Cash and bank balances	(11,642,228)	(15,112,568)	(435,420)	(6,718,206)
Net debt/(cash)	1,127,178	(5,841,142)	(218,538)	(5,472,156)
Total capital	98,219,494	83,258,412	56,895,793	63,387,187
Net debt	1,127,178	—	—	—
Equity	99,346,672	83,258,412	56,895,793	63,387,187
Gearing ratio (%)	1%	*	*	*

\* Gearing ratio is not presented as the Group and the Company is in net cash position.

Pursuant to the requirements of Practice Note No. 17/2005 of the Bursa Malaysia Securities, the Group is required to maintain a consolidated shareholders' equity equal to or not less than the 25% of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM40.0 million. The Company has complied with this requirement for the financial year ended 31 December 2016.

### (b) Categories of financial instruments

Group	Note	Loans and receivables RM	Fair value through profit or loss RM	Total RM
<b>2016</b>				
<b>Financial assets</b>				
Trade and other receivables, excludes prepayments	11	22,796,013	—	22,796,013
Other investments	12	—	33,435,463	33,435,463
Cash and bank balances	13	11,642,228	—	11,642,228
		34,438,241	33,435,463	67,873,704
			<b>Other financial liabilities</b>	
			<b>RM</b>	
<b>Financial liability</b>				
Trade and other payables	17			12,769,406

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 27. FINANCIAL INSTRUMENTS (cont'd)

(b) Categories of financial instruments (cont'd)

Group	Note	Loans and receivables RM	Fair value through profit or loss RM	Total RM
<b>2015</b>				
<b>Financial assets</b>				
Trade and other receivables, excludes prepayments	11	19,855,378	–	19,855,378
Other investments	12	–	15,492,733	15,492,733
Cash and bank balances	13	15,112,568	–	15,112,568
		<u>34,967,946</u>	<u>15,492,733</u>	<u>50,460,679</u>

### Other financial liabilities RM

<b>Financial liability</b>				
Trade and other payables	17			<u>9,271,426</u>

Company	Note	Loans and receivables RM	Fair value through profit or loss RM	Total RM
<b>2016</b>				
<b>Financial assets</b>				
Trade and other receivables excludes prepayments	11	731,522	–	731,522
Other investments	12	–	12,574,565	12,574,565
Cash and bank balances	13	435,420	–	435,420
		<u>1,166,942</u>	<u>12,574,565</u>	<u>13,741,507</u>

### Other financial liabilities RM

<b>Financial liability</b>				
Trade and other payables	17			<u>216,882</u>

Company	Note	Loans and receivables RM	Fair value through profit or loss RM	Total RM
<b>2015</b>				
<b>Financial assets</b>				
Trade and other receivables excludes prepayments	11	9,528,643	–	9,528,643
Other investments	12	–	5,806,114	5,806,114
Cash and bank balances	13	6,718,206	–	6,718,206
		<u>16,246,849</u>	<u>5,806,114</u>	<u>22,052,963</u>

### Other financial liabilities RM

<b>Financial liability</b>				
Trade and other payables	17			<u>1,246,050</u>

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 27. FINANCIAL INSTRUMENTS (cont'd)

- (c) Methods and assumptions used to estimate fair value

The fair values of financial assets and financial liabilities are determined as follows:

- (i) Financial instruments that are not carried at fair value and whose carrying amounts are a reasonable approximation of fair value.

The carrying amounts of financial assets and liabilities, such as trade and other receivables, trade and other payables, are reasonable approximation of fair value, due to their short-term nature at the end of the reporting period.

- (ii) Quoted unit trust and bond funds

The fair value of quoted investments in Malaysia is determined by reference to the exchange quoted market bid prices at the close of the business on the end of the reporting period.

Fair value hierarchy is disclosed in Note 12.

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The financial risk management objective of the Group is to optimise value creation for shareholders whilst minimising the potential adverse impact arising from fluctuations in foreign currency exchange and the unpredictability of the financial markets.

The Group is exposed mainly to credit risk, foreign currency risk, liquidity and cash flow risk. Information on the management of the related exposures is detailed below.

- (i) Credit risk

Cash deposits and trade receivables could give rise to credit risk which requires the loss to be recognised if a counter party fails to perform as contracted. The counter parties are creditworthy debtors with good payment records with the Group and the Company. It is the policy of the Group to monitor the financial standing of these counter parties on an ongoing basis to ensure that the Group is exposed to minimal credit risk.

The primary exposure of the Group to credit risk arises through its trade receivables. The trading terms of the Group with its customers are mainly on credit, except for new customers, where deposits in advance are normally required. The credit period is generally for a period of one (1) month, extending up to four (4) months for major customers. Each customer has a maximum credit limit and the Group seeks to maintain strict control over its outstanding receivables via a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. For other financial assets (including investment securities, cash and bank balances and derivatives), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

Information regarding credit enhancements for trade and other receivables is disclosed in Note 11 to the financial statements.

### Credit risk concentration profile

The Group determines concentration of credit risk by monitoring the country and industry sector profiles of its trade receivables on an ongoing basis. The credit risk concentration profile of the Group's and the Company's trade receivables at the end of the reporting period are as follows:

	Group			
	2016 RM	2016 % of total	2015 RM	2015 % of total
<b>By country:</b>				
Malaysia	14,609,277	68%	15,163,379	79%
People's Republic of China	5,777,642	27%	3,187,762	17%
Taiwan	937,522	4%	742,078	4%
Others	162,314	1%	94,397	0%
	<b>21,486,755</b>	<b>100%</b>	<b>19,187,616</b>	<b>100%</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

### (i) Credit risk (cont'd)

At the end of the reporting period, approximately 66% (2015: 75%) of the Group's trade receivables were due from one (2015: one) major customer who is multi-industry conglomerates.

#### Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 11 to the financial statements. Deposits with banks and other financial institutions and investment securities that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

#### Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 11 to the financial statements.

### (ii) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group transacts in various foreign currencies. Foreign currencies exchange risk arises when the Group enters into transactions that are in a currency that is other than the functional currency such as US Dollar ("USD") and Singapore Dollar ("SGD"). The Group does not engage into any hedging transactions.

The following table demonstrates the sensitivity of the Group's profit net of tax to a reasonably possible change in the USD and SGD exchange rates against Ringgit Malaysia, with all other variables held constant.

	Group		Company	
	2016	2015	2016	2015
	Profit after tax	Profit after tax	Profit after tax	Profit after tax
	RM	RM	RM	RM
	Increase/ (Decrease)	Increase/ (Decrease)	Increase/ (Decrease)	Increase/ (Decrease)
USD/RM				
- Strengthen by 3%	763,120	772,413	3,803	189,106
- Weaken by 3%	(763,120)	(772,413)	(3,803)	(189,106)
SGD/RM				
- Strengthen by 3%	(2,440)	(392)	-	-
- Weaken by 3%	2,440	392	-	-

### (iii) Liquidity and cash flow risk

Liquidity risk arises from the Group's and the Company's management of working capital. It is the risk that the Group and the Company will encounter difficulty in meeting its financial obligations when due.

The Group and the Company monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's and the Company's operations and to mitigate the effects of fluctuations in cash flows.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

The table below summarises the maturity profile of the Group's and the Company's liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

<b>Group</b>	<b>Note</b>	<b>On demand or within one year RM</b>
<b>As at 31 December 2016</b>		
<b>Financial liability:</b>		
Trade and other payables	17	<u>12,769,406</u>
Total undiscounted financial liability		<u>12,769,406</u>
<b>As at 31 December 2015</b>		
<b>Financial liability:</b>		
Trade and other payables	17	<u>9,271,426</u>
Total undiscounted financial liability		<u>9,271,426</u>
<b>Company</b>		
<b>As at 31 December 2016</b>		
<b>Financial liability:</b>		
Trade and other payables	17	<u>216,882</u>
Total undiscounted financial liability		<u>216,882</u>
<b>As at 31 December 2015</b>		
<b>Financial liability:</b>		
Trade and other payables	17	<u>1,246,050</u>
Total undiscounted financial liability		<u>1,246,050</u>

## 29. OPERATING SEGMENTS

Information about operating segments has not been reported separately as the Group's revenue, profit or loss, assets and liabilities are mainly confined to a single operating segment, namely research, design and development of test, burn-in and application specific embedded system.

### (a) Geographical information

The manufacturing facilities and sales offices of the Group are primarily based in Malaysia.

In presenting information on the basis of geographical areas, segment revenue is based on the geographical location from which the sale transactions originated.

All the assets and liabilities of the Group are derived from Malaysia. Hence, no additional disclosure is made on geographical breakdown/ details of the segment assets of the Group.

Revenue information based on the geographical location of customers is as follows:

	<b>2016 RM</b>	<b>2015 RM</b>
Malaysia	<b>49,882,338</b>	44,364,808
China	<b>7,218,564</b>	3,960,088
Taiwan	<b>6,008,184</b>	1,111,207
Others	<b>504,285</b>	305,159
	<b><u>63,613,371</u></b>	<u>49,741,262</u>

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 29. OPERATING SEGMENTS (cont'd)

### (b) Major customer

A major customer with revenue equal or more than ten (10) percent of the Group's revenue amounting to RM47,346,725 (2015: RM32,817,230).

## 30. SIGNIFICANT EVENTS DURING THE YEAR

Elsoft Research Berhad ("Elsoft") had made an announcement to the Bursa Malaysia Securities Berhad on 28 March 2016, 29 March 2016 and 6 April 2016 that the Company and its wholly owned subsidiary company, AGS Automation (M) Sdn. Bhd. ("AGS") had been added as the second and third Defendants for an alleged infringement of patent. Elsoft and AGS have been served the Amended Writ of Summons together with the Amended Statement of Claim.

On 8 April 2016, Elsoft announced that the cost, general damages and exemplary damages arising from this legal suit cannot be quantified. However, in the event that interlocutory injunction is obtained, the Company and AGS are compelled to stop production of such alleged Infringing Product and this may have material and adverse financial and operation impact to Elsoft.

On 22 July 2016, Elsoft announced that the Kuala Lumpur Intellectual Property High Court had allowed the application to set aside the Anton Piller Order dated 21 January 2016 made by all the Defendants, including the 2nd and 3rd Defendants. Besides that, the High Court also ordered that damages suffered by the Defendants, including the 2nd and 3rd Defendants as a result of the execution of the Anton Piller Order be assessed. Further, the Court dismissed the Plaintiff's application to extend and expand the interlocutory injunction against all the Defendants, including the 2nd and 3rd Defendants. The Plaintiff is also ordered to pay cost amounting to RM25,000 to the 2nd and 3rd Defendants.

On 15 February 2017, Elsoft announced that Pentamaster Instrumentation Sdn Bhd, the Plaintiff in Kuala Lumpur High Court Civil Suit No. 22IP-65-11/2015 ("the suit"), has on 15 February 2017 formally withdrawn its case against, among others, Elsoft and its wholly-owned subsidiary company AGS, being the 2nd and 3rd Defendants in the suit. The suit was originally fixed for full trial on 15th to 17th and 20th to 23rd February 2017 before the Kuala Lumpur Intellectual Property High Court.

Elsoft also been notified that the Kuala Lumpur Intellectual Property High Court has on 15 February 2017 accordingly, upon the application made by the solicitors for Pentamaster to formally withdraw the suit against all the defendants, struck off the suit with no order as to costs and with no liberty to file fresh. With the order of striking off duly pronounced by the Court, the suit against Elsoft and AGS is officially terminated by Pentamaster.

## 31. COMPANIES ACT, 2016

The Companies Act, 2016 (New Act) was enacted to replace the Companies Act, 1965 and was passed by Parliament on 4 April 2016. The New Act was subsequently gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade, Co-operatives and Consumerism announced that the effective date of the New Act, except for section 241 and Division 8 of Part III of the New Act, to be 31 January 2017.

Amongst the key changes introduced in the New Act, which will affect the financial statements of the Group and of the Company, are the removal of the authorised share capital, introduction of no par value shares in place of par or nominal value shares, and the treatment of share premium and capital redemption reserves.

The adoption of the New Act does not have any financial impact on the Group and the Company for the financial year ended 31 December 2016 as any accounting implications will only be applied prospectively, if applicable, and the effect of adoption mainly will be on the disclosures to the financial statements of the Group and of the Company for the financial year ending 31 December 2017.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2016

## 32. SUPPLEMENTARY INFORMATION ON REALISED AND UNREALISED

### PROFITS OR LOSSES

The retained earnings as at the end of each reporting period may be analysed as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Total retained earnings of the Company and its subsidiaries:				
- Realised	<b>67,409,159</b>	50,126,468	<b>22,633,928</b>	28,664,809
- Unrealised	<b>(899,526)</b>	2,208,649	<b>(816,364)</b>	1,601,136
	<b>66,509,633</b>	52,335,117	<b>21,817,564</b>	30,265,945
Total share of retained earnings from associates:				
- Realised	<b>1,230,780</b>	1,900,565	-	-
- Unrealised	<b>32,006</b>	(28,983)	-	-
	<b>67,772,419</b>	54,206,699	<b>21,817,564</b>	30,265,945
Less: Consolidation adjustments	<b>(4,631,154)</b>	(4,069,529)	-	-
Total retained earnings as per consolidated financial statements	<b>63,141,265</b>	50,137,170	<b>21,817,564</b>	30,265,945

# STATISTICS OF SHAREHOLDINGS

## SHARE CAPITAL AS AT 31 MARCH, 2017

Number of issued shares : RM 27,320,350.00  
 Class of share : Ordinary Shares  
 Voting right : One vote for one ordinary share

## DISTRIBUTION OF SHAREHOLDERS AS AT 31 MARCH, 2017

Size of Holdings	No. of Holders	%	No. of Shares	%
Less than 100	15	0.84	448	0.00
100 – 1,000	582	32.73	141,400	0.05
1,001 – 10,000	713	40.10	3,237,250	1.19
10,001 – 100,000	362	20.36	11,493,050	4.21
100,001 – Less than 5%	101	5.69	76,662,200	28.07
Above 5%	5	0.28	181,569,150	66.48
	<b>1,778</b>	<b>100.00</b>	<b>273,103,498*</b>	<b>100.00</b>

*\*Excluding of 100,000 treasury shares*

## TOP THIRTY SHAREHOLDERS AS AT 31 MARCH, 2017

Name	Shareholdings	%
1 TAN CHEIK EAIK	67,665,600	24.78%
2 TAN AI JIEW	35,476,500	12.99%
3 KOAY KIM CHIEW	31,865,025	11.67%
4 TAN AH LEK	26,349,375	9.65%
5 TAN CHEIK KOOI	20,212,650	7.40%
6 CHAN HONG HENG	12,331,500	4.52%
7 TAY CHENG KOON	12,331,500	4.52%
8 DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR EASTSPRING INVESTMENTSSMALL-CAP FUND	2,872,200	1.05%
9 CIMSEC NOMINEES (TEMPATAN) SDN. BHD. CIMB FOR LIM KA KIAN (PB)	2,630,700	0.96%
10 CITIGROUP NOMINEES (ASING) SDN. BHD. EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 14)	2,539,200	0.93%
11 GOLDEN FRESH SDN. BHD.	2,280,000	0.83%
12 LAU KHENG TAT	2,145,000	0.79%
13 HSBC NOMINEES (TEMPATAN) SDN. BHD. HSBC (M) TRUSTEE BHD FOR RHB SMALL CAP OPPORTUNITY UNIT TRUST	1,984,650	0.73%
14 TAN CHENG CHUA	1,800,000	0.66%
15 YAP WING CHUN	1,590,000	0.58%
16 GOH KEE LEONG	1,575,650	0.58%
17 LIN, CHIN-HSIUNG	1,500,000	0.55%
18 CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. UNIVERSAL TRUSTEE (MALAYSIA) BERHAD FOR CIMB ISLAMIC SMALL CAP FUND	1,377,550	0.50%
19 RHB NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITES ACCOUNT FOR LIM HOOI CHUAN	1,234,500	0.45%

## STATISTICS OF SHAREHOLDINGS (CONT'D)

### TOP THIRTY SHAREHOLDERS AS AT 31 MARCH, 2017 (cont'd)

	Name	Shareholdings	%
20	CHONG ENG KEAT @ TEOH ENG KEAT	1,125,000	0.41%
21	HUANG, MAO-HSIUNG	1,050,000	0.38%
22	LIM KA KIAN	1,005,000	0.37%
23	DB (MALAYSIA) NOMINEE (ASING) SDN BHD THE BANK OF NEW YORK MELLON FOR SLG INTERNATIONAL OPPORTUNITIES, L.P.	938,100	0.34%
24	ANG HOOI ENG	930,000	0.34%
25	SAW HAI EARN	860,000	0.31%
26	WAN SIEW CHOO	841,350	0.31%
27	HOONG KIM CHAI	810,000	0.30%
28	LI CHUNG-HSIEN	750,000	0.27%
29	CITIGROUP NOMINEES (TEMPATAN) SDN BHD KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (ESPG IV SC E)	735,300	0.27%
30	OOI TOON KIT	720,000	0.26%
	<b>Total</b>	<b>239,526,350</b>	<b>87.71%</b>

### DIRECTORS' SHAREHOLDINGS AS AT 31 MARCH, 2017

	Name	Direct Shareholdings	%	Indirect Shareholdings	%
1	Tan Cheik Eaik	67,665,600	24.78	—	—
2	Tan Ai Jiew	35,476,500	12.99	2,400,000*	0.88
3	Koay Kim Chiew	31,865,025	11.67	—	—
4	Tan Ah Lek	26,349,375	9.65	22,500	0.01
5	Dato' Dr Chong Eng Keat @ Teoh Eng Keat	1,125,000	0.41	—	—
6	Ooi Toon Kit	720,000	0.26	—	—

\* Deemed interested through the shareholdings of his/her children pursuant to Section 59 (1)(C) of the Companies Act, 2016

### SUBSTANTIAL SHAREHOLDERS (EXCLUDING BARE TRUSTEES) ACCORDING TO THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 31 MARCH, 2017

	Name	Direct Shareholdings	%	Indirect Shareholdings	%
1	Tan Cheik Eaik	67,665,600	24.78	—	—
2	Tan Ai Jiew	35,476,500	12.99	2,400,000*	0.88
3	Koay Kim Chiew	31,865,025	11.67	—	—
4	Tan Ah Lek	26,349,375	9.65	22,500	0.01
5	Tan Cheik Kooi	20,212,650	7.40	—	—

\* Deemed interested through the shareholdings of his/her children pursuant to Section 59 (1)(C) of the Companies Act, 2016

# LIST OF LANDED PROPERTIES

Name of Registered Owner/ Title Identification	Approximate Age of Building/ Tenure/ Date of Expiry of Lease	Description/ Existing Use	Land Area/ Built Up Area	Restriction in Interest/ Encumbrances	Prices Paid/ Date of Transaction/ Date of Issuance of Certificate of Fitness	Carrying Amount as at 31.12.2016
Siangtronics Technology Sdn. Bhd. Plot 9, Medan Bayan Lepas, Technoplex, Bayan Lepas Industrial Zone Phase 4, Bayan Lepas, 11900 Penang erected on the leasehold land held under No. HSD 16397 No. Lot PT 5047 Daerah Barat Daya, Mukim 12, Penang.	16 years/ Leasehold land 60 years/ 17.01.2062	2-story factory building/ Manufacturing plant, office and warehouse	87,370/ 22,000	(a) The land cannot be transferred, charged, leased or sub-leased, rented or encumbered in whatever manner without a written approval from the State Authority (b) The land cannot be subdivided or partitioned (c) The land and any building erected cannot be used for other usage other than approved by the Penang Development Corporation and State Authority	RM4,199,267/ 01.04.1999/ 06.09.2004	RM2,875,996
Siangtronics Technology Sdn. Bhd. 303-4-20, Krystal Point, Jalan Sultan Azlan Shah MK12, Penang erected on part of the land held under No. GM1333, No. Lot 12033 Tempat Sungai Nibong Mukim 12, Daerah Barat Daya, Penang.	16 years/ Freehold Building/ Not Applicable	Office lot/ Office	Not applicable/ 1,049	Nil	RM213,930/ 10.01.1997/ 02.10.1998	RM135,926
Elsoft Research Berhad Plot 85(b), Medan Bayan Lepas, Technoplex, Bayan Lepas Industrial Zone Phase 4, Bayan Lepas, 11900 Penang erected on the leasehold land held under No. Lot 85(b) Daerah Barat Daya, Mukim 12, Penang.	11 years/ Leasehold land 60 years/ 60 years from the date of alienation/ 11.9.2065	2-story factory building/ Manufacturing plant, office and warehouse	184,945/ 50,000	(a) The land cannot be transferred, charged, leased or sub-leased, rented or encumbered in whatever manner without a written approval from the State Authority (b) The land cannot be subdivided or partitioned (c) The land and any building erected cannot be used for other usage other than approved by the Penang Development Corporation and State Authority	RM10,499,352/ 05.11.2004/ 12.12.2006	RM8,736,255
	3 years/ Leasehold land 60 years/ 60 years from the date of alienation/ 11.9.2065	2-story factory building/ Manufacturing plant and office	184,945/ 92,000		RM10,517,100/ 31.12.2013/ 29.04.2014	RM10,117,664

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the Fourteenth Annual General Meeting of Elsoft Research Berhad ("the Company") will be held at the Conference Room of the Company, Plot 85B, Lintang Bayan Lepas 9, Bayan Lepas Industrial Park, Phase 4, 11900 Penang on Monday, 22 May 2017 at 11.00 a.m. for the transaction of the following business:

## AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 together with the Reports of the Directors and Auditors thereon.
2. To approve the payment of Directors' fees of not exceeding RM200,000.00 to the Non-Executive Directors for the financial year ending 31 December 2017.
3. To re-elect the following Directors retiring pursuant to Article 100 (1) of the Company's Constitution and who, being eligible, offer themselves for re-election:-
  - (i) Mr. Tan Cheik Eaik
  - (ii) Dato' Dr. Chong Eng Keat @ Teoh Eng Keat
4. To re-appoint Messrs. BDO as Auditors of the Company until the conclusion of the next annual general meeting and to authorise the Directors to fix their remuneration.

**Ordinary Resolution 1**

**Ordinary Resolution 2**  
**Ordinary Resolution 3**

**Ordinary Resolution 4**

## AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions, with or without modification, as Ordinary Resolutions:

### 5. **AUTHORITY UNDER SECTIONS 75 AND 76 OF THE COMPANIES ACT, 2016 FOR THE DIRECTORS TO ISSUE SHARES**

"THAT, subject always to the Companies Act, 2016 ("the Act"), the Constitution of the Company and the approvals of the relevant government and/or regulatory authorities, the Directors be and are hereby authorised, pursuant to Sections 75 and 76 of the Act, to allot and issue shares in the Company at any time until the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting is required by law to be held or revoked/varied by resolution passed by the shareholders in general meeting whichever is the earlier and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deemed fit, provided that the aggregate number of shares to be issued does not exceed 10% of the total number of issued shares of the Company for the time being and that the Directors are also empowered to obtain the approval from Bursa Malaysia Securities Berhad for the listing of and quotation for the additional shares to be issued."

**Ordinary Resolution 5**

### 6. **PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY**

"THAT, subject always to the Companies Act 2016, the provisions of the Company's Constitution, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and any other applicable laws, rules, regulations and guidelines for the time being in force, the Directors of the Company be and are hereby authorised to make purchase(s) of such amount of ordinary shares in the Company through Bursa Securities subject to the following:

- (a) The maximum number of shares which may be purchased and/or held by the Company shall be equivalent to 10% of the total number of issued shares of the Company ("Shares") for the time being;
- (b) The maximum fund to be allocated by the Company for the purpose of purchasing the Shares shall not exceed the aggregate of the retained profits of the Company. As of 31 December 2016, the audited retained profits of the Company was RM21,817,564.

# NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

## 6. PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (cont'd)

- (c) The authority conferred by this resolution will commence immediately upon passing of this ordinary resolution and will continue to be in force until:
- (i) the conclusion of the next annual general meeting of the Company following the general meeting at which such resolution was passed at which time it shall lapse unless by ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions; or
  - (ii) the expiration of the period within which the next annual general meeting of the Company after that date is required by law to be held; or
  - (iii) revoked or varied by ordinary resolution passed by the shareholders of the Company in general meeting,

whichever occurs first, but not so as to prejudice the completion of purchase(s) by the Company before the aforesaid expiry date and in any event, in accordance with the provisions of the Main Market Listing Requirements of Bursa Securities or any other relevant authority; and

- (d) upon completion of the purchase(s) of the Shares by the Company, the Directors of the Company be and are hereby authorised to deal with the Shares in the following manner:
- (i) cancel the Shares so purchased; or
  - (ii) retain the Shares so purchased as treasury shares; or
  - (iii) retain part of the Shares so purchased as treasury shares and cancel the remainder; or
  - (iv) distribute the treasury shares as share dividends to shareholders and/or resell on Bursa Securities and/or cancel all or part of them; or

in any other manner as prescribed by the Act, rules, regulations and guidelines pursuant to the Act and the requirements of Bursa Securities and any other relevant authority for the time being in force;

AND THAT the Directors of the Company be and are hereby authorized to take all steps as are necessary or expedient to implement or to effect the purchase(s) of the Shares with full power to assent to any condition, modification, variation and/or amendment as may be imposed by the relevant authorities and to take all such steps as they may deem necessary or expedient in order to implement, finalise and give full effect in relation thereto."

**Ordinary Resolution 6**

## 7. CONTINUATION IN OFFICE AS AN INDEPENDENT NON-EXECUTIVE DIRECTOR

"THAT, Dato' Dr. Chong Eng Keat @ Teoh Eng Keat be retained as Independent Non-Executive Director of the Company, in accordance with the Malaysian Code on Corporate Governance 2012 until the conclusion of the next Annual General Meeting."

**Ordinary Resolution 7**

## 8. RE-APPOINTMENT OF DIRECTOR

"THAT Mr. Ooi Toon Kit be and is hereby re-appointed as Director of the Company."

**Ordinary Resolution 8**

9. To transact any other business of which due notice shall have been given in accordance with the Company's Constitution and the Companies Act, 2016.

**By Order of the Board,**

**DATUK TAN LEH KIAH (MAICSA 719692)**  
**Ooi Yoong Yoong (MAICSA 7020753)**  
Secretaries

Penang  
28 April 2017

# NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

## Notes:-

### **Appointment of Proxy**

1. A proxy need not be an advocate, an approved company auditor or a person approved by the Registrar. There is no restriction as to the qualification of the proxy.
2. A member shall be entitled to appoint two (2) or more proxies to attend and vote at the same meeting.
3. Where a member appoints two (2) or more proxies, the appointments shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy.
4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing or, if the appointor is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorized.
5. Where a Member of the Company is an authorised nominee as defined under the Central Depositories Act, it may appoint at least 1 proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
6. Where a Member of the Company is an exempt authorized nominee as defined under the Central Depositories Act, which holds ordinary shares in the Company for multiple beneficial owners in one Securities Account ("omnibus account"), there is no limit to the number of proxies which the Exempt Authorized Nominee may appoint in respect of each omnibus account it holds.
7. To be valid, the proxy form duly completed must be deposited at the Registered Office, 39 Salween Road 10050 Penang not less than forty-eight hours before the time for holding the meeting or adjourned meeting.

### **General Meeting Record of Depositors**

8. Only a depositor whose name appears on the Record of Depositors of the Company as at 15 May 2017 shall be entitled to attend this Annual General Meeting or appoint proxies to attend, speak and/or vote on his/her behalf.

### **Ordinary Business**

9. **Ordinary Resolution 1 - Proposed payment of Directors' fees of not exceeding RM200,000.00 to the Non-Executive Directors for the financial year ending 31 December 2017**

The proposed Ordinary Resolution 1 is to facilitate the payment of Directors' fees on current year basis. In the event, the Directors' fees proposed is insufficient, the Board will sought the approval from the shareholders at the next Annual General Meeting for additional fees to meet the shortfall.

### **Special Business**

10. **Ordinary Resolution 5 - Authority under Sections 75 and 76 of the Companies Act, 2016 for the Directors to issue shares**

The proposed Ordinary Resolution 5, if passed, will give authority to the Board of Directors to issue and allot ordinary shares in the Company at any time in their absolute discretion and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the expiration of the period within which the next Annual General Meeting is required by law to be held or revoked/varied by resolution passed by the shareholders in general meeting whichever is the earlier.

As at the date of this Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the last Annual General Meeting which will lapse at the conclusion of the Fourteenth Annual General Meeting.

This renewed general mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to placing of shares, for purpose of funding future investment project(s), working capital and/or acquisitions.

11. **Ordinary Resolution 6 - Proposed Renewal of Share Buy-Back Authority**

The proposed Ordinary Resolution 6, if passed, will give the authority to the Company to purchase its own shares up to 10% of the total number of issued shares of the Company for the time being. This authority, unless renewed or revoked or varied by the shareholders of the Company in general meeting, will expire at the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting after that date is required by the law to be held, whichever occurs first.

Detail information on the Proposed Renewal of Share Buy-Back Authority are set out in pages 25 to 29 of the 2016 Annual Report.

# NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

## 12. Ordinary Resolution 7 - Continuation In Office As An Independent Non-Executive Director

Pursuant to the Malaysian Code on Corporate Governance 2012, the Board is making a recommendation to shareholders that Dato' Dr. Chong Eng Keat @ Teoh Eng Keat remains as Independent Non-Executive Director of the Company.

Dato' Dr. Chong Eng Keat @ Teoh Eng Keat has met the independence guidelines as set out in Chapter 1 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements.

The Board is of the view that Dato' Dr. Chong Eng Keat @ Teoh Eng Keat has performed his duties diligently and provided independent views in participating in deliberations and decision making of the Board and Board Committees. The length of his service on the Board does not in any way interfere with his duties as an Independent Non-Executive Director of the Company.

The Board believes that with Dato' Dr. Chong Eng Keat @ Teoh Eng Keat's expertise and broad international experience together with his accumulative knowledge of the Group's business and operation provide the Board with a diverse set of experience and expertise which enhances the skills and experience profile of the Board.

## 13. Ordinary Resolution 8 - Re-Appointment Of Mr. Ooi Toon Kit as Director of the Company

Mr. Ooi Toon Kit who was re-appointed as Director of the Company at the last AGM, shall hold office until the conclusion of the Fourteenth Annual General Meeting of the Company.

Mr. Ooi has offered himself for re-appointment as Director, accordingly, the Board is making a recommendation to the shareholders that Mr. Ooi Toon Kit be re-appointed as Director of the Company.

### Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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# ELSOFT RESEARCH BERHAD

(Company No. 617504-K)  
(Incorporated in Malaysia)

## PROXY FORM

CDS account no. :

\* I /We..... (\*I/C No./Passport No./Company No. ....)

of.....

being\* a member/members of the abovenamed Company, hereby appoint .....

..... (\*I/C No./Passport No./Company No. ....)

of.....

or failing whom, the Chairman, as \* my/our proxy to vote for \* me/us on \* my/our behalf at the Fourteenth Annual General Meeting of the Company to be held at the Conference Room of the Company, Plot 85B, Lintang Bayan Lepas 9, Bayan Lepas Industrial Park, Phase 4, 11900 Penang on Monday, 22 May 2017 at 11.00 a.m. and at any adjournment thereof, on the following resolutions referred to in the Notice of Fourteenth Annual General Meeting.

No.	Resolutions	Ordinary	For	Against
1.	To approve the payment of Directors' fees of not exceeding RM200,000.00 to the Non-Executive Directors for the financial year ending 31 December 2017	Resolution 1		
2.	To re-elect Mr. Tan Cheik Eaik as Director of the Company	Resolution 2		
3.	To re-elect Dato' Dr. Chong Eng Keat @ Teoh Eng Keat as Director of the Company	Resolution 3		
4.	To re-appoint Messrs. BDO as Auditors of the Company and to authorize the Directors to fix their remuneration.	Resolution 4		
5.	Authority under Sections 75 and 76 of the Companies Act, 2016 for the Directors to issue shares	Resolution 5		
6.	Proposed Renewal of Share Buy-Back Authority	Resolution 6		
7.	Continuation in office as an Independent Non-Executive Director - Dato' Dr. Chong Eng Keat @ Teoh Eng Keat	Resolution 7		
8.	Re-appointment of Mr. Ooi Toon Kit as Director of the Company	Resolution 8		

Please indicate with an "X" in the appropriate space provided above on how you wish your vote to be cast. If you do not indicate how you wish your proxy to vote on any resolution, the proxy may vote as he thinks fit.

The proportion of shareholdings to be represented by my proxies:

	No. of shares	Percentage
Proxy 1		
Proxy 2		
Total		100%

Signed this ..... day of ..... 2017

Number of shares held

\_\_\_\_\_  
Signature(s) of Member(s)

\* *Strike out whichever is not desired.*

Notes :-

1. A proxy need not be an advocate, an approved company auditor or a person approved by the Registrar. There is no restriction as to the qualification of the proxy.
2. A member shall be entitled to appoint two (2) or more proxies to attend and vote at the same meeting.
3. Where a member appoints two (2) or more proxies, the appointments shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy.
4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing or, if the appointor is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorized.
5. Where a Member of the Company is an authorised nominee as defined under the Central Depositories Act, it may appoint at least 1 proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
6. Where a Member of the Company is an exempt authorized nominee as defined under the Central Depositories Act, which holds ordinary shares in the Company for multiple beneficial owners in one Securities Account ("omnibus account"), there is no limit to the number of proxies which the Exempt Authorized Nominee may appoint in respect of each omnibus account it holds.
7. To be valid, the proxy form duly completed must be deposited at the Registered Office, 39 Salween Road 10050 Penang not less than forty-eight hours before the time for holding the meeting or adjourned meeting.

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Fold here



**ELSOFT RESEARCH BERHAD** (617504-K)

39 Salween Road  
10050 Penang

Fold here

**Plot 85B, Lintang Bayan Lepas 9  
Bayan Lepas Industrial Park  
Phase 4, 11900 Penang**

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Fax: 04-6433918  
Email: [info@elsoftresearch.com](mailto:info@elsoftresearch.com)

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