DUFU TECHNOLOGY CORP. BERHAD
200201013949 (581612-A)

Staying FOCUSED, *new growth*

Annual Report **2019**

Staying focused, driving new growth

Mainly red and blue hues are incorporated into this design, which is to reflect the company's logo and brand identity. Furthermore, the colour blue also represents confidence and reliability, while the colour red represents love and passion, which is in line with the company's promise to its clients, as well as the company's continuous strive in gaining customer satisfaction.

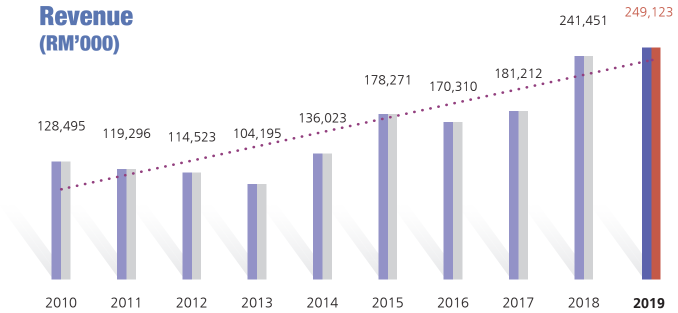
The design also incorporates hexagonal elements, as the hexagon is the strongest shape known, in terms of architectural elements. The sharp edges in the overall design also show the company's endeavour in spearheading the manufacturing industry to becoming one of the best.

Lastly, the various crosshairs in the middle of each hexagon also signify the company's constant determination and focus in achieving goals and broadening its potential, which aligns with the tagline "Staying focused, driving new growth".

06 Chairman's Statement

18 Group Financial Highlights

Revenue (RM'000)



23 Sustainability Statement

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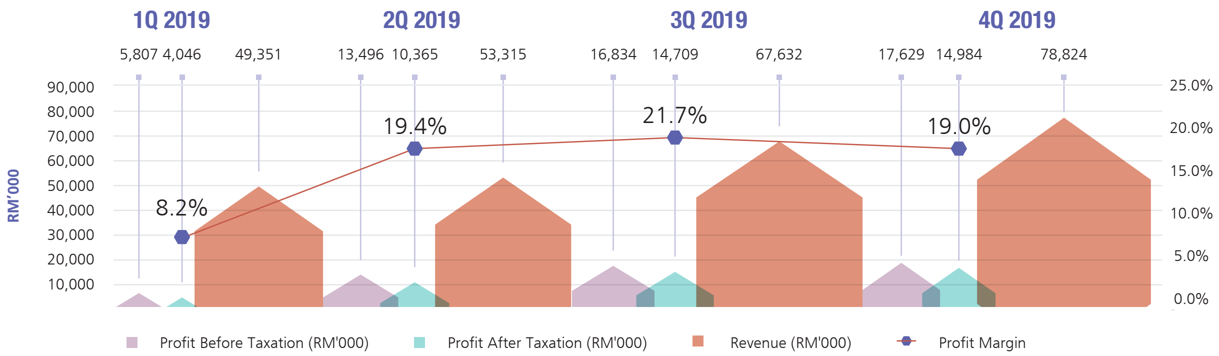
02 HIGHLIGHTS FOR YEAR 2019

Major Milestones since the beginning of 2019

Dufu celebrates its 12th anniversary of listing on Bursa Malaysia in 2019. Since listed on 26 February 2007, we have grown from a modest business, to emerge as one of the world's largest precision metal components for disk spacers supply to the Hard Disk Drives industry. The continuing high productivity of Dufu's work force; our focus on product quality, operational and service delivery excellence are the key success factors.

Financial Numbers Overview

The past year, especially the first half was a challenging one for the manufacturing sector, specifically the electrical and electronics of the technology sector. However, Dufu prevailed and it is heartening that the performance of the second half marked a solid rebound from the first half result.



REVENUE

RM **78.8** MILLION
generated for the 4th Quarter 2019

24.9% (YOY)

RM **249.1** MILLION
generated for the year 2019

3.2% (YOY)

PROFIT AFTER TAXATION

RM **15.0** MILLION
recorded for the 4th Quater 2019

0.3% (YOY)

RM **44.1** MILLION
recorded for the year 2019

14.9% (YOY)

HIGHLIGHTS
FOR YEAR 2019 (CONT'D)

03

Organizational Development

15 APRIL 2019

Accredited with

INTERNATIONAL AUTOMOTIVE TASK FORCE ("IATF") 16949:2016 CERTIFICATION

01 AUGUST 2019

Commencement of

FABRICATION AND ASSEMBLY OF SHEET METAL AND STAMPING OPERATION

at the new factory site at Bukit Minyak Industrial Park

Corporate Development

20 JANUARY 2020

The Board announce

THE PROPOSAL OF BONUS ISSUE OF 1 BONUS SHARE FOR EVERY 1 EXISTING SHARE HELD

12 JUNE 2019

Approval by

SHAREHOLDERS FOR THE ESTABLISHMENT OF EMPLOYEES' SHARE OPTION SCHEME

12 JUNE 2019

Shareholders gain a total of

12.2 MILLION NUMBER OF TREASURY SHARES WORTH RM19.89 MILLION

on the basis of one treasury shares for every twenty shares held

Market Capitalisation

16 JANUARY 2020

Dufu's share price close at

RM3.95

and ended with market capitalisation of

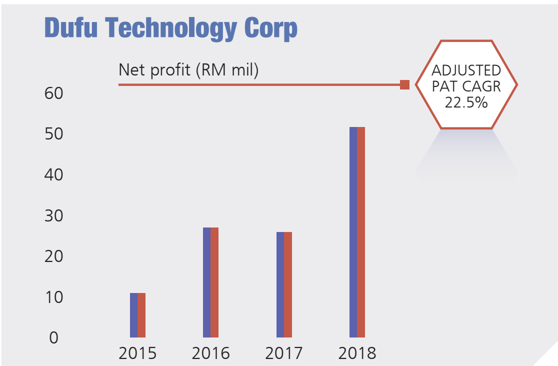
RM1.012 BILLION BREACHING THE RM1 BILLION MARK FOR THE FIRST TIME

Media Recognition

18 NOVEMBER 2019

Acknowledge as

THE HIGHEST GROWTH IN PROFIT AFTER TAX OVER THREE YEARS IN THE INDUSTRIAL PRODUCTS & SERVICES BY THE EDGE MALAYSIA CENTURION CLUB CORPORATE AWARDS 2019



04 CORPORATE INFORMATION

Board Of Directors

Lee, Hui-Ta also known as Li Hui Ta
Executive Chairman

Wu, Mao-Yuan
Executive Director

Sung, Cheng-Hsi
Independent Non-Executive Director

Joyce Wong Ai May
Independent Non-Executive Director

Yin, Chih-Chu also known as Laurence Yin
Independent Non-Executive Director

Lee Yoke Khay
Independent Non-Executive Director

Audit Committee

Chairman
Joyce Wong Ai May

Members
Sung, Cheng-Hsi
Yin, Chih-Chu also known as Laurence Yin
Lee Yoke Khay

Nominating Committee

Chairman
Lee Yoke Khay

Members
Sung, Cheng-Hsi
Joyce Wong Ai May
Yin, Chih-Chu also known as Laurence Yin

Remuneration Committee

Chairman
Lee Yoke Khay

Members
Joyce Wong Ai May
Sung, Cheng-Hsi
Yin, Chih-Chu also known as Laurence Yin

Investment Committee

Chairman
Yin, Chih-Chu also known as Laurence Yin

Members
Joyce Wong Ai May
Wu, Mao-Yuan
Lee Yoke Khay

Employees' Share Option Scheme Committee

Chairman
Lee, Hui-Ta also known as Li Hui Ta

Members
Yeoh Beng Hooi
Teoh Chiew Hong
David Khoo Chong Beng
Husri Bin Hussain

Company Secretaries

How Wee Ling (MAICSA 7033850)
Ooi Ean Hoon (MAICSA 7057078)

Auditors

Baker Tilly Monteiro Heng PLT
Chartered Accountants
(LLP0019411-LCA) (AF0117)
Baker Tilly Tower
Level 10, Tower 1, Avenue 5,
Bangsar South City
59200 Kuala Lumpur, Malaysia
Tel : 603-22971000
Fax : 603-22829980

Registered Office

57-G Persiaran Bayan Indah
Bayan Bay, Sungai Nibong
11900 Penang
Tel : 604-6408932
Fax : 604-6438911

Head Office

19, Hilir Sungai Keluang 2
Taman Perindustrian Bayan Lepas
Phase IV, 11900 Penang, Malaysia
Tel : 604-6161300
Fax : 604-6161372
Website : www.dufutechnology.com

Registrar

Securities Services (Holdings) Sdn. Bhd.
(Company No. 36869-T)
Level 7, Menara Milenium
Jalan Damanlela,
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur
Tel : 603-20849000
Fax : 603-20949940

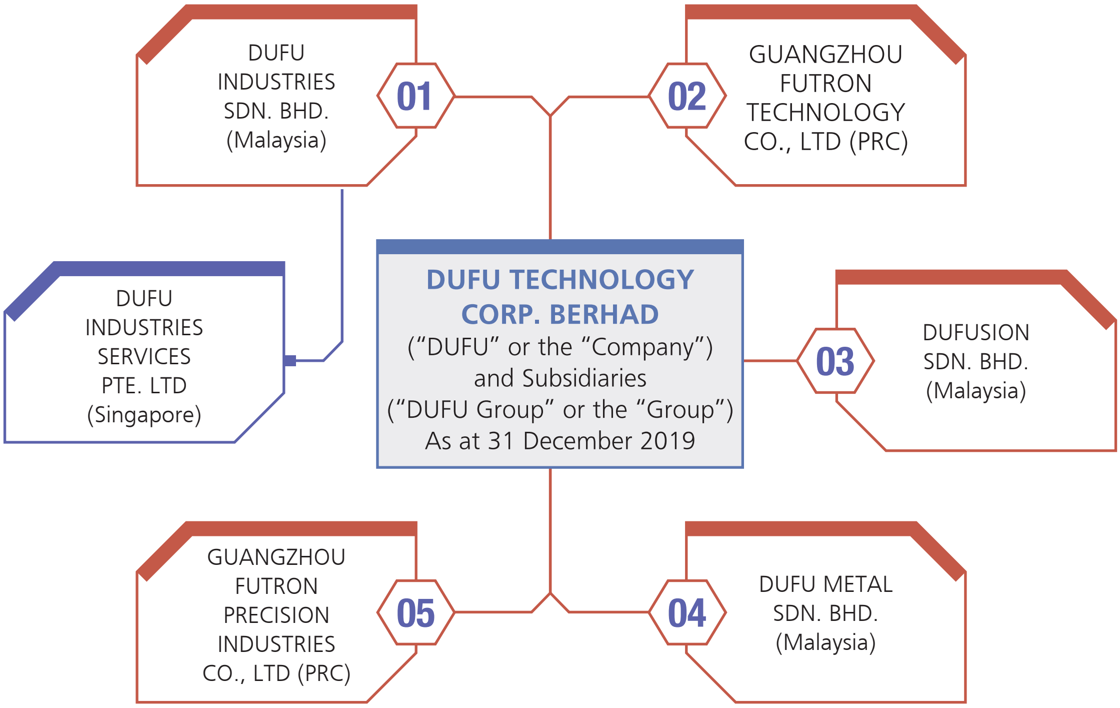
Principal Bankers

AmBank (M) Berhad
Citibank Berhad
Malayan Banking Berhad
Public Bank Berhad
Standard Chartered Bank Berhad
United Overseas Bank (Malaysia) Bhd

Stock Exchange Listing

Main Market of Bursa Malaysia Securities Berhad
Sector : Industrial Products & Services
Sub-Sector : Industrial Materials, Components & Equipment
Stock Name : DUFU
Stock Code : 7233

GROUP STRUCTURE



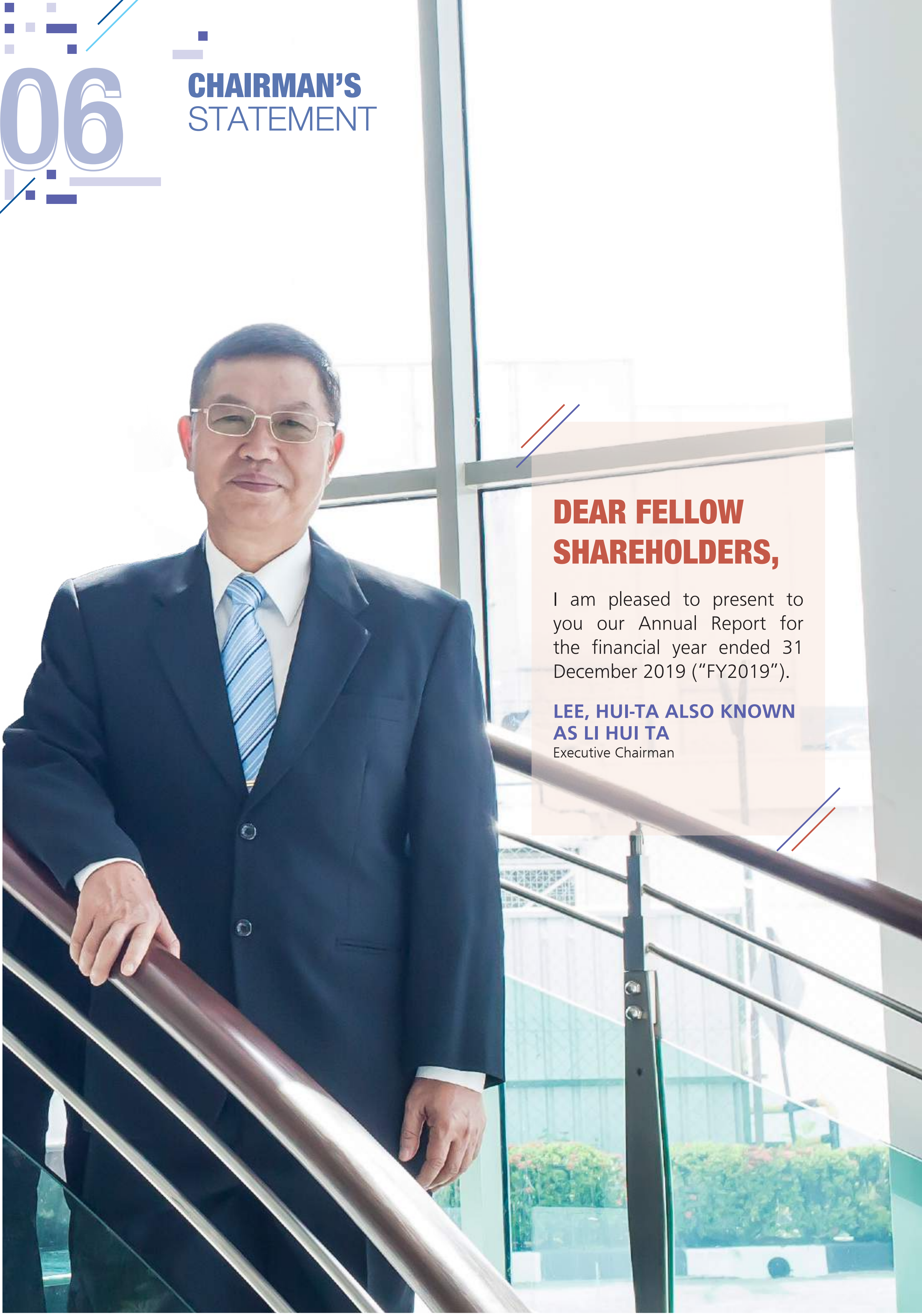
PRINCIPAL ACTIVITIES

Dufu Technology Corp. Berhad (Registration No. 200201013949 (581612-A)) is principally involved in investment holding. The subsidiaries of DUFU as at 31 December 2019 are as follows: -

Subsidiary	Country of Incorporation	Ownership Interest	Principal Activity
Dufu Industries Sdn. Bhd. Registration No. 198701006751 (165467-T)	Malaysia	100%	Design, development, manufacture, assembly and trading of die components and precision machining of vice, computer peripherals and parts for hard disk drive.
Guangzhou Futron Technology Co., Ltd (914401017371887143)	People's Republic of China (PRC)	100%	Manufacturing and trading of optics and magnetism driver and parts.
Guangzhou Futron Precision Industries Co., Ltd (91440101MA5CC6TT0A)	People's Republic of China (PRC)	100%	Engaging in metal precision manufacturing and processing parts such as metal components for special equipment for electronics industry, air conditioning compressor accessories, auto parts, etc.
Dufusion Sdn. Bhd. Registration No. 201101020016 (948150-U)	Malaysia	100%	Design, develop, manufacture, fabricate, assembly and trading of precision steel mould, metal products and steel parts, medical industry's chairs and instrument tables, etc.
Dufu Metal Sdn. Bhd. Registration No. 201801021939 (1283958-A)	Malaysia	75%	Manufacturing of high precision engineering parts, module assembly and metal fabrication parts for semiconductor, electronics, industrial automation industries, etc.
*Dufu Industries Services Pte. Ltd (200204589D)	Singapore	100%	Processing and trading of high quality computer disk-drive related components.

*A Wholly-Owned Subsidiary of Dufu Industries Sdn. Bhd.

CHAIRMAN'S STATEMENT



DEAR FELLOW SHAREHOLDERS,

I am pleased to present to you our Annual Report for the financial year ended 31 December 2019 ("FY2019").

LEE, HUI-TA ALSO KNOWN AS LI HUI TA
Executive Chairman

Financial Performance

During the financial year ended 31 December 2019, the Group managed to record higher revenue of RM249.1 million as compared to RM241.5 million in the previous financial year. The increase in revenue was contributed by the growth in the shipment of components related to Hard Disk Drives ("HDDs").

HIGHER REVENUE

RM **249.1** MILLION

FY2018 : **RM241.5 million**

The Group's Profit for FY2019 totaled RM44.1 million was 14.9% down compared to the previous financial year of RM51.8 million. Despite maintaining its revenue, the results for FY2019 were affected by unprecedented intense in raw material prices volatility, start-up and relocation costs related to business expansion, higher depreciation charges and recognition of fair value taking place over the vesting period of the share options under the Employees' Share Option Scheme ("ESOS") granted.

GROUP'S PROFIT

RM **44.1** MILLION

FY2018 : **RM51.8 million**

Notwithstanding the setback in profitability, the Group is financially stable with strong cash flow generated from operating activities of RM29.3 million in FY2019 compared to RM39.0 million in FY2018. Corporate borrowing levels remain relatively prudent. Despite the increased in bank borrowings from RM10.7 million to RM17.5 million, the Group's cash and cash equivalents which accounts for RM43.5 million is soundly in excess of its total borrowings at the end of FY2019.

CASH FLOW

RM **29.3** MILLION

FY2018 : **RM39.0 million**

BANK BORROWINGS

RM **17.5** MILLION

FY2018 : **RM10.7 million**

GROUP'S CASH AND CASH EQUIVALENTS

RM **43.5** MILLION

FY2018 : **RM41.3 million**

Enhancing Shareholders Value

We are committed to enhance shareholders value via share buy backs, dividend and special payouts. Our dividend policy defines a minimum payout of 50% of our annual net profit less other income.

In line with this, we have successfully paid out an interim dividend of 2 sen per share to date. The Board has on 26 February 2020 proposed a final dividend of 6.0 sen per share for shareholders' approval at its 18th Annual General Meeting. This will bring total dividends to 8.0 sen per share, bringing the total dividend payout to RM20.5 million for the year, representing a payout ratio of 46%.

All-in-all, we have increased total shareholders return over the last couple of years. In particular, we have returned a total of 12.2 million number of treasury shares worth RM19.9 million on the basis of one treasury shares for every twenty shares held on 12 June 2019 from the stock buybacks the Company has accumulated since 2016.

"In total, we have returned just over RM52.7 million to shareholders since 2015 (RM32.8 million in the form of cash dividends, the balance from treasury shares distribution)."

Despite yearly allocation for capital infrastructure spending, our desire and ability to pay steady dividends over time not only demonstrate the Group's financial strength, but also sends a message about the Group's future prospects and performance.

CHAIRMAN'S STATEMENT (CONT'D)

Corporate Development

"Following the successful completion of the one-for-two bonus issue on 30 November 2018, another bonus issue, on the basis of one bonus share for every one Dufu share held, was proposed on 20 January 2020."

We believe in increasing the issued share capital of the Company to reflect the Group's growth and expansion of its business and to improve the trading liquidity of Dufu shares, allowing for greater participation by investors and varying investment profiles. The proposed one-for-one bonus issue is expected to be completed in the third quarter of 2020.

The Group believes the backbone of the business relies on the organisation's employees. Dufu has introduced a five-year ESOS programme in 2019 as an incentive for its staff and management personnel. On 1 July 2019, the Company offered 9.0 million number of Options to its eligible employees as an effort to retain staff, especially of management rank.

Recognition

In recognition of Dufu's growing success, the Group has been acknowledged as the highest growth in profit after tax over three years in the Industrial Products & Services by the Edge Malaysia Centurion Club Corporate Awards 2019. Dufu has also been recognised by RHB Investment Bank as one of Malaysia's Top Small Cap Jewels with excellent potential and attractive proposition to investor in their 20 Jewels 2019 Edition.

Looking Ahead

Innovations are helping HDDs become more efficient. This continuous upgrading of data center with increased storage capacity helps fit the demand for more massive and reliable storage products. With technology advances, the ability to fit higher capacity storage in the same form factor increases, with each year marking a new milestone for higher capacity drives. We have seen that the significant rise on the shipments of our products in the second half of FY2019 driven by the increasing demand related to components installed in the recently launched 14 TB to 16 TB hard drives mainly cater for the enterprise-class nearline segment.

"The outlook for 2020 looks promising with our main HDD business segment forecasting staggering levels of data growth in the coming years."

Infrastructure wise, we are preparing to grow our high volume manufacturing services with increase capacity by restructuring the existing production layout to enhance and optimize its productiviting and efficiency. This shows our urgency and appetite to capitalize on the increased demand for spacers and achieve larger economies of scale.

Additionally, our "Growth" card following the relocation of the Stamping and Sheet Metal Division is on track where we are in the midst of engaging with few key customers to expand this segment. We are foreseeing growth catalyst in various industries attributed by technological transformation as more companies are preparing themselves for 5G technology roll out, big data, powerful analytics, artificial intelligence and other key innovations to drive growth. These current developments in-trend bode well for Dufu's growth prospect in both the HDDs and non-HDD related sectors.

Acknowledgement

My deepest gratitude to our CEO and management team for steering the Group effectively. To all our employees, we appreciate your hard work and commitment to ensure Dufu's continuing success. I also wish to record my appreciation to our shareholders, customers, business associates, financiers and suppliers for their continuous support and co-operation.

Last but not least, to my fellow colleagues on Board, I look forward to your continuous guidance and support and would urge for your active participation in our future Board meetings.

LEE, HUI-TA ALSO KNOWN AS **LI HUI TA**
Executive Chairman
Date : 3 March 2020

BOARD OF DIRECTORS

LEE, HUI-TA ALSO KNOWN AS LI HUI TA
Executive Chairman

WU, MAO-YUAN
Executive Director

SUNG, CHENG-HSI
Independent Non-Executive Director

JOYCE WONG AI MAY
Independent Non-Executive Director

YIN, CHIH-CHU ALSO KNOWN AS LAURENCE YIN
Independent Non-Executive Director

LEE YOKE KHAY
Independent Non-Executive Director

BOARD OF DIRECTORS' PROFILE

LEE, HUI-TA ALSO KNOWN AS LI HUI TA

Executive Chairman

Taiwanese
Male
61 years

Mr. Lee, Hui-Ta also known as Li Hui Ta was appointed as the Executive Director and Chief Financial Officer of Dufu Technology Corp. Berhad ("Dufu" or "Company") on 1 September 2006. On 18 June 2015, he was appointed as Executive Chairman of the Group and subsequently, he relinquished his position as the Chief Financial Officer on 4 November 2016. He is the Chairman of the Employees' Share Option Scheme Committee. He graduated with a Diploma in Mechanical Engineering from St. John's & St. Mary's Institute of Technology Taiwan in 1979. He also obtained a Degree in Business Administration from National Taipei University in 1988 and a Master of Business Administration from American California Miramar University in 2009.

Mr. Lee commenced his career as an engineering supervisor with He Li Ying Precision Industry, Taiwan in 1981 dealing with precision components and was promoted to Managing Director in 1983 where he was responsible for the daily operations of the company's production. In 1984, he co-set up Lee Bai Corp. Ltd. in Taiwan to manufacture precision quick die change systems for stamping tooling.

In 1990, he co-set up Dufu Industries Sdn Bhd ("DISB") to manufacture precision tooling and precision machining parts for computer-related components. He has more than twenty-eight (28) years of experience in the precision tooling industry and in the CNC precision machining industry. He also sits on the board of several other private limited companies.

On 25 July 2017, Mr. Lee was awarded with Darjah Johan Negeri ("DJN") in recognition for his continuous effort to reinforce a strong investor stance to buttress the business community in the northern region.

Mr. Lee is the spouse of Mdm Wang, Kuei-Hua, a major shareholder of the Company. He has no conflict of interest with the Group. He has not been convicted of any offences, other than traffic offences (if applicable) within the past five (5) years and no public sanction or penalty imposed by the relevant regulatory bodies on him during the financial year.

WU, MAO-YUAN

Executive Director

Taiwanese
Male
63 years

Mr. Wu Mao-Yuan was appointed as a Non-Independent Non-Executive Director of Dufu on 19 December 2012 and was re-designated as an Executive Director on 27 August 2015. Mr. Wu currently serves as Managing Director of Guangzhou Futron Technology Co., Ltd ("Futron"), a subsidiary of the Group. He is a member of the Investment Committee of the Company.

Mr. Wu graduated from Taiwan Zhen Xin University in 1977 with a Diploma in Mechanical Engineering. Upon graduation, he started his career in 1979 as an Engineering Assistant responsible for the design and manufacturing of production jig and fixture with Da Di Ling Company. Subsequently, he joined Jin Feng Corp. in 1981 as a supervisor leading the production team to manufacture motorcycle components. From 1988 to 1992, he was with Lee Bai Corp Ltd. as a production manager where his accomplishment was forming and commercializing a new precision machining project for the company. In 1993, Mr. Wu worked in DISB where he was responsible for overseeing its operation as well as technology evolvement. He left Malaysia in 2002 to set-up and established Futron plant in China. He is also a Compliance Officer of Superior Plating Technology Co. Ltd., a company listed in Taipei Exchange.

Throughout his career spanning more than 33 years, not only had he demonstrated his high technical skill, he has also proven his management capability by bringing success after success to the companies he had served.

Mr. Wu has no family relationship with other Directors and/or major shareholders of the Company, nor any conflict of interest with the Group. He has not been convicted of any offences, other than traffic offences (if applicable) within the past five (5) years and no public sanction or penalty imposed by the relevant regulatory bodies on him during the financial year.

BOARD OF DIRECTORS' PROFILE (CONT'D)

SUNG, CHENG-HSI

Independent
Non-Executive Director

Taiwanese
Male
41 years

Mr. Sung, Cheng-Hsi was appointed as an Independent Non-Executive Director of Dufu on 9 October 2015. He is also a member of the Audit Committee, Nominating Committee and Remuneration Committee of the Company.

Mr. Sung graduated from University of Reading, United Kingdom with a Master of Science in 2005. He obtained his Bachelor of Art from National Donghua University, Taiwan in 2002. Upon graduation, he started his career in 2006 as Equity Research Analyst at China Trust Commercial Bank. He was responsible for the analytical research on some of the Taiwanese listed companies namely in sectors involving steel, petrochemical, and automotive part. His job also involved formulating financial models for interpretation and simulation to support the needs of internal departments. He joined Superior Plating Technology Co. Ltd which is listed in the Taipei Exchange in 2008 as Chief Financial Officer. His position requires him to be responsible in managing the financial risk, financial planning, and financial reporting and he directly assists the Chief Executive Officer and Board Chairman on all strategic and tactical matters.

Mr. Sung has no family relationship with any director and/or major shareholder of the Company nor any conflict of interest with the Group. He has not been convicted of any offences, other than traffic offences (if applicable) within the past five (5) years and no public sanction or penalty imposed by the relevant regulatory bodies on him during the financial year.

JOYCE WONG AI MAY

Independent
Non-Executive Director

Malaysian
Female
44 years

Ms. Joyce Wong Ai May was appointed as an Independent Non-Executive Director of Dufu on 23 May 2016. She is the Chairman of the Audit Committee and a member of the Remuneration Committee, Nominating Committee and Investment Committee of the Company.

She graduated from University of Tasmania with a Bachelor of Commerce, majoring in Accounting and Finance. She is an Accountant by profession and a member of the Malaysian Institute of Accountants and Certified Practicing Accountants, Australia. She started her career with Smith Zain Securities Sdn. Bhd as an Accounts Executive in 1999 and later became the Head of Finance in 2002 under BBMB Securities Sdn Bhd, Penang Branch (BBMB Securities Sdn Bhd took over the business of Smith Zain Securities Sdn Bhd). Ms. Joyce joined Hwang-DBS Securities Berhad in 2004 and then left the company to join an international accounting firm in 2005 and become their Director in 2015, before setting up her own consultancy firm where she is the Founder and also a Director of JWC Consulting Sdn. Bhd.

She also sits on the Industry Advisory Panel of the School of Business for Disted College, Penang. She is the Members' State Representative for CPA Australia, a member of the Finance Committee of a non-profit organisation.

Ms. Joyce Wong has no family relationship with other Directors and/or major shareholders of the Company, nor any conflict of interest with the Group. She has not been convicted of any offences, other than traffic offences (if applicable) within the past five (5) years and no public sanction or penalty imposed by the relevant regulatory bodies on her during the financial year.

BOARD OF DIRECTORS' PROFILE (CONT'D)

YIN, CHIH-CHU ALSO KNOWN AS LAURENCE YIN

Independent
Non-Executive Director

Taiwanese	
Male	
58 years	

Mr. Yin, Chih-Chu also known as Laurence Yin was appointed as an Independent Non-Executive Director of Dufu on 11 November 2016. He is the Chairman of the Investment Committee and a member of the Audit Committee, Nominating Committee and Remuneration Committee of the Company.

Mr. Yin graduated from National Taipei College of Business in Taiwan with a Diploma in Account in 1982 and subsequently, obtained his Executive Master of Business Administration in National Cheng Chi University in 2012. He commenced his career as an Executive Staff with Chailease Finance Co., Ltd., Taiwan in 1987 dealing with financing and accounts. He was transferred to Malaysia as an Administrative and Financial Manager in 1991 where he was responsible for the daily operations of the company's administrative and financial affairs. In 1997, he was promoted to Executive Manager where he was responsible for the affairs of two plastic compounding factory, a label sticker factory as well as a trading company in Kuala Lumpur. In 2001, Mr. Yin co-set up CITC Enterprise (Thai) Co., Ltd in Thailand to manufacture plastic coloring and compounding. He has more than twenty (20) years of working experience in the plastic compounding and label sticker industries. He also sits on the board of several private limited companies.

Mr. Yin has no family relationship with other Directors and/or major shareholders of the Company, nor any conflict of interest with the Group. He has not been convicted of any offences, other than traffic offences (if applicable) within the past five (5) years and no public sanction or penalty imposed by the relevant regulatory bodies on him during the financial year.

LEE YOKE KHAY

Independent
Non-Executive Director

Malaysian	
Male	
69 years	

Mr. Lee Yoke Khay was appointed as an Independent Non-Executive Director of Dufu on 3 April 2017. He is the Chairman of the Nominating and Remuneration Committee. He is also a member of the Audit Committee and Investment Committee of the Company.

Mr. Lee graduated from Council of Legal Education, London, United Kingdom with a Barrister-at-Law. Thereafter, he qualified as a Barrister (Lincoln's Inn, United Kingdom) in 1978 and was called to the Malaysian Bar on 1 December 1979. He is a practicing advocate & solicitor and is currently a partner of Messrs. Ooi Lee & Co., a legal firm in Penang.

Mr. Lee sits on the Board of Directors of several Chinese Primary and Secondary Schools and also in the Board of Directors of the Clan Association. He also holds Honorary Legal Advisor position in Lee Association and other trade and commercial companies and associations in Penang.

He was awarded with Darjah Johan Negeri ("DJN"), Pingat Kelakuan Terpuji ("PKT") and Pingat Jasa Masyarakat ("PJM").

Mr. Lee has no family relationship with other Directors and/or major shareholders of the Company, nor any conflict of interest with the Group. He has not been convicted of any offences, other than traffic offences (if applicable) within the past five (5) years and no public sanction or penalty imposed by the relevant regulatory bodies on him during the financial year.

The number of Board meetings attended by the respective Directors during the financial year ended 31 December 2019 ("FY2019") are as follows:

Director	No. of meetings attended
Lee, Hui-Ta also known as Li Hui Ta	4/4
Wu, Mao-Yuan	4/4
Sung, Cheng-Hsi	2/4
Joyce Wong Ai May	4/4
Yin Chih-Chu also known as Laurence Yin	4/4
Lee Yoke Khay	4/4

During the FY2019, the training programmes and seminars attended by the Directors are as follows:

Director	Date	Description
Lee, Hui-Ta also known as Li Hui Ta	23 & 24 November 2019	Situational Leadership
Wu, Mao-Yuan	7 November 2019	Insider Trading – Legal Liabilities and Case Studies
	7 November 2019	Operation Practise of Audit Committee
Sung, Cheng-Hsi	7 November 2019	Insider Trading – Legal Liabilities and Case Studies
	7 November 2019	Operation Practise of Audit Committee
Joyce Wong Ai May	12 March 2019	Topical Tax Issues for SMEs
	17 May 2019	SST Compliance – with its Updated Legislations and Customs Policies
	14 August 2019	Income Tax on Property Development Activities
	24 September 2019	CPA Congress: Business as Unusual
	15 October 2019	Private Company Valuation Approaches
	17 October 2019	Evaluating Effective Internal Audit Function – Audit Committees Guide On How To
	11 November 2019	Data Analytics for Accountants
	25 November 2019	Post Budget 2020
Yin Chih-Chu also known as Laurence Yin	20 – 21 December 2019	Effective Delegation & Follow up Skills
Lee Yoke Khay	17 October 2019	Evaluating Effective Internal Audit Function – Audit Committees Guide On How To

BOARD OF DIRECTORS' PROFILE (CONT'D)

Aggregate remuneration of the Directors for the FY2019 categorized into appropriate components are as follows:

Category	Fee RM	Salaries RM	Bonus RM	Allowances RM	Share-based payments RM	Total RM
Executive Directors						
Lee, Hui-Ta also known as Li Hui Ta						
- Company	36,000	-	-	7,500	-	43,500
- Subsidiaries	-	652,080	671,428	-	-	1,323,508
	36,000	**652,080**	**671,428**	**7,500**	**-**	**1,367,008**
Wu, Mao-Yuan						
- Company	36,000	-	-	7,500	-	43,500
- Subsidiaries	-	431,404	1,389,936	-	234,650	2,055,990
	36,000	**431,404**	**1,389,936**	**7,500**	234,650	**2,099,490**
Total Executive Directors						
- Company	72,000	-	-	15,000	-	87,000
- Subsidiaries	-	1,083,484	2,061,364	-	234,650	3,379,498
	72,000	**1,083,484**	**2,061,364**	**15,000**	**234,650**	**3,466,498**
Non-Executive Directors						
- Company						
Sung, Cheng-Hsi	36,000	-	-	3,000	-	39,000
Joyce Wong Ai May	60,000	-	-	12,500	-	72,500
Yin, Chih-Chu also known as Laurence Yin	31,000	-	-	6,000	-	37,000
Lee Yoke Khay	31,000	-	-	7,500	-	38,500
	158,000	**-**	**-**	**29,000**	-	**187,000**
Total						
- Company	230,000	-	-	44,000	-	274,000
- Subsidiaries	-	1,083,484	2,061,364	-	234,650	3,379,498
	230,000	**1,083,484**	**2,061,364**	**44,000**	**234,650**	**3,653,498**

KEY SENIOR MANAGEMENT TEAM

YEOH BENG HOOI
Chief Executive Officer

Malaysian

Male

56 years

Mr. Yeoh Beng Hooi was appointed as acting Chief Executive Officer of the Group on 27 August 2015. Thereafter, he was re-designated as Chief Executive Officer of the Group effective 29 August 2016. Mr. Yeoh holds a Diploma in Electronic Engineering from Institute Technology. In 1989, he started his career in Advance Micro Devices Inc., a United States ("USA") based semiconductor company as Assistant Engineering and became Senior Reliability Laboratory in 1990. Mr. Yeoh joined Read-Rite Malaysia as QA Engineer in 1992 and later he joined XOLOX Malaysia as Engineer Manager in 1995. He left the company as Director of Engineering in 2000 and joined Wong Engineering Corporation Bhd as Deputy General Manager. In 2001, he was appointed Executive Director of WE Advance Devices Sdn Bhd. He was the Chief Operating Officer in Dufu Industries Sdn. Bhd. ("DISB") since 24 May 2004 before he assumed his current position.

WONG SER YIAN
Director of DISPL

Singaporean

Male

62 years

Mr. Wong Ser Yian graduated with a Bachelor of Engineering from Nanyang Technology University of Singapore in 1985. He started his career with Seagate Technology International, Singapore in 1986 as Supplier Quality Engineer and was promoted to Senior Engineer in 1988. Subsequently in 1990, he joined Microplis Limited, Singapore as Senior Quality Engineer where he was responsible for developing and improving the aspects of suppliers' quality. In the same year, he moved to X Factor Pte Ltd as their Chief Executive Officer. On 2 September 2002, he joined Dufu Industries Services Pte. Ltd. ("DISPL") and took up the position of General Manager and his primary responsibilities are sales, marketing and customers service support and subsequently, on 27 August 2015, Mr. Wong was appointed as Director of DISPL.

TEOH CHIEW HONG
Chief Operating Officer

Malaysian

Male

44 years

Mr. Teoh Chiew Hong holds a Degree in Science (Mathematics) from Universiti Sains Malaysia. He started his career with DISB in 2000 as a Production Control Officer. He was appointed as the Material Planning Manager in 2006 to spearhead the implementation of the Group's integrated application designed to address its logistics and manufacturing system. He is also responsible for the Group's capacity planning, material and inventory management.

On top of this, Mr. Teoh expanded his role in 2007 to oversee the Computer Numerical Control ("CNC") Auto Lathe Manufacturing Division. Subsequently in 2011, he was promoted as the Senior Manager in Planning & Logistics Department before assuming the role of General Manager effective 1 September 2016 where his primary task is to drive and optimize the entire CNC manufacturing division and other business operations to improve their operational excellence. On 1 March 2019, he was appointed as Chief Operating Officer of DISB.

KEY SENIOR MANAGEMENT TEAM (CONT'D)

DAVID KHOO CHONG BENG
Chief Financial Officer

Malaysian

Male

47 years

Mr. David Khoo Chong Beng joined DISB on 1 March 2017 as a Senior Financial Controller. He holds a professional accountancy qualification from Association of Chartered Certified Accountants ("ACCA") and is a Chartered Accountant registered with the Malaysian Institute of Accountants ("MIA") since September 2002. In June 2012, he obtained a Commonwealth Executive Masters of Business Administration from Wawasan Open University.

Mr. David Khoo started his career in BDO Binder Penang, an audit firm in June 1995 before moving to KPMG Penang in July 1997. He joined NTPM Holdings Berhad ("NTPM") as an Accountant in April 2000 and worked his way to be the Financial Controller of NTPM in January 2009. He left NTPM in February 2017. On 1 March 2019, he was appointed as Chief Financial Officer where he is entrusted to lead the finance, corporate and management information functions of DISB.

HUSRI BIN HUSSAIN
Director (Human Resource)

Malaysian

Male

55 years

En. Husri Bin Hussain was appointed as Director (Human Resource) of DISB on 1 August 2014. He graduated with a Bachelor of Science in Electrical Engineering from University of Miami, Florida, USA in 1988. In December 2018, he completed his Master of Science in Occupational Health and Safety Management from University Utara Malaysia under Dufu's Employer Sponsorship Programme.

He started working as Incoming Quality Assurance ("IQA")/Supplier Quality Engineering ("SQE") / First Article Engineer with Sony Electronics, Penang. He later joined Seagate Technology, Penang in 1991 as SQE Engineer and was responsible for the actuator components and heading the gimbal and stack assemblies. En. Husri was promoted to Staff Engineer in 1996. In 2001, he joined Finisar Malaysia Sdn Bhd, Perak ("Finisar") as their IQA/SQE Manager where he was responsible for setting up the IQA Lab and SQE work-related functions.

At the end of 2001, he joined Wong Engineering Corporation Bhd as Quality Manager. In 2002, he joined Solectron Technology, Penang as SQE Manager. He was responsible for SQE activities ranging from IC components, passive parts, printed circuit boards and mechanical parts. He joined DISB in August 2005 as Corporate QA Manager before assuming his current position. He leads and manage all matters pertaining to Human Resource activities, Facilities and Security, Safety, Health and Environment and Quality System and documentation of processes. He is also Management Representative for Quality, Safety, Health and Environment and Certified Safety Officer from Department of Occupational Safety and Health.

TAY LON @ TAY TONG LOON
Director (Business Development)

Malaysian

Male

69 years

Mr. Tay Lon @ Tay Tong Loon graduated with a Diploma in Mechanical Engineering from Ngee Ann Technical College, Singapore. He started his career as Design Technician with Hitachi Zosen Robin Dockyard Pte Ltd in 1974. In 1978, he joined Prime Electrical Products Pte Ltd as Factory Engineer where his primary responsibilities were product development and technical support on thermoplastic and thermosetting moulding.

Subsequently in 1979, Mr. Tay joined Northern Telecom Industries Sdn Bhd as Quality Engineer. He was promoted to Quality Manager in 1982 and in 1994, he was appointed as Production Manager to lead the manufacturing team. He left in 2002 and joined IPG Metal (M) Sdn Bhd (a former subsidiary of Dufu Group) in 2003 as General Manager. Mr. Tay was promoted to Director of Business Development in DISB on 1 February 2011 where he is entrusted to lead the sales division. Mr. Tay was appointed as a Director of Dufu Metal Sdn Bhd, a subsidiary of the Group on 14 June 2018.

KEY SENIOR MANAGEMENT TEAM (CONT'D)

NAH REN HOWE
Managing Director of Dufusion Sdn Bhd

Malaysian

Male

54 years

Mr. Nah Ren Howe joined Dufu Group on 1 September 2019 as Managing Director of Dufusion Sdn Bhd where he is managing the metal stamping and sheet metal division of the Group. Born in 1966, Mr. Nah studied at the Confucian Secondary School before leaving for his tertiary education at the Meiji University in Tokyo, Japan. He graduated with a degree in management studies in 1989.

During his stay in Japan, Mr. Nah was fascinated by the precision tooling business. Upon completion of his studies, he found employment with a company supplying precision tools and stamped metal parts to Sony, NEC and others Japan MNC. Mr. Nah returned to Malaysia in 1994 after spending 10 years in Japan. He took over the management of Rehon Industries, and he steered the company towards precision stamped parts with his acquired experience in the field.

ADDITIONAL INFORMATION:

None of the Key Senior Management has:

(i) any family relationship with other Directors and/or major shareholders of the Company, nor any conflict of interest with the Group;

(ii) been convicted of any offence, other than traffic offences (if applicable) within the past five (5) years; and

(iii) been imposed with any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2019.

TEN-YEAR FINANCIAL SUMMARY

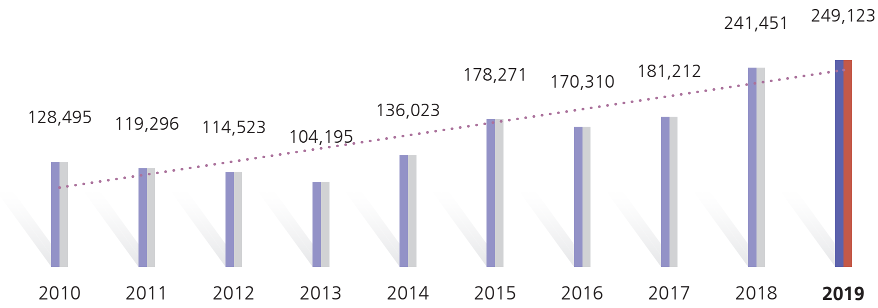
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
Revenue	128,495	119,296	114,523	104,195	136,023	178,271	170,310	181,212	241,451	**249,123**
Earnings Before Interest, Depreciation & Taxation ("EBITA")	21,502	8,905	13,724	10,129	22,299	30,528	47,110	43,505	73,295	**65,067**
Profit Before Taxation ("PBT")	7,577	(5,873)	(1,889)	(5,409)	7,216	15,982	35,258	32,788	65,065	**53,767**
Profit Attributable to Owners of Company	6,825	(4,810)	(2,195)	(5,539)	6,263	10,943	27,033	26,042	51,854	**44,522**
Shareholders' Fund / Net Assets	89,523	86,749	83,470	91,709	99,978	115,442	129,465	141,728	173,635	**214,367**
Weighted Average Number of Shares in issue @	120,000	120,000	120,000	146,417	175,470	175,470	171,313	254,530	251,180	**250,892**
Treasury shares	-	-	-	-	-	-	8,652	8,937	19,101	**6,896**
Number of Shares in issue	120,000	120,000	120,000	175,470	175,470	175,470	175,470	175,470	263,205	**263,205**
Net Asset Per Share (sen)	74.60	72.29	69.56	52.26	56.98	65.79	77.61	85.11	71.13	**83.64**
Earnings Per Share (sen)	5.69	(4.01)	(1.83)	(3.78)	3.57	6.24	15.78	10.23	20.64	**17.75**
Dividend Per Share (sen) @ ^	-	-	-	-	-	2.07	3.00	4.33	9.82	**8.00**
Dividend	-	-	-	-	-	5,427	7,521	10,682	23,962	**20,505**
Cash & Bank balances	6,192	5,441	6,449	13,658	14,840	25,255	46,562	37,976	41,514	**43,680**
Loans & borrowings	46,263	58,713	57,883	53,776	37,851	24,005	12,994	6,368	10,682	**17,521**
Net cash/(borrowings)	(40,071)	(53,272)	(51,434)	(40,118)	(23,011)	1,250	33,568	31,608	30,832	**26,159**
EBITA Margin (%)	17%	7%	12%	10%	16%	17%	28%	24%	30%	**26%**
PBT Margin (%)	6%	(5%)	(2%)	(5%)	5%	9%	21%	18%	27%	**22%**
Net Profit Margin (%)	5%	(4%)	(2%)	(5%)	5%	6%	16%	14%	21%	**18%**
Dividend Payout (%)	0%	0%	0%	0%	0%	50%	28%	41%	46%	**46%**

@ Computed based on enlarged number of ordinary shares in issue after bonus issue exercise which was completed on 30 November 2018
^ The Single Tier Final Dividend for FY2018 by way of one treasury share for every twenty shares held is deemed to be worth 8.15 sen per share based on the closing price at the date of announcement on 26 February 2019

GROUP
FINANCIAL HIGHLIGHTS (CONT'D)

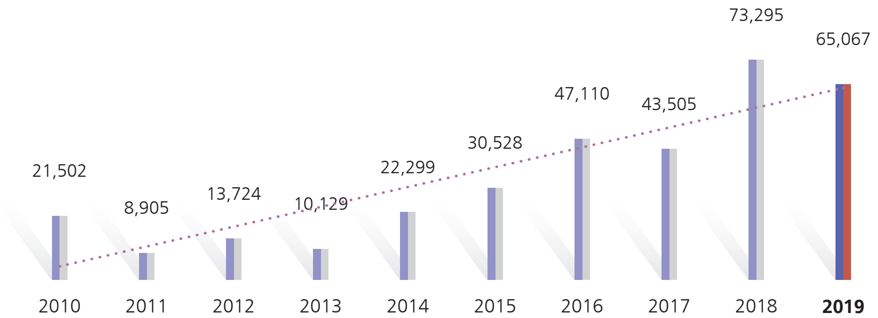
Revenue
(RM'000)

249.123



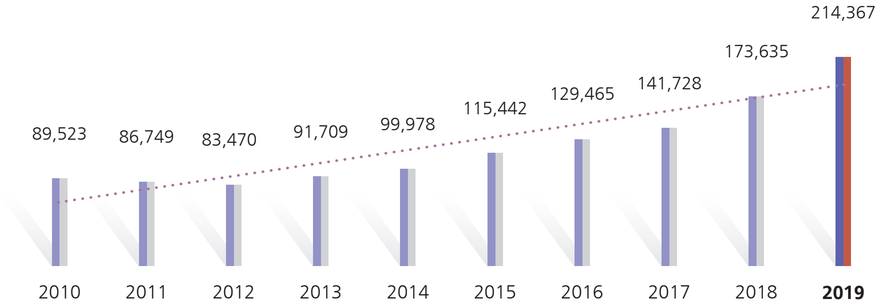
Earnings Before Interest, Depreciation & Taxation ("EBITA")
(RM'000)

65,067

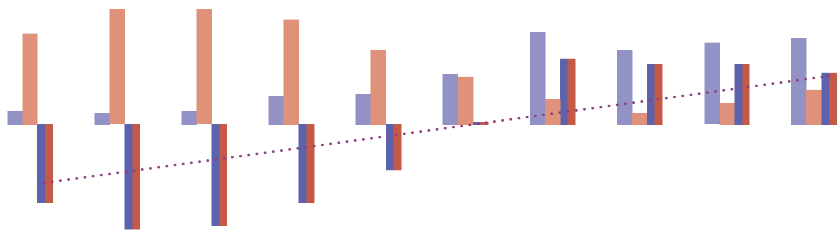


Shareholders' Fund / Net Assets
(RM'000)

214,367



Liquidity Position
(RM'000)



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Cash & Bank balances	6,192	5,441	6,449	13,658	14,840	25,255	46,562	37,976	41,514	43,680
Loans & Borrowings	46,263	58,713	57,883	53,776	37,851	24,005	12,994	6,368	10,682	17,521
Net cash/ (borrowings)	(40,071)	(53,272)	(51,434)	(40,118)	(23,011)	1,250	33,568	31,608	30,832	26,159

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

Incorporated in Malaysia, Dufu Technology Corp. Berhad ("Dufu" or "the Group") with 30 years of experience specializes in the manufacturing of precision machining parts and components for the Hard Disk Drive ("HDD"), industry safety and sensor, telecommunication, consumer electronics, medical and office equipment. It started in 1990 where Dufu managed to acquire a leading HDD maker for the manufacture of 5.25- inch HDD disk spacers. Since then, we have grown steadily to be the preferred choice and a reputable supplier of HDD and other precision components in the countries within the Asia Pacific, European, Oceania and North America region, where we export our products to.

Overview of Performance

a) Revenue

For the Financial Year Ended 31 December 2019 ("FY2019"), the Group's revenue slightly increased by 3.2% or RM7.67 million from RM241.45 million registered in the Financial Year Ended 31 December 2018 ("FY2018") to a record of RM249.12 million for the current year. The growth in revenue was mainly due to the increased in demand of disc spacer products supplied to the Hard Disk Drive ("HDD") industry. Near Line HDDs or capacity enterprise is seen dominating the surge in demand for our products especially in the second of FY2019 after a subdued first half of FY2019 sparked by the uncertainty arising from the US-China trade war where consumer demand took a hit along side with delayed business investment decisions which contributed to the decline in the Group's revenue.

b) Profit Before Taxation ("PBT")

Despite higher revenue, the Group registered a lower PBT of RM53.77 million in FY2019 compared to RM65.06 million in FY2018, a decline of RM11.30 million or 17.4%. The continued uptrend of raw material prices namely metal components such as titanium; one-off start-up and relocation costs related to business expansion as the Group's move its sheet metal and structure fabrication for equipment manufacturers to a new site located at Bukit Minyak Industrial Park; higher depreciation and amortization charges by approximately RM2.54 million and the recognition of RM2.43 million related to non- cash item on fair value of the share options granted under the Employees' Share Option Scheme ("ESOS").

c) Other Income

Other income decreased to RM6.22 million in FY2019 from RM6.91 million in FY2018. The decrease was mainly due higher realized gain on foreign exchange amounted to RM2.11 million in FY2018 compared to RM1.25 million in FY2019.

d) Other Operating Expenses

The Group's other expenses have increased from RM42.72 million in FY2018 to RM46.30 million in FY2019. The increase was attributed the unrealized foreign exchange loss of RM0.78 million in FY2019 compared to unrealized foreign exchange gain in FY2018, incremental expenses of RM0.92 million related to Dufu Metal Sdn Bhd ("DMSB") of which DMSB was still dormant in FY2018 and relocation expenses close to RM1 million as the Group shifted its sheet metal and stamping businesses to a new site.

e) Profit for the Year Attributable to Owners of the Company ("PAOC")

The Group's PAOC for FY 2019 was RM44.52 million compared to RM51.85 million generated in FY2018. The slight decrease was attributed to the reasons outlined above.

Financial Position and Cash Flow

Total equity rose to RM214.37 million as at 31 December 2019 compared to RM173.63 million as at end-2018, mainly contributed by profit generated during the year on the back of share dividend distributed from treasury shares at cost rather than retained earnings. Total assets increased to RM268.68 million as at 31 December 2019, compared with RM220.19 million as at end-2018 supported by the increase in addition of property, plant and equipment and continuous improvement in the surplus of working capital. While total borrowings have increased by RM6.84 million to RM17.52 million mainly due to the drawdown of additional 10-year floating rate term loan of RM6.0 million required for the Group's business expansion, the Group maintains a zero-gearing position with a strong net cash position of RM25.98 million as of end of 2019.

Financial Position and Cash Flow (cont'd)

As at 31 December 2019, trade and other receivables increased by 41.9% to RM83.39 million primarily due to deposit paid to secure raw materials and record sales generated during the last quarter of the current financial year. Coupled with our consent to give one major customer to delay their payment for one month in December 2019 has attributed to the increased in trade debtor's turnover ratio to 109 days (FY2018: 80 days) as at end of FY2019. While inventories saw an increase of 11.1% to RM59.79 million as at 31 December 2019 which was in line with the increase in Group's revenue and also in tandem with the collaboration agreement with our key customers to keep the finished goods stock level held at third-party warehouses based on customer's sales forecast. Cash flows from operating activities stood at RM29.30 million for FY2019 (FY2018: RM39.02 million). The decrease is due to lower profitability and also higher working capital requirement needs namely trade receivables and inventories attributed to the reasons outlined above.

Capital Expenditure, Capital Structure and Capital Resources

We exercise prudent capital expenditure to support business growth plans and upgrading of existing machines. Capital expenditure ("CAPEX") spent by the Group to support capacity expansion, innovation and cost efficiencies were RM27.29 million in FY2019, compared to RM23.75 million incurred in FY2018. The capital outlay in FY2019 were mainly due to the purchase of plant and machineries (namely Computer Numerical Control ("CNC") Auto Lathe Machines) and also the acquisition and subsequent renovation related to the new factory building at Bukit Minyak Industrial Park, Penang containing an area of 0.81 hectare. The acquisition of the said factory building enables the Group to distinguish its business segment clearly where the sheet metal fabrication business is now relocated to the new site. CAPEX related to machineries expenditure incurred in FY2019 was primarily to support the anticipated projected demand growth of disc spacers for HDD industry. These CAPEX HDD related investments in the past two years were now bearing fruit as the Group achieved its highest quarterly revenue of RM78.82 million in the final quarter of 2019.

In spite of the high capital expenditure spending in both FY2019 and FY2018, we continued to hold firm to our philosophy of rewarding shareholders with dividends that the Group's cash-flow position would allow. Over two tranches of dividend was declared to shareholders which amounted to 46% (FY2018: 46%) of our net profit for FY2019:

1. Interim cash dividend of 2.0 sen per share amounting to RM5.13 million paid on 25 September 2019; and

2. Final dividend of 6.0 sen per share has been proposed for the shareholders' approval in the coming Annual General Meeting.

We maintain appropriate debt levels after evaluating a number of factors, including cash flow expectations, cash requirements for ongoing operations, investment and financing plans and the overall cost of capital. As at FY2019, Dufu Group had cash and cash equivalents amounting to RM43.50 million (FY2018: RM41.34 million) and total borrowings of RM17.52 million (FY2018: RM10.68 million). Based on its existing cash surplus, the Group's retained cash flow is sufficient to support organic and inorganic growth for the financial year ending 31 December 2020 ("FY2020").

Key Risk and Mitigation

Dufu Group is mainly involved in the design and development of precision machining of component parts and derives 93% of its revenue from abroad, 95% of which is denominated in US Dollars ("USD") while the bulk of its expenses are paid in their respective local currencies.

Local factors that influence the Ringgit, such as uncertainty around economic growth; interest rates; inflation; credit ratings; current account deficits; and government finances remains relatively stable. Nevertheless, international developments may affect the Ringgit's strength in 2020 especially with the developments of US policies specifically US interest rates and other unexpected turbulence such as trade wars and geopolitical tensions.

The US-Ringgit currency exchange remains volatile. The gradual strengthening of the Ringgit in the fourth quarter of FY2019 has led to an unrealized loss of RM0.78 million impacting the Group as at 31 December 2019. Nonetheless, the Ringgit has gradually weakened against the greenback since mid-January 2020, and if this trend continues, this will be favourable to the Group's operating margin in the coming financial year. Dufu intends to leverage its USD reliance by hedging the Group's cashflow naturally. In line with this, majority of our raw materials are now typically sourced in USD.

The Group currently faces business concentration risk where more than 75% of its revenue is generated from the HDD segment. This does not augur well should we lose our main customer or there's a significant drop in sales of our main product, the Group's business income will take a huge hit. In this respect, as part of the Group's risk mitigation strategy, we are diversifying our product portfolio to outweigh the negative impact of HDD market centric, thereby lessening the risk of customer concentration at the same time.

MANAGEMENT DISCUSSION AND ANALYSIS

Key Risk and Mitigation (cont'd)

The set-up and relocation of one-stop solutions center specializing in sheet metal and structure fabrication for equipment manufacturers at the newly acquired factory building in Bukit Minyak Industrial Park was completed on 1 July 2019. Also, our intention to penetrate into automotive segment following the certification of International Automotive Task Force ("IATF") 16949:2016 on 15 April 2019 reinforce our intention to grow the non-HDD segment to balance our product portfolio. Two major discussions are in progress, if successful, the space in Bukit Minyak Industrial Park will be fully occupied towards end of the year. However, for the automotive products, they are at a very nascent stage to contribute positively to the Group's top-line growth.

Trends, Outlook, Future Challenges & Strategy

The most uncertain factor recently affecting the mood globally would be the Wuhan originated coronavirus epidemic which has the potential to cause severe economic and market dislocation. Since the outbreak, we have already seen the extended lockdown in China and the widening range of containment measures taken by countries outside China. Our plant in Guangzhou, China was also affected as well by the compulsory shutdown by the Chinese Authorities and the aftermath effect of resuming its operations. In Malaysia, proactive measures have been taken to prevent the infection of the disease in our plant. Daily health screening is conducted to all employees and visitors at the guard entrance. Internal travel to our facilities in China is restricted and high-risk employees are required to work from home for 14 days are amongst some of the preventive measures the Group has taken to ensure the plant in Malaysia is not contaminated by the outbreak.

The eventual impact to the Group's operations will largely be dependent on the scale and length of the outbreak which will ultimately be determined by how the virus spreads and evolves, of which this is almost impossible to predict at this juncture. On top of this, we are concern with a potential supply chain disruption risk which may temporarily impact the demand of our product lines.

Bearing the above uncertainty and in line with the Chairman's statement, Dufu anticipates that the business environment remains positive in FY2020 with sales driven largely by the high HDD demand from the enterprise sector and the launch of higher storage solutions which require more spacers installed in one unit of HDD.

Due to the continued uncertainty of global economic outlook and the current market volatility in near term forecast, we shall continue with our prudent approach on new CAPEX investments. While commitment to customer remains the most important aspect in the way we run our businesses, we have also stepped up for their assurance before committing into new investments. This is merely to ensure the return from our investment in CAPEX is sufficient to generate profits for our shareholders.

And with the relocation of the sheet metal and structure fabrication for equipment manufacturers are now fully in place, the affected segment of the current manufacturing site at Bayan Lepas is undergoing renovation to make room for more CNC machines and other production lines connected to the manufacturing of spacers. This undertaken project is in line with the increase in forecast anticipated in the second half of 2020 where resumption of spiral growth in the HDD sector is expected and our current installed capacity may not be able to fulfill the projected sales forecast.

In the non-HDD segment, we are also optimistic with new projects and potential new customers. We have two major discussion with our prospects. Both are MNC. One of them is aligning to localized their supplier chain strategy and Dufu is currently in the process of refining its first article sample for their evaluation. The other prospect involves Dufu to supply sheet metal welded assembly module related to semiconductor wafer fabrication equipment plant. Both of these projects are expecting to offer high value creation and we are working closely with the customers for product qualification. Assuming with all these in place, we are expecting to see potential growth in coming years.

This statement is made in accordance with a resolution of the Board of Directors dated 3 March 2020.

Our Sustainability Journey continues

We continue to learn even after decades of operating our business. It involves environment, energy efficiency, labour practices and climate change were considered important aspects to build our reputation and earn customer's confidence and trust. Today, conducting our business in a sustainable way it's a practise we've preached and continue to incorporate good practices into everything we do.

"For us here in Dufu, Sustainability is not merely 'green' issues. It inspires and enable business to lead the way to a sustainable economic and maintain sustainable relationships with all stakeholders.

A glance at Dufu Sustainability initiatives in FY2019

FOR EMPLOYEES,

- Implemented Employees' Share Option Scheme ("ESOS") on 1 July 2019 as part of the Group's Employee Retention Strategy
- Human Resource-employee development programme achieved an average of 17 Hours per Employee in FY2019 up from 14 Hours per Employee in FY2018
- Promoted Employee Safety Awareness and Dufu's inaugural Health and Safety Week was held in December 2019
- Through our effective Safety and Health Management System improvements on the key performance indicators were observed
    - Zero Fatality cases and No Occupational Related Illness recorded in FY2019 and FY2018
    - Reduced Incident and Frequency Rates arising from Occupational Accident cases in FY2019 to 2.35 and 1.18 from 8.98 and 4.49 respectively in FY2018

FOR SHAREHOLDERS,

- Monetary value of Dividend distributed RM25.0 million, up by 119% from the previous financial year, inclusive distribution of one treasury share for every twenty shares held

FOR COMMUNITY,

- Promoted Local Hiring initiative and increased local recruitment to 141 new employee in FY2019. This has raised the local workforce composition to 47% as at 31 December 2019 from 38% a year ago.
- Collaborated with Local Higher Learning Institutions to develop students to prepare for life in the working world of which our pioneer project took off with students from Institute Kemahiran Tinggi Belia Negara, Jitra ("IKTBN") and Kolej Kemahiran Tinggi MARA, Balik Pulau ("KKTM") taking part in Dufu's structured internship program.

FOR ENVIRONMENTALIST,

- Full compliance with environmental laws and regulations with neither any fines or sanctions recorded in FY2019
- Upgraded conventional fluorescent lights to LED lighting for the newly acquired factory in Bukit Minyak before commencing operation in August 2019
- Upgraded existing Industrial Effluent Treatment System ("IETS") to an 'automate close-loop control' and expand its handling capacity by three-fold in FY2019
- Continue with improvement for both electricity and water consumption usage compared to the previous two financial year ends prior to FY2019

FOR CUSTOMERS,

- Continued to achieve good customer satisfaction rating

FOR SUPPLIERS,

- Enhanced Supplier Quality Management by improvisation of Supplier Performance Evaluation together with the implementation of Supplier Training Program initiative

FOR INVESTOR RELATION,

- Dufu's 17th Annual General Meeting ("AGM") was held at the earlier possible date on 7 May 2019, and it signify our effort for good corporate governance practices
- For the first time, Dufu was recognised as RHB's Top 20 Jewels in their 2019 Edition which apart from growth prospects and earnings delivery, also emphasize on corporate governance screening

Sustainability and Our Business

Dufu Technology Corp. Berhad ("Dufu" or the "Group") recognises that the stability and growth of our business is interconnected with the sustainability of the economies, the natural environment, work place and the communities in which we operate and vice versa. Therefore, we are committed to being a responsible company and making a positive contribution to society and the environment.

The core of sustainability of our business at Dufu is founded on ethical business practices and effective governance. We vowed to work with customers and suppliers to manufacture and operate responsibly and create an engaging workplace for our employees. This helps us inspire trust in our products and services, develop strong relationships with our stakeholders, and create long-term value for society and our business.

Sustainability is part of our key business priority and we continue to work on the on-going challenges and constantly in talk with our stakeholders to understand their views and regularly in touch with the latest legislative and regulative updates.

Unless otherwise stated, the scope of our Sustainability Statement covers the period from 1 January 2019 to 31 December 2019 and the reporting boundary for the time being is mainly focused on the Malaysian operations. Unless otherwise stated, Dufu's business operations in China and Singapore are not included at this juncture.

Sustainability Governance

The Board of Directors ("Board") is responsible for the oversight of embedding sustainability into the Group and its business strategy, and that adequate resources, systems and processes are in place for managing sustainability matters. To assist the Board in driving and reporting the Group's sustainability practices, the Group had in May 2018 formalised the Sustainability Management Committee ("SMC") to ensure sustainability matters continues to be embedded in the Group's business strategy and operation. The SMC is chaired by the Group Chief Executive Officer with members comprising the Senior Management and relevant Heads of Business and Supporting Units. This current composition would enable the SMC to work closely to ensure all material sustainability matters are being considered and managed throughout the Group's business operation.

The Board is ultimately accountable for the oversight of management of sustainability matters, and responsible for setting and embedding sustainability-related strategies into the Group's business operations. The sustainability governance structure is depicted as follows:

Sustainability Governance Structure

SUSTAINABILITY STATEMENT (CONT'D)

Stakeholder Engagement

We believe that maintaining a good degree of communication and understanding with all the internal and external stakeholders is essential in our journey to be a good corporate governance and reputable sustainable business entity. Hence, the Company recognizes the need to conduct a continuous dialogue and information sharing with the relevant stakeholders in a timely, effective and transparent manner. A summary of the stakeholder groups, the sustainability topics, and the type of engagement with frequency are shown in the following table.

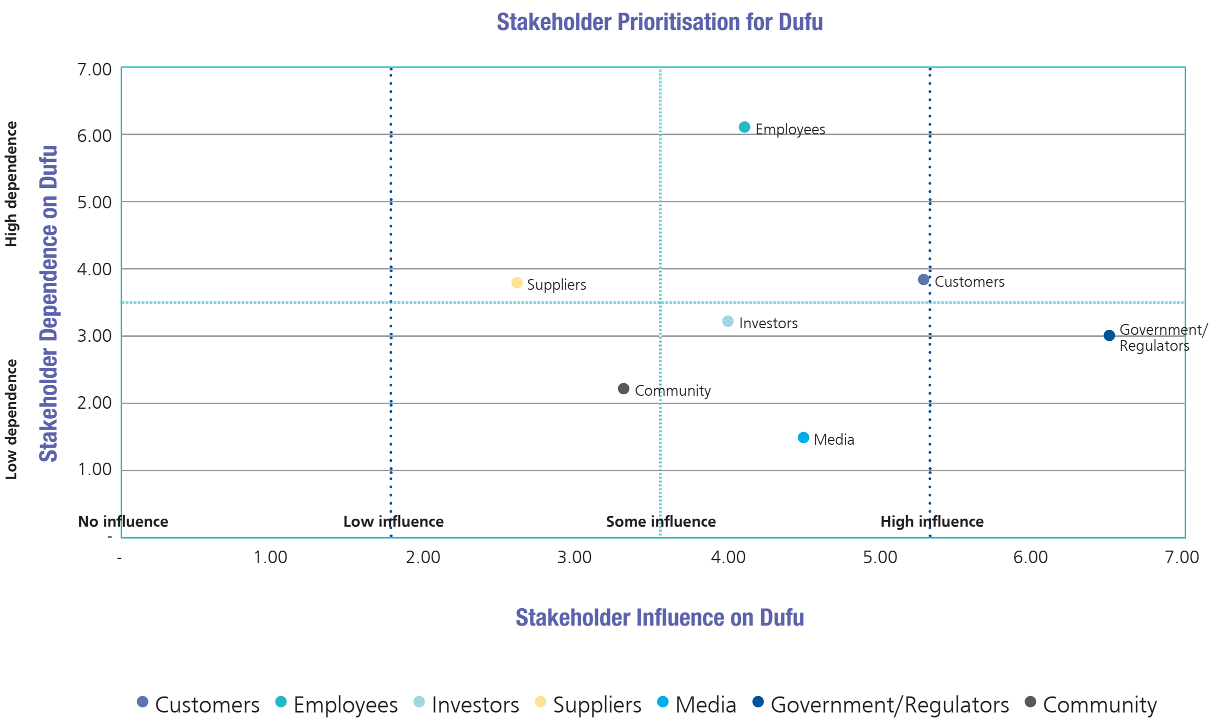
Stakeholder engagement on sustainability topics, type and frequency of engagement

Stakeholders	Sustainability Topics	Type of Engagement	Frequency
Customers	• Production quality and improvement • Product quality and performance • Sustaining long term relationship • Operation in compliance with applicable laws and standards	• Customer satisfaction survey • On-site visits at Dufu's premises • Customer audit • Early supplier involvement • Business Review	Annually On-going On-going On-going As required
Employees	• Health and safety • Communication and engagement • Working condition and welfare • Employee satisfaction • Career development and training • Business performance review • Operation in compliance with applicable laws and standards	• Social events with employees • Appraisal and performance review • Training and development • Employee engagement survey • Formal meeting and discussion	On-going Semi-Annually On-going As required On-going
Investors/ Shareholders	• Business performance • Operation in compliance with applicable laws and regulations • Strategic plans	• Interim results • Regular meetings and correspondence • Annual Report • Feedback to media enquiries • Corporate website and investor relationship channel	Quarterly On-going Annually As required On-going
Suppliers	• Forging strategic partnership • Supplier performance review • Product quality	• Key supplier audits • Supplier selection via pre-qualification • Regular meetings and correspondence • Supplier rating	On-going As required On-going Quarterly
Media	• Timely and accurate information	• Press release	As required
Government and Regulators	• Regulatory compliance	• Site visit and meeting • Participating in program organised by government bodies	As required As required
Community	• Environment protection • Operation in compliance with applicable laws and regulations • Local community activities involvement	• Participation in local community and activities • Sponsorship • Informal communication through email and phone calls	On-going On-going On-going

Stakeholder Prioritization

We recognise the need to balance our strategy in pursuit of our sustainable growth with the expectations from various stakeholders. In line with that belief, we have established a series of informal engagement initiatives with various stakeholders through the Group's respective business and supporting units via various channels from time to time to gauge their feedback and address their expectations. The last stakeholder's prioritisation exercise was carried out in May 2018 where members of SMC identified multiple stakeholders with varying degree of influence and dependence on Dufu. Based on the results obtained therein, Customers and Employees were found to be the most crucial groups in Dufu's Stakeholder Prioritization Matrix as illustrated in the diagram below.

Stakeholder Prioritization Matrix



Materiality Matrix

Dufu adopted a structured materiality assessment approach which is guided by Bursa Malaysia's Sustainability Reporting Guide. The Group's materiality assessment and awareness workshop was first introduced and conducted in May 2018 by bringing together the internal company perspective with that of Dufu's broad range of external stakeholders. In that session, the SMC discussed various sustainability matters pertaining to the Group. The structured workshop included all the SMC members represented by Management, Department Heads and representatives from Human Resource, Sales, Quality Assurance, Finance, Operation, Procurement, Internal Control and Corporate departments. Previous input and feedback received in various interactions with customers, employees, investors, regulators, and other external stakeholders was incorporated into the discussion. In the meeting, the threshold for the materiality level was established and agreed upon by SMC.

Materiality Matrix (cont'd)

Subsequently on 16 October 2019, the materiality matrix of all the sustainability matters was revised by the respective leaders and agreed by SMC. The outcome of the materiality assessment, as shown in diagram below, was presented to the Board of Directors on 5 November 2019. Product Quality, Strategic Growth, Customer Service and Local Hiring are the top material sustainability matters which are highly significant to both our stakeholders and Dufu.

Prioritisation of Sustainability Matters

ECONOMIC

Our key initiatives for business sustainability within the economic space are focused on the following key areas:

Financial Performance and Strategic Growth

Our financial performance is of significant importance to our internal and external stakeholders alike where our sustainable growth allows us to strengthen partnership with customers and suppliers. We also acknowledge that providing returns to shareholders is one of our most important tasks, and with this Dufu has adopted a long-term dividend policy of a 50% dividend pay-out ratio in line with the Group's operational earnings while reflecting an overall balanced consideration of factors such as business fundamentals, financial conditions and cash flow.

A summary of our key Financial Performance and Growth for the year 2019 are as follows:

Dufu Group Financial Performance Highlights for FY2019

Revenue

RM **249.1** MILLION

FY2018 : **RM241.4 million**

FY 2019	FY 2018
RM 249.1 Million	RM 241.4 Million

Profit After Tax

RM **44.1** MILLION

FY2018 : **RM51.8 million**

FY 2019	FY 2018
RM 44.1 Million	RM 51.8 Million

Return on Equity

20.8%

FY2018 : **RM29.9%**

FY 2019	FY 2018
20.8 %	29.9 %

Dividend Distributed worth to Shareholders

RM **25.0*** MILLION

FY2018 : **RM11.4 million**

FY 2019	FY 2018
RM 25.0* Million	RM 11.4 Million

Inclusive of the Single Tier Final Dividend for FY2018 by way of one treasury share for every twenty shares held is deemed to be worth 8.15 sen per share based on the closing price at the date of announcement on 26 February 2019

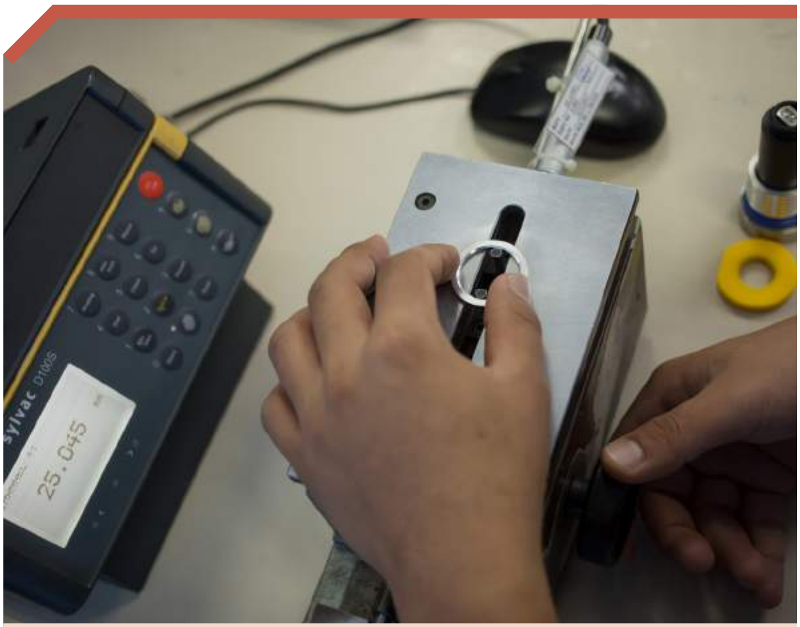
Financial Performance and Strategic Growth (cont'd)

We shall continue to strive towards long-term business profitability and growth as well as maintaining our preferred supplier status by providing a one-stop manufacturing facility offering quality products and services in driving sales. We have developed and implemented the following strategies in the Group's pursuit for sustainable long-term growth in FY2019:

1. Continued to invest in infrastructure and machineries to maintain current market share for targeted growth of Hard Disk Drive ("HDD") components. The continuing surging of data generation by businesses, data centers and cloud service providers will likely cause bountiful need for electronic data storage. Due to this, we expect the capacity oriented nearline for Enterprise HDD market will continue to be on uptrend mode for years to come;

2. The acquisition of the factory building at Bukit Minyak Industrial Park with land area of 0.81 hectare together with the incorporation of 75% owned Dufu Metal Sdn Bhd in FY2018 provided the Group with technical capabilities and offers one-stop solutions center specializing in sheet metal and structure fabrication for equipment manufactures. The new plant commenced operation effective 1 August 2019 and positioning its manufacturing services for potential business opportunities indirectly from the coming 5G roll outs.

3. We have successfully obtained the International Automotive Task Force ("IATF") 16949:2016 certification on 15 April 2019, the first precursor to enter into stamping and machining precision of automotive components. This is part of our overall long-term diversification strategy to grow revenue with balanced product portfolio.



Spacers will continue to play an important role towards HDDs capacity expansion

The manufacturing plant in the new factory building at Bukit Minyak Industrial Park commenced operation effective 1 August 2019

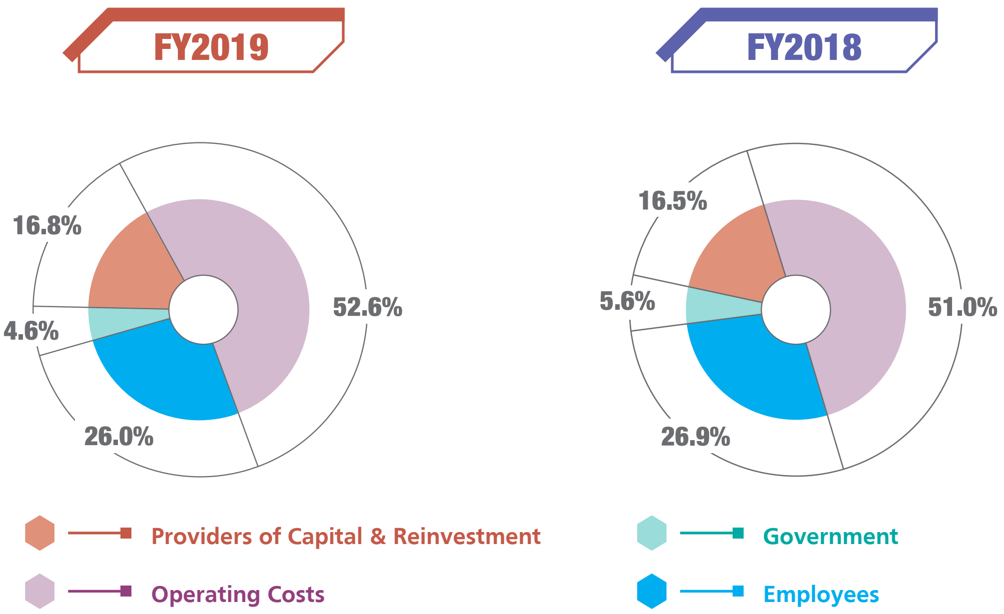
Direct Economic Value Generated and Distributed

Strong financial performance is key to the sustainable growth of any business and its future success. This aspect is material because financial success is necessary for our business to meet its sustainability goals now and in the future. Our financial performance also directly affects other stakeholders, such as our employees, government, local communities and investors.

The following pie chart summarizes the direct economic value generated and distributed by Dufu Group. It describes the financial benefits we have created for various stakeholders:

	FY2019 MYR	FY2018 MYR
Value Distribution		
Employees	**60,830,169**	58,051,162
Government	**10,790,221**	12,152,812
Providers of Capital & Reinvestment	**39,484,147**	35,584,528
Operating Costs	**123,225,800**	110,104,885
	234,330,337	215,893,387
Value Distribution (By %)		
Employees	**26.0%**	26.9%
Government	**4.6%**	5.6%
Providers of Capital & Reinvestment	**16.8%**	16.5%
Operating Costs	**52.6%**	51.0%
	100.0%	100.0%

Direct Economic Value Distribution (By %)



Procurement Practices

We drive our business unit's needs for goods and services towards local procurement while taking into consideration the need to establish a secure, reliable and cost-effective supply chain that conforms to the highest standards of quality and delivery. Obviously, not everything that we procure could be source locally. For example, our need to import machine tools and equipment such as CNC machines and measuring equipments and its related spares and accessories. Furthermore, most of the engineering materials required by customers are not commonly available in the local market. These two aspects are the main reasons why the proportion of spending on foreign purchases are significant to the Group (55% of total purchase in FY2019 and FY2018).

Customer Satisfaction

The Group's economic success and in particular, the success of our extension strategy is directly linked to the satisfaction level of our customers. Customers' satisfaction is always our priority and focus for our managers in respective business segment.

We continued to focus on taking customer interests into account by implementing timely measures to improve product quality and deliverables in the interests of our customers. For instance, we developed mechanical tools and the continuing improvement in our process techniques have helped to prevent handling defects. Listening to customer feedback from around the world and utilize their feedback for product development throughout its entire lifecycle is part of Dufu's culture which we have cultivated in our pursuit to achieve total customer satisfaction. As a result, customers felt confidence in using our products where they are assured of timely delivery with consistent quality goods, and thus achieve their business goals.

Customer survey is carried out on yearly basis to assess customer satisfaction. In 2019, we received an overall customer satisfaction score of 91.8%. It's our intention to address customer's concern and areas that require improvement.

Supplier Chain Management

Dufu recognised that ethical sourcing and responsible supply chain management is critical to its procurement decisions. We encourage approved suppliers to support our key sustainability initiatives through adoption and implementation of sustainable business practices. Under our supplier's selection and evaluation process, in addition to the price, service, flexibility and quality that they need to achieve in accordance with our expectation, all major suppliers are also assessed on sustainability aspects as well. We ensure all our raw materials sourcing are RoHS (Restriction of Hazardous Substances) and REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) compliance.

We also carry quality and "labour ethics and safety" audits at the premises of key suppliers and vendors. Should there be any findings of identified high risk areas, corrective actions are expected from them. We also provide training to suppliers on continuous improvement processes to facilitate implementation of any corrective actions required. We also measure supplier performance quarterly. In FY2019, the supplier performance evaluation was revised to extend important criteria to enhance supplier's key performance index to give a broader measure of overall supplier performance critical to the Group's operations.

Some of the suppliers are required to attend Dufu's Quality Assurance in-house workshop which is part of our Quality Initiative Plan

Our QA Senior Engineer, Saifulhafizam conducting "Product Traceability" training for Dufu's suppliers.

At the end of each the workshop, suppliers will be acknowledged with Dufu's "Certificate of Appreciation"

Commitment to quality

Having the latest revision of ISO 9001:2015 certification is a testament that we continue to uphold a consistent quality standard of our products. A comprehensive quality management system framework has been established to ensure customers that quality assurance policies and procedures are in place to address product quality and reliability on regular basis, as well as improving work efficiency.


CERTIFICATE

kiwa

Quality Management System Certificate
ISO 9001:2015

Dufu Industries Sdn. Bhd.

CERMET IAF ACCREDIA

DISB was recertified with ISO9001:2015 on 15 April 2019

We have stringent quality controls in our entire operations. Our quality practices involve various stages of design, tooling, process and control while adopting well known quality work standardisation techniques such as Poka Yoke, Six Sigma, Design for Manufacturability ("DFM"), Failure Mode Effect Analysis ("FMEA"), Statistical Process Control ("SPC") and etc. Incoming material inspection is conducted to ensure raw materials and components comply with documented standards before mass production whereas in-process quality audit detects any abnormalities in our manufacturing process. In between, all our products are subject to in-depth monitoring and quality control checks during different stages of production using delicated measurement tools, metrology and laboratory equipment. Our finished goods quality assessment helps to verify the reliability and compliance of our products, other than ensuring the products meet the required specification and defects-free at the time of delivery. Thereafter, we ensure that every product that we deliver is consistently on-time. This way, our products meet customers' expectations, along with that – we build their confidence and trust.

We've built and incorporated quality practices such as SPC, Poka-Yoke, FMEA, 8D Problem-Solving and DFM methodology etc into working environment for continuous quality improvements

SUSTAINABILITY STATEMENT (CONT'D)

CORPORATE GOVERNANCE

Good Corporate Governance is an indication of the Board's commitment to achieve the desired standards of professionalism and business ethics across the Group's activities. We acknowledge that it is a form of self-regulation which is part of our sustainability journey aimed at enhancing business propositions, with consideration of various stakeholders' value and expectation.

Our company policy and procedures have been constantly improved to ensure our corporate governance structure meets not only the legislative requirement on par with the industry best practices. Details of Dufu's corporate governance framework and practices are elaborated in the Overview Statement of Corporate Governance contain in this Annual Report.

Board Diversity and Structure

The Board of the Company comprises two Executive Directors and four Independent Non-Executive Directors. Their names and brief biographies can be found in the section "Board of Directors' Profile" of the Annual Report FY2019. The duties and responsibilities of the Board is spelt out in the Board Charter. The Board has established an Audit Committee, a Nomination Committee, a Remuneration Committee, Risk Management Committee, ESOS Committee and an Investment Committee with defined terms of reference to assist and support the Board in discharging its governance and other responsibilities.

The Nomination Committee regularly reviews the composition of the Board and Board Committees. The Board comprises a mixture of qualified and experienced directors with diverse experience, background and expertise. The combination of diverse professionals with varies background, experience and expertise in legal, finance and corporate affairs have also enabled the Board to discharge its responsibilities effectively and efficiently. The skillsets and diversity in the race/ethnicity (cultural background), nationality, age and gender of the existing Board members are disclosed in Practice 4.4 of the Corporate Governance Report for FY2019.

Dufu has an optimal mix of skills, expertise and experience of board members collectively equipped to guide the business and strategy of the Group. In addition to this, having 4 out of 6 Board members as independent directors achieve the right balance crucial to a well-functioning board.

Dufu's 17th Annual General Meeting ("AGM") was held on 7 May 2019. During the AGM, the CEO and directors share with shareholders the past year's business performance, strategies and the outlook going forward. Shareholders were insightful into how open and transparent the board and management were — especially when faced with hard questions.

Both the CEO and CFO gave ample time for shareholders to ask the management questions pre and post AGM. AGM is the avenue to facilitate the shareholder's face-to-face interaction with company directors and Key Management representatives.

Investor Relation

As part of our effort to enhance Dufu's corporate governance, we are committed to provide accurate information and disclosures in transparent and timely manner to all our shareholders. We continued to improve on the timely delivery of the Annual Report and Quarterly Financial Results in 2019.

Release of Dufu's Annual Report and Quarterly Financial Results

Financial Results	Date of Issue/ Release	No. of Days after end of Year/ Quarter	Bursa Securities Deadline for the Issue/ Release
Annual Report			
2018	**29 March 2019**	**88**	**30 April 2019**
2017	30 March 2018	89	30 April 2018
2016	28 April 2017	118	30 April 2017
2015	27 April 2016	118	30 April 2016
Quarterly Results			
2019			
1st Quarter	**7 May 2019**	**37**	**31 May 2019**
2nd Quarter	**7 August 2019**	**38**	**31 August 2019**
3rd Quarter	**5 November 2019**	**36**	**30 November 2019**
4th Quarter	**26 February 2020**	**57**	**29 February 2020**
2018			
1st Quarter	22 May 2018	52	31 May 2018
2nd Quarter	7 August 2018	38	31 August 2018
3rd Quarter	9 November 2018	40	30 November 2018
4th Quarter	26 February 2019	57	28 February 2019

We regard Investor Relation an essential part of Dufu's corporate DNA. Our effort has been acknowledged by Malaysia Investor Relations Association ("MIRA") where Dufu was nominated for the first time in the 9th Malaysia Investor Relations (IR) 2019 Survey for various categories such as "Best Company for IR", "Business Knowledge & Insights of IR Team", "Quality of One-on-One Meetings", "Best CFO for IR" and "Quality of Annual Reports/ Formal Disclosure". Although we didn't emerge as winners in any of those categories, we are very proud to be recognized for our contribution in setting exemplary IR practices from the Malaysian listed entities through an independent IR Survey and poll of investing firms covering Malaysian equities.

Dufu was recognised as RHB's Top 20 Jewels in their 2019 Edition which apart from growth prospects and earnings delivery, also emphasis on corporate governance screening.

Dufu Technology Corp
Riding The Big Data Era

Target: N/A
Price: MYR1.69

Source: Bloomberg

Stock Profile

Bloomberg Ticker	DUFU MK
Avg Turnover (MYR/USD)	6.23m/1.53m
Net Gearing (%)	Net Cash
Market Cap (MYRm)	412.5m
Beta (x)	1.76
BVPS (MYR)	0.71
52-wk Price low/high (MYR)	0.627 - 2.713
Free float (%)	41.3

Major Shareholders (%)

Perfect Full Yen Sdn	10.99
Perfect Commerce Sdn	10.39
Lee Hui-Te	9.68

Share Performance (%)

	1m	3m	6m	12m
Absolute	0.6	(16.0)	(3.6)	126.9
Relative	4.0	(15.2)	4.7	140.7

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Investment Merits

- Riding on strong demand for storage solutions for enterprise and data centre infrastructure with the adoption of industry 4.0
- Surge in demand for high quality (high margin) HDD components
- Solid balance sheet with net cash position and healthy dividends
- Trading at only 6.8x 2019F P/E, below historical average and peers

Company Profile

Dufu Technology is engaged in the design, development, and manufacturing of precision machining components, computer disk-drive related components, steel moulds and stamping components, as well as providing marketing and engineering support services.

Highlights

Riding the Industry 4.0 revolution. IDC, in its Data Age 2025 report, predicts that worldwide data creation will grow to an enormous 163 zettabytes (ZB) by 2025, which is 10x the amount of data produced in 2017, while hard drives will be central in managing 70% of the datasphere. Internet of Things (IoT), real-time data, cognitive artificial intelligence (AI) systems, increased security data requirements, and big data analytics are among the key trends. The trend should result in strong demand for high capacity HDDs, especially from data centres and catering to growing demand for big data and cloud services. Dufu, which manufactures HDD-related components, is set to ride on the increasing demand for HDD.

HDD still very much relevant. Enterprise solutions and data centres are largely still on HDD (or hybrid HDD and SSD) given its stability and longevity with lower cost per GB, while SSDs could be 10x more expensive for high capacity drives. Note that the latest helium-filled HDD platform in the market can house up to nine platters, which essentially increases demand for spacers. This is part of the reason why HDD unit shipments are downtrending (along with the popularity of SSD and contraction in PC market), while total storage capacity is still on the rise (combined storage shipment jumped 21% to 912 exabytes in 2018) – this has increased demand for HDD components.

Next generation HDD is ready. The next generation enterprise hard drive Heat-Assisted Magnetic Recording (HAMR) and Microwave-Assisted Magnetic Recording (MAMR) have been successfully developed and mass production is expected in 2019. First models to hit the market this year will be 16-20 TB drives for data centres. Essentially, both new technologies are aiming to increase areal density (up to 5tbpsi) to produce larger capacity hard drives, and both would require higher quality material spacers eg titanium (at higher margin) to ensure reliability – this is Dufu's speciality.

11 Top Malaysia Small Cap Companies 2019

RHB

Risk Management

Dufu has implemented an organisational structure with formal and clearly defined lines of responsibility and delegation of authority for risk management. To ensure the effectiveness of risk management, there are three distinctive but complementary roles for implementing the risk management policies and objectives of the Group, and monitoring the risk management process. First and foremost, the Enterprise Risk Management ("ERM") is practised at Dufu where the Group's Risk Management Committee ("RMC") led by the Group Chief Executive Officer and supported by various Department Heads is responsible to perform periodic review, assessment and update of the Risk Register during the RMC meetings held quarterly and their findings will also be reported to the Board on quarterly basis.

Secondly, the Group also has its own Internal Control Department where the role of this department monitors the Group's operational performance and safeguarding of assets covering areas such as labour efficiency, scrap, machine performance, fixed assets, material yield usage, stocks and tool management.

Finally, the Company outsourced its internal audit function to Eco Asia Advisory Sdn Bhd ("Eco Asia"), an independent professional firm as an internal auditor to provide independent assurance to the Audit Committee that the Group's risk management, governance and internal control processes are operating effectively. Eco Asia extended its internal audit function to cover the Group's overseas subsidiaries in China and Singapore for the first time in their audit plan for FY2019. For further information on Risk Management, please refer to the section in Statement of Risk Management and Internal Control of the Annual Report FY2019.

Code of Conduct and Ethics, Anti-Corruption and Whistleblowing

The Code of Conduct and Ethics ("CCE") of Dufu states the standards of responsibility and obligations and promotes fair dealing, integrity and ethical conduct in the way we conduct our business. The CCE, which is subject to periodic review, is our way to set the tone and standards in articulating acceptable practices and guide of behaviours expected from Directors, Management and employees that integrates into Dufu's company-wide management practices.

We have established and implemented the policies and procedures on whistleblowing to facilitate the stakeholders of Dufu to report genuine concerns or allegations to a senior or independent member of the management of the Group about alleged unethical behaviour, actual or suspected fraud within the Group, or improper business conduct affecting the Group. By encouraging a whistle blowing culture, we hope to achieve a desirable organisation of transparent structure and effective, clear communication. The Group is aware that the corporate liability amendments to the Malaysian Anti-Corruption Act ("MACC") will be brought into force on 1 June 2020. We are currently studying and preparing the necessity to comprehend the requirements of MACC. We are certain that the important defence of adequate procedures will be in place throughout Dufu's organization once the law is eventually enforced.

LABOUR PRACTICES

Dufu aims to provide a supportive, pleasant and healthy workplace for employee and to foster a caring community in its working environment. We care for our employees and recognise that having good staff relations and a motivated workforce are crucial to our success. They are our partners in delivering and maintaining products and services of the highest quality standards to our customers. We acknowledge our people are the foundation of our business. As such, we support life-long learning and development of our people via yearly training and development programmes. We also place importance on the safety and well-being of employees, and we are committed to providing and maintaining a safe and healthy work environment.

Respect of Labour and Human Rights

Dufu is committed to uphold the human rights of workers, and to treat them with dignity and respect as understood by the international community with Responsible Business Alliance ("RBA") and Occupational Health and Safety Assessment Series ("OHSAS") 18001 as the recognised standards. This applies to all workers including temporary, migrant, student, contract, direct employees, and any other type of worker. Our written policy is aimed to:

1) Attain the highest standard of employment practice in compliance with the enacted laws
2) Uphold the culture and principles of equal opportunities in employment
3) Create a working environment where every member of our team is treated fairly and without fear of reprisal, intimidation or harassment.

Respect of Labour and Human Rights (cont'd)

We are committed to respecting the labour and human rights of all our staff through the following principles, which are clearly stated in our human resources management policies:

FREELY CHOSEN EMPLOYMENT

We do not use forced, bonded (including debt bondage), indentured or involuntary prison labour. Neither, do we exploit persons working for us by means of slavery or trafficking by means of threat, coercion or fraud. At Dufu, our terms of employment are voluntary and workers are free to leave anytime or terminate their employment upon reasonable notice under the terms of their labour contracts. We only hire foreign workers with legal work permits and they have free access to their passports at all times with accommodation provided.

YOUNG WORKERS

Child labour is not to be used in any stage of business processes as we strictly adhere to the various restrictions on the employment of child labour imposed by both the local and international regulations.

WORKING HOURS

Workweeks are not to exceed the maximum set by local law. We encourage reasonable work hours, including overtime, except in emergency or unusual situations. However, overtime is voluntary and employees are paid in accordance with statutory order.

WAGES AND BENEFITS

Compensation and benefits paid to employees shall comply with all applicable wage laws, including those relating to minimum wages, overtime hours and legally mandated benefits. We do not impose wage deduction as a disciplinary measure.

HUMANE TREATMENT

Across our organisation, we have embedded a culture of no harsh and inhumane treatment including any sexual harassment, sexual abuse, corporal punishment, mental or physical coercion or verbal abuse of workers; nor is there to be the threat of any such treatment. We have put in place clearly defined disciplinary policies and procedures in support of these requirements with multiple communication channels broadcast to all level of employees to ensure effective implementation throughout the Group.

NON-DISCRIMINATION

Dufu embrace a workforce free of harassment and unlawful discrimination such as race, colour, age, gender, sexual orientation, ethnicity, disability, pregnancy, religion, political affiliation, union membership or marital status in hiring and employment practices such as promotions, rewards, and access to training. Hiring and remuneration is determined with reference to job related factors such as performance, qualifications and experience. In addition, employees are not subjected to medical tests that could be used in a discriminatory way. We accommodate workers religious practices disregarding their race and religion as we understand and respect each individual's faith by taking extra steps to provide space, time, and flexibility to allow employees to meet their religious obligations.

FREEDOM OF ASSOCIATION

We respect the rights of workers to associate freely, seek representation, and join workers' councils in accordance with local laws. We adopt open communication and direct engagement between workers and Management as we believe they are the most effective ways to resolve workplace and compensation issues. Our doors are always open for employees to communicate and share grievances with Management regarding working conditions and Management practices without fear of reprisal, intimidation or harassment.

Employee Profile

Employees by Local and Non-Local

	FY2019	FY2018
LOCAL	437	299
NON-LOCAL	493	490
TOTAL	930	789

Employees by Gender

	FY2019	FY2018
MALE	717	625
FEMALE	213	164
TOTAL	930	789

Employees in Executive Position by Local and Non-Local

	FY2019	FY2018
LOCAL	136	123
NON-LOCAL	3	3
TOTAL	139	126

Employees in Executive Position by Gender

	FY2019	FY2018
MALE	84	71
FEMALE	55	55
TOTAL	139	126

Employees by Age

	FY2019	FY2018
< 30 years old	563	462
30 - 50 years old	335	300
> 50 years old	32	27
TOTAL	930	789

Employee Turnover Rate

FY2019	FY2018
1.01 %	1.11 %

Transforming People Practices Towards Sustainable and Balanced Workforce

"Employees are our greatest asset and strong workforce is the key sustainability manner in supporting business growth. Dependent on foreign direct workers is a common sight in the industry we are operating. The grassroot of having a strong workforce starts with nurturing local labour force. In align to Malaysia government initiatives to promote employment for local labour, we started to review our hiring process and established plan to attract more local talent to work in Dufu. Today, I am glad the effort has helped us to improve and attained higher local labour force in our workforce composition."
- Yeoh Beng Hooi (Group CEO)

Enhancing Local Hiring Practices

In order to increase our local workforce, we started to enhance our hiring practices in the beginning of 2019 as to improve our ability to attract, recruit, develop, engage and retain local talent. At the beginning of 2019, we have 38% local workforce from 789 employees in Malaysia. We have improved this ratio since then. As at 31 December 2019, the composition of local workforce has increased to 47%. With 930 employees now, this translate into a net addition of 141 workforce with 98% incremental recruitment coming from local workers.

It's a challenge on the hunt for local labour. Knowing well that in Penang, the market faces scarcity of labour force, we put lots of efforts to attract and retain local talents to work in Dufu. This involves evolving our hiring processes. First, we improved the job interview cycle and shortened its waiting time, making the interviewee feel at home and standardized the interview questionnaires. We encourage interactive for the job function, worker compensation as well as introduction of company recreation activities during interview session. Second, we adopt lean recruitment practices to smoother the recruitment process and make it a positive experience for the job applicant. We also intensified inroad local sourcing by organising and participating close to 20 "career fair" and "open interview" held in the northern region throughout 2019. And finally, we conducted "New Hire" and "Leaver" survey and analysed behaviours of new employees and employees who either didn't turn up or quit after a short employment with us. We are building and improve Dufu into an inclusive workplace that makes diverse employees feel valued, welcome, integrated and included as part of our family.

We were engaged in close to 20 career fairs in 2019 targeting potential employees in northern region. We tried to articulate supportive workplace that makes potential employees feel valued, happy and fun working in Dufu.

SUSTAINABILITY STATEMENT (CONT'D)

Intern turns Employee

Sally Ong Soo Chyi joined Dufu Industries Sdn Bhd ("DISB") at the age of 21 on 5th February 2018, first as an Industrial Trainee with a Diploma from a local institution. Once she graduated with a degree in Bachelor of Business (Honours) Accounting & Finance, she joined DISB as Finance Officer mainly involved in performing specific task such as Accounts Payables and Payments. On 1 July 2019, Sally was assigned to handle full set of Accounts following the revival to one of the subsidiaries of the Group, Dufusion Sdn Bhd and subsequently on 1 February 2020, she was promoted to Assistant Accountant.

Sally is quite motivated about the change in her job function: *"Despite being new to the Group, I am involved in many different aspects of the Finance and Accounts Department's job roles function. Finding that my exposure rich in experience is going to be helpful in my future upbringing. Despite I am facing many challenges, my superior is always there when on-job coaching is required."*

Collaborating with Higher Institutions to Create Career-Ready Graduates

As part of our Corporate Social Responsibility initiative, we collaborated with Institute Kemahiran Tinggi Belia Negara, Jitra ("IKTBN") and Kolej Kemahiran Tinggi MARA, Balik Pulau ("KKTM") in our bid to increase graduate employability by equipping students with current and future-ready skills.

The features of the collaboration include apprenticeships, hands-on training, real-life simulations and specialised employer training programmes. We hope to recruit some of these students eventually. On broader horizon, it is our wish to see the internship students have successfully address their skills gap for their own advancement of their social progress and economic opportunity.

On 13 November 2019, a total of 14 students from KKTM enrolled in our programme and were placed in our strategic departments such as Computer Numerical Control ("CNC"), Tool and Die and Electrical Discharge Machining ("EDM"). On 26 November 2019, we welcomed 20 students from IKTBN for their educational visit to our plant. An interview session was also held and some of the students will be place under 3 months internship training next year. On top of this, a total of 14 higher learning students from both local and foreign institutions also took part in our internship programme in FY2019.

Employee Development and Talent Management

Dufu's human capital is developed and strengthened through its people investment. Continuous training and professional development programmes have helped to boost the hard and soft skills of employees, positioning them in good stead to alleviate the performance standard quality to enable us to stay on the forefront of the everchanging needs from our customers. As we reassess our retention strategies, we are optimising the rewards to align them with our employee preferences. And for this reason, a long-term incentive plan in form of Employee Share Option Scheme ("ESOS") was implemented on 1 July 2019. The ESOS is based on a reward system designed to improve employees' long-term performance by providing rewards that tied to creating shareholders wealth.

Newly recruited employee will undergo orientation program to help the new employee feel welcome and to understand the culture and background of the organisation. New employee will also be exposed to on-job structured training program tailored to their respective roles. On a yearly basis, Department Heads are required to review the training needs of their staff, evaluate the content and result of training courses and develop training programmes not limited to meeting Dufu's business needs, but also to enhance individuals' knowledge and skills.

As part of our holistic talent development programme, we have established Dufu in-house Toastmasters club way back in 2016. This fully sponsored club's meetings is held every fortnightly Wednesday noon at 12pm for two hours and was initially set-up for its long-time mission of helping Dufu's employees be more proficient public speakers. The club has recently expanded its activities to include leadership training and regularly receive visitation from external members to share their views and knowledge to alleviate the club's standard. Beyond that traditional agenda, the club has added speechcraft, an intensive public speaking program, in the fundamentals of public speaking, communication, and leading meetings offered to non-Toastmasters or new members of our club.

Employee Development and Talent Management (Cont'd)


Guest from outside our organisation occasionally "drop in" to mentor and infuse our club members with positive energy and excitement.


Contestants penning down their thoughts into words during the annual Dufu Toastmasters Club's Speech Evaluation Contest held on 16 October 2019.

At Dufu, our employees' development programme is categorised into internal and external. Both have its own distinctive merits. The internal training uses real-life examples, problems and challenges that participants encounter every day at work. It is often shorter in duration and thus creates more focus and is presented in terminology that participants understand and can relate to. We organised a total of 72 (FY2018: 62) in-house training programmes equivalent to 8,100 (FY2018: 6,416) training hours in FY2019. The type of internal training provided to the employees were as follows:

Internal Training Frequency By Type

	FY2019 No. of Training	FY2018 No. of Training
Environmental, Health and Safety	16	15
Manufacturing	7	6
Quality	39	25
Machinery	10	16
Total No. of Internal Training	72	62

External training programmes were organised by Dufu for employees of all job levels to allow them to hone skills necessary for their career advancement. Some of the notable external training and development courses made available in-house for our employees in FY2019 were as follows:

- Introduction to Industry 4.0
- Handling Difficult People
- Influential Communication Skills via Psychology Approach
- Situational Leadership for Managers
- Project Management for Executive
- SPC Implementation and Analysis
- Geometric Dimensioning and Tolerancing
- Microsoft Excel Macro Programming – Basic to Intermediate
- Excel 2016 Formula and Function
- ISO45001:2018 Occupational Health and Safety Management Systems

All in all, we invested a total of 6,348 (FY2018: 4,539) external training hours and registered 7 (FY2018: 6) average hours of external training per employee in FY2019. The increased in total external training hours was remarkable given that we have increased the Group's headcount in 2019.

Employee Development and Talent Management (Cont'd)

The type of external training that our employees participated were as follows:

External Training Hours By Type

	FY2019 No. of Hours	FY2018 No. of Hours
Administrative Skills	117	1,029
Engineering and Maintenance	-	24
Industrial Safety and Environmental Management	1,007	480
Information Technology	880	208
Management and Performance Development	1,304	1,086
Quality System and Productivity Improvement	3,040	1,712
Total	6,348	4,539

FY2019
14,448 Total Training Hours

FY2018
10,955 Total Training Hours

IMPROVE
3,493 Hours

FY2019
Investment of 17 Hours Per Employee

FY2018
Investment of 14 Hours Per Employee

IMPROVE
3 Hours

A two-day training on Situational Leadership for Managers was conducted at our main plant on 22-23 November 2019. Hopefully, our Managers and Executives are now comfortable and aware that different leadership styles are required to manage workers in different situations.

On some of the seminars, the introduction of games kept participants focus and also to tap into their competitive sides – great way to keep the attendees engaged and on-task.

One of the many soft skills training session conducted in Dufu.

Husri Bin Hussain, the Group's Human Resource Director completed his Master of Science in Occupational Health and Safety Management from University Utara Malaysia in December 2018 under Dufu's Employer Sponsorship Programme. Under his stewardship, the Group's health and safety has strengthen considerably with improvements can be seen from the drop in occupational accident cases. He has also introduced and pioneered Dufu's Safety Week campaign in December 2019 where a week-long series of activities lined-up to help employees work towards their health goals. There were weight loss challenges, games, poster exhibition, medical talks by health experts, health screening, food stalls, BOMBA and JPAM exhibition and prizes.

"Sponsored employees can be encouraged by how their employers' value them, and be motivated to excel and contribute further. Committed employees may become advocates for their company, encouraging their relatives and friends to apply to work there. Also, it's very essential that we keep on improving ourselves professionally to become more thorough and capable leaders. I am thankful to Dufu for sponsoring me to pursue my study of my own interest and made me strengthen my focus on all that I ever wanted to achieve"

Employer Sponsorship Programme

Dufu has also developed its "Employer Sponsorship Programme". This programme allows Dufu to work along with outstanding employees in grooming them for senior management positions within the organisation. For us, it is a chance to finance continuous higher education for talented employees while encouraging them to stay and grow with the company. Developing high-potential employees pays off in retention, innovation and succession planning. Our willingness to sponsor our employee demonstrates our faith in the employee's future and in return the employees put what they learn to best use at the workplace.

Acting on Employee Engagement

We listen to our employee's grudges. We made some improvements to their suggestions based on the internal survey conducted in 2018. Some of the notable improvements made in FY2019 were to address the employees' general health and safety issues, improved the canteen environment and toilet cleanliness. Also, acting on employee's feedback, we have initiated a week long safety campaign for employees in December 2019.

It's important for companies to listen to their employees, but listening isn't enough. Organizations must carefully consider survey results and commit to meaningful and lasting change. Our employee survey from last year gave a flavour of the fantastic ideas people came up with. From these, one of the many actions taken was to improve the canteen environment to make them more conducive to eat.

Employee Benefits, Welfare and Well-being

Annual Dinner

We started off the new year with Dufu's "Rock & Roll" theme Annual Dinner 2018 which was held at Spice Convention Center on 5 January 2019. Approximately 850 people including Directors, suppliers, vendors and employees attended the event. This year's event brought in some wonderful entertainer in the form of professional dancers, singers and not forgetting our own employees who struct their talent in various dance acts. We had Lucky Draws, interactive games and on top of that, Service Recognition Awards Ceremony was presented to employees who were with us for more than 10, 15, 20 and 25 years. All our employees had a great time during the event which ended with lots of laughter and dancing.

Dufu's employees had a great night at the Rock 'n' Roll themed Gala where some of them came in their Rock' n' Roll outfits. Not only this, we loved seeing employees engaged and participated by dancing to some of the popular 60s rock' and roll tune. It was indeed a night to remember and above all else, our employees really rocks hard that night!

Employee Benefits, Welfare and Well-being (Cont'd)

Annual Dinner (Cont'd)

Recipients of Long Service Awards were honoured yearly during Dufu's Annual Dinner.

The reaction from our employees when they were announced as lucky draw winners. They have one thing in common – all of them was in "jubilant mood" and rightfully so when the top prizes were so lucrative!

"Boom Boom Room" Joanne Kam Poh Poh was the emcee for the evening and there were plenty of games and laughter in between. The crowds were thrilled with her wickedly humour and the games that our employees had to engage in.

SUSTAINABILITY STATEMENT (CONT'D)

Healthier work-life practices

We aim to create a healthy workplace that encourage employees to stay well. Simple, fun, and effective programs help them deal with challenges that affect their ability to be focused and productive. On a yearly basis, we collaborate with a private hospital to provide health screening at the work place to promote the well-being of our employees.

In order to foster a healthier work-life balance in Dufu and to spur the welfare of the employees, we have rolled out various activities in FY2019 for our employees to participate, release stress and foster positive relationship amongst colleagues. Amongst them were:

- (Bi)weekly indoor inter reactive classes such as toastmaster at our plant and outdoor sporting events such as badminton
- Yearly in-house sports tournament such as bowling, soccer, futsal and badminton tournament
- Team building for both exempt and non-exempt staff
- Greeting card and gift for employee who falls within the stipulated birthday month
- Wellness programme where free medical check-up for employees aged 40 and above
- Congratulatory vouchers for the newly-wed, hampers for newly born babies and condolence money for immediate family deaths
- Light meals and takeaway are provided by Management to employees during labour day; and
- An email blast to inform and congratulate employees of their new-born

The weeks (and months!) following the arrival of a little one can be extremely hectic and, at times, a little overwhelming for any parents. So, here at Dufu, making a parenting hamper is our way to celebrate a new arrival. A small token to provide a helping hand to the parents, our employees for the journey ahead!

Nothing makes the feeling of kinship stronger than celebrating Majlis Adil Fitri with both Muslimin and Non-Muslimin employees, their spouse and children. The event was held on 16 June 2019 where buffet lunch was served at Dufu's own courtyard.

Healthier work-life practices (Cont'd)

A simple token of appreciation is given to all employees to celebrate labour day. This year, we celebrated Labour Day by giving "J.Co Donuts" to each of our employee.

On 26 November 2019, Dufu in collaborating with a private hospital provides health screening for its employees. This has been an annual affair with employees above 40 years old receiving complimentary medical check-up.

For 2019, we give either cakes or chocolates to employees on their birthday and we hope every celebration ends with something sweet. Coupled these with a handwritten, personalized message note goes a long way for our employee to remember. It's all about creating memories!

On Saturday 7 April 2019, 210 keglers came together to participate in Dufu 2019 in-house Bowling competition. The response was overwhelming with confirmed registration of more than a quarter of Dufu's total work force! It was a lovely atmosphere as we create a sea of blue and yellow at Classic Bowl, Bukit Jambul Komplex Penang.

Healthier work-life practices (Cont'd)

Dufu's Annual Soccer Tournament 2019 was held on 7 July 2019. This year, the event attracted 168 employees and the winner eventually went to the "Men in Black".

This is how high I can jump to reach the ball! The enthusiasm shown by our players were awesome. The air of excitement attracted quite a few by-standers and neutral employees to the event, adding more fuel for our footballers to show off their talent. A fun and entertaining time was shared by all at the competition.

On Saturday 9 November 2019, 59 of us set off for a 2-day team building adventure. On the first day, participants were given a choice to decide if they were interested in Gopeng White Water rafting or to participate in water related activities at Sunway Lost World Tambun. Fun and games followed the following day where participants from both events combined and they had a great time bonding and spending quality time with each other.

100 of our staff were involved in non-exempt team building activities on Saturday 21 September 2019. Started out at Youth Park at 9 am where the participants were given light aerobic exercise before adjourning to Penang Hill for other team building related activities. Of all these activities, the King and Queen outfit design competition drew the most gut-busting laughter. All in, this event was a well-planned activity which manage to get staff loosen up outside the typical work environment while energizing them and strengthening colleagues' bonds.

A Safe and Healthy Work Environment

We invest in the health, safety, and wellness of our employees and our system and processes are modelled on the internationally recognized OHSAS 18001 standard. Through this process, we have improved our methods for identifying hazards, assessing risk, and applying risk controls consistently across our operations.

At Dufu, we have an Occupational Safety and Health Management ("OSH") unit to safeguard, manage, discuss and report areas related to Dufu's health, safety and environment ("HSE") performance. The OSH continues to monitor effectiveness, engage with Management, and drive improvement. About 40 people are part of Dufu's Emergency Response Team ("ERT"), ready to respond in emergency situations. They are trained to administer first aid, help evacuate buildings, and provide other assistance.

We express our thanks to officers from Bomba, medical practitioner and Jabatan Pertahanan Awam (Penang) who were presence in our factory premise in Bayan Lepas on 7 December 2019 for giving various talks on health and safety issues to some of our staff.

During the health and safety week, one of the international insurance firm shared some of their medical plan for the company's staff and dependents. Workers were free to seek for consultation to gauge their financial health check protection.

On 4 December 2019, many of our workers were seeing queuing for their turn to check their basic health screening indicators such as BMI, glucose, blood pressure, visceral fat level etc. We are thankful to Penang Adventist Hospital for providing complimentary health screening for our employees.

In conjunction with Dufu's Health and Safety Week, we also organized blood donation drive courtesy of Penang General Hospital at our factory premise. Seen here some of our staff is looking pretty cool and relax being a blood donor. Giving blood is indeed a quick, simple and yet effective way to give back to our community.

There were many competitive events held during the Safety and Health Week campaign such as weight loss and walking challenge, poster and video competition. Amongst all of these competitions, catwalk with Personal Protective Equipment ("PPE") was held during the closing ceremony and it drew the most laughter and cheers from the audience.

A Safe and Healthy Work Environment (Cont'd)

We also invited our employee's spouse and children for the event. The children especially have a soft spot for Bomba's Rapid Intervention Motorcycles on exhibit.

We have several booths from Bomba, Jabatan Perkhidmatan Awam and Hospital exhibiting materials and items related to their respective departments. Seen here are fire detector and prevention equipment and various fire extinguishers on display from Bomba Department.

The OSH unit has made significant progress to comprehend the safety and health of Dufu's employees where we felt proud of HSE performance for FY2019 as follows:

- Zero Fatality cases was recorded in FY2018 and FY2019
- No Occupational Illness was recorded for FY2018 and FY2019
- There was a reduction of 73.8% for Total Case Incident Rate from 2018 to 2019
- There was a reduction of 73.7% and 69.7% for Total Case Occupational Accident Frequency Rate and Severity Rate respectively from 2018 to 2019

Dufu Health and Safety key data are as follows:

	2019		2018		2017	
	Occupational Accident cases	Occupational, Poisoning and Disease cases	Occupational Accident cases	Occupational, Poisoning and Disease cases	Occupational Accident cases	Occupational, Poisoning and Disease cases
Fatality Rate *	-	-	-	-	-	-
Incident Rate *	2.35	-	8.98	-	11.91	-
Frequency Rate **	1.18	-	4.49	-	5.96	-
Severity Rate **	22.34	-	73.73	-	11.91	-

* Fatality and Incident Rate are based on 1,000 employees. Calculation is based on average number of monthly employees.

** Frequency and Severity rate are based on 500 employee / 8hr / 5 days / 50 weeks
Frequency rate is the no. of lost time injuries / illnesses per 1,000,000 exposure hours worked for a year
Severity rate is lost time injuries per 1,000,000 hours work
Note: 1 death = 6,000 lost days

Climate Change

At Dufu, we're routinely implementing new ways to reduce our environmental impact – from the processes we employ to manufacture products to the way we deliver them to customers. We start with our guiding principles, set forth in our Environmental Management System, registered to ISO 14001.

The adoption of this standard underlies our commitment to safeguarding the environment which can be seen from our effort on obtaining the environment permit, pollution prevention and resource reduction of hazardous substances, waste water, air emission and to adhere to product content restrictions, storm water management and minimise the energy consumption and greenhouse gas emissions.

The Group strives to conduct its business operations to combat impacts of climate change according to pragmatic principles and sustainable practices comprising 8 main aspects:

ENVIRONMENTAL PERMITS AND REPORTING

All required environmental permits (e.g. discharge monitoring), approvals and registrations are obtained, maintained and kept current and their operational and reporting requirements are strictly being adhered to.

POLLUTION PREVENTION AND RESOURCE REDUCTION

The use of resources and generation of waste of all types, including water and energy, are kept to minimum or eliminated at the source or by practices such as thorough monitoring and engineering control in production, maintenance and facility processes; materials substitution; conservation, recycling and re-using materials.

HAZARDOUS SUBSTANCES

All hazardous chemicals and other materials harmful to the environment are identified and appropriately managed to ensure their safe handling, movement, storage, use, recycling or reuse and disposal.

WASTEWATER AND SOLID WASTE

Wastewater and solid waste generated from operations, industrial processes and sanitation facilities are characterized, monitored, controlled and treated as required by local law prior to discharge or disposal.

AIR EMISSIONS

Air emissions of volatile organic chemicals, aerosols, corrosives, particulates, ozone depleting chemicals and combustion by-products generated from operations are characterized, monitored, controlled and treated as required prior to discharge.

MATERIALS RESTRICTIONS

Adherence to all applicable laws, regulations and customer requirements regarding prohibition or restriction of specific substances in products and manufacturing, including labelling for recycling and disposal.

STORM WATER MANAGEMENT

Preventive measures are in place at all times to prevent storm water contamination including discharge and spills from entering public drain.

ENERGY CONSUMPTION AND GREENHOUSE GAS EMISSIONS

Energy consumption and greenhouse gas emissions are tracked and documented while continuing to look for cost-effective methods to improve energy consumption and greenhouse gas emissions.

SUSTAINABILITY STATEMENT (CONT'D)

Climate Change (Cont'd)

Material waste is a constant in engineering and manufacturing workplaces. Just like any other metal working facilities, Dufu produces an overwhelming quantity of scrap metal chips that are saturated with cutting oils. The waste generated from metal components such as steel, aluminium and titanium are compacted before they are disposed to licensed scrap metal recycler. In this respect, Dufu's engineering team continues to find ways to improve yield and also to minimise the bar ends wastages while working on reclamation equipment that spin the cutting oils out of the metal chips. In Material Restrictions, we only procure materials with Restriction of Hazardous Substances ("ROHS") compliance.

	2019	2018	2017
Electricity (kWh)/ Sales (RM'000)	45.60	49.08	57.09

Production machinery and facility equipment contribute to the majority of the Group's energy consumption. We recognise the importance of properly managing and regulating energy consumption so as to keep operational costs low and help reduce the impact on the environment. In FY2019, the maintenance team introduced various electricity savings measure to optimise the energy consumption during the dry run mode in CNC machines. Also, we eliminate the use of air gun blower in some of our processes. Dufu facility team keep a close track of the high energy consumption items such as chiller and air compressor, and ensure the monitoring system in place for energy efficient usage. We have further extended the replacement of the conventional fluorescent lights with light emitting diode ("LED") technology in the new CNC plant in FY2019. Also, we have converted to LED lighting for our newly acquired factory in Bukit Minyak.

In addition, our employees have embedded the culture to switch off unnecessary appliances and air-conditioning during lunch hours and after office hours. This practice further reduces the energy wastages within our organisation.

	2019	2018	2017
Water (liter/ cubic meters)/ Sales	0.47	0.48	0.68

Water consumption per sales saw a slight decrease in FY2019. We continue working on improving the water efficiency specially to reduce water wastage by measuring the amount of water required for a particular purpose and the amount of water used or delivered. Our lavatory fixtures have been modified with self-push button taps and spray bidet to avoid unnecessary water wastage. All our flush tank has also been fitted with 1 litre of water filled bottle container and by doing so, each time our employee uses the flush toilet, we reduce water usage by 1 litre per flush without impairing the efficiency of flushing out the waste.

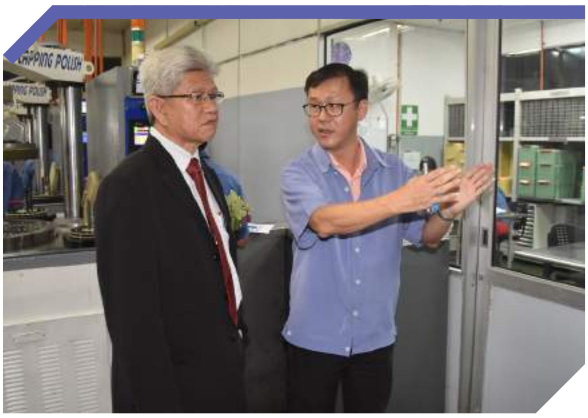
In Environmental Permits and Reporting for FY2019, the wastewater and industrial effluents monthly monitoring data submitted to Department of Environment ("DOE") and the monthly schedule waste generated and dispose at Dufu premises such as mixed contaminated rags, paper and filter, spent lubricating and hydraulic oil are in compliance to the respective Regulators in Malaysia.

The capacity and efficiency of the Industrial Effluent Treatment System ("IETS") was expanded in FY2019. The Equalisation and Treatment Tank and Clarifier has been successfully expanded to three times from its original capacity. Some of the processes pertaining to the maintenance of IETS has been automated such as chemical dispensing and auto triggering of the system if the quality of the treated water was found to fall below the criteria imposed by legislative requirements.

ENGAGEMENT WITH COMMUNITY

We are fully committed to be socially responsible organisation as we understand that the long-term success of any business cannot compromise the ability of future generations to meet their needs. With this in mind, the Group is fully committed to its Corporate Social Responsibility ("CSR") programs by engaging in various community service events.

On 5 May 2019, some of Dufu's business associates and partners were invited to participate in "Dufu Technology Lee Hui Ta Hole in One" Cup. This social and get-together inaugural golfing event was held to built bonding. Over the years, we've worked with many successful partners who attribute some of the strength in their partnership to time spent in social activities.



On 7 January 2019, we had the privileged of YB. Dato' IR. Hj. Ahmad Zakiyuddin Bin Abdul Rahman, Deputy Chief Minister of Penang I making his courtesy visit to Dufu's plant at Bayan Lepas. The delegation included representatives from Malaysian Investment Development Authority ("MIDA"), International Trade and Industry ("MITI") and InvestPenang. Without doubt, Dufu's technological advancement was made possible by the state government contribution to industries in Penang with regards to its infrastructure and facilities.

We were accorded as the premium corporate sponsor for the success of University Sains Malaysia ("USM") Mudballs Mini Carnival for a Sustainable Tomorrow held on 24 November 2019 where participants threw mudballs into Tasik Harapan for the nourishment of the pond in USM campus, Penang.

ENGAGEMENT WITH COMMUNITY (Cont'd)

On 26 November 2019, we hosted students from Institut Kemahiran Belia Negara, Jitra ("IKBN"). The purpose of the educational visit by the students of IKBN is two-fold. Primarily, this is part of our commitment to the local community to inspire the next generation of creative local talent. Aware of our role within the community, we actively encourage the use of our facilities by schools and institutions of higher learning including regular tours of the manufacturing facility. On top of this, we also select some of the students for internship program. In the case of IKBN, 7 students were subsequently chosen for a 3-month internship with Dufu which commenced in January 2020.

On 12 December 2019, we visited Penang Cheshire Home for the disabled people. In addition to the Company's charitable donation in form of 2 units of wheel chair, walking stand, daily food necessities and hampers, cash donation from our employees collectively amounted to RM2,320. This is part of our yearly annual event where employer holds its workplace campaign to help the under privileged community.

This statement is made in accordance with a resolution of the Board of Directors dated 3 March 2020.

The Board of Directors ("the Board") of Dufu Technology Corp. Berhad ("Dufu" or "the Company") presents this statement to provide shareholders and investors with an overview of the corporate governance practices of the Company under the leadership of the Board during the financial year 2019 ("FY2019"). This overview takes guidance from the key corporate governance principles as set out in the Malaysian Code on Corporate Governance ("the Code" or "MCCG").

This statement is prepared in compliance with Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements ("Main LR") and it is to be read together with the Corporate Governance Report 2019 of the Company ("CG Report") which is available on the Company's website at www.dufutechnology.com.

The CG Report provides the details on how the Company has applied each Practice as set out in the MCCG during FY2019.

Dufu and its subsidiaries ("Dufu Group") recognises the importance of adopting good corporate governance and acknowledges the importance of the principles set out in the MCCG and is committed to ensure high standards of good corporate governance are in place and practiced within our Group in order to safeguard the shareholders and relevant stakeholders' interests as well as enhancing shareholders' value.

The Board then planned and has continued its efforts in raising the bar in the Group's corporate governance standards set out in the Code through various measures for implementation from time to time.

PRINCIPLE A - BOARD LEADERSHIP AND EFFECTIVENESS

I. BOARD RESPONSIBILITES

The Board is always mindful of the long-term success of the Company and the delivery of sustainable value to its stakeholders. In discharging its fiduciary duties and leadership functions, the Board governs and sets the Company's strategic direction and also exercises oversight on management. The Board will continue to play its role in setting the appropriate tone at the top, providing thought leadership and championing good governance and ethical practices throughout the Group.

Following the top-down strategic planning process adopted by the Group, the Executive Directors will periodically formulate Group's strategy and communicate it down to the organisation for implementation. The Chairman will continue leading the Board in establishing and monitoring good corporate governance practices in the Company by focusing on strategy, governance and compliance.

The Company continues to practice a division of responsibilities between the Chairman and the CEO. Their roles are separated and clearly defined in the Board Charter of the Company. The Board Charter serves as a reference and primary induction literature providing all Board members and Management insights into the fiduciary and leadership functions of the Board. It also clearly sets out the respective roles and responsibilities of the Board, Board Committees, individual directors and Management.

The Board has established six (6) Committees, namely the Audit Committee, Nominating Committee, Remuneration Committee, Investment Committee, Employees' Share Option Scheme Committee and Risk Management Committee, the primary functions of which are to assist the Board in overseeing the affairs of the Company and these Committees have been entrusted with specific responsibilities and authority. The authorities and functions of these Board committees are properly set out in their respective Terms of Reference.

The Board last reviewed its Board Charter on 27 November 2017 to keep abreast with changes in regulations and best practices and ensure its effectiveness and relevance to the Board's strategic intent as well as relevant standards of corporate governance. Besides, the Board also sets out the Code of Conduct and Ethics ("CCE") of Dufu which states the standards of responsibility and obligations and promotes fair dealing, integrity and ethical conduct amongst Dufu's Directors and employees. The policies of the CCE covers areas in managing conflicts of interest, preventing abuse of power, business gifts, insider trading and money laundering. The Board has established, reviewed and implemented the policies and procedures on whistleblowing.

A copy of the Board Charter, CCE Policy and Whistle Blowing Policy last reviewed by the Board on 27 November 2017 are available at the Company's website, www.dufutechnology.com.

The Board of Dufu is supported by two (2) Company Secretaries, both have legal credentials, and are qualified to act as Company Secretary under Section 235(2) of the Companies Act 2016.

PRINCIPLE A - BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

II. BOARD COMPOSITION

In order to achieve the intended outcome of the Code, Board decisions are made objectively in the best interests of the Company taking into account diverse perspectives and insights. The Group met most of the recommended practices set out in the Code detailed in the CG Report 2019.

The Board has through its Nominating Committee ("NC") conduct the annual assessment on its size and composition. Based on their assessment, the NC satisfied that the Board comprises a mixture of qualified and experienced directors with diverse experience, background and expertise. The combination of diverse professionals with varied background, experience and expertise in finance and corporate affairs have also enabled the Board to discharge its responsibilities effectively and efficiently.

The skillsets and diversity of the existing Board are as follows:-

			Industry / Background Experience							By Composition						
										Age			Ethic		Gender	
Directors	Nationality	Designation	Technology	Marketing	Industrial	Corporate	Accounting / Finance	Internal Audit	Law / legal	40 – 49 years	50 – 59 years	60 – 70 years	Chinese	Foreigner	Male	Female
Lee, Hui-Ta also known as Li Hui Ta	*Taiwanese*	*Executive Chairman*	√	√	√	√	√					√		√	√	
Wu, Mao- Yuan	*Taiwanese*	*Executive Director*	√	√	√	√						√		√	√	
Joyce Wong Ai May	*Malaysian*	*Independent Non-Executive Director*		√		√	√	√		√			√			√
Sung, Cheng-Hsi	*Taiwanese*	*Independent Non-Executive Director*		√	√	√	√			√				√	√	
Yin, Chih-Chu also known as Laurence Yin	*Taiwanese*	*Independent Non-Executive Director*	√	√	√	√	√				√			√	√	
Lee Yoke Khay	*Malaysian*	*Independent Non-Executive Director*				√	√		√			√	√		√	

Notwithstanding the recommendation of the MCCG, the Company does not practice any form of gender, ethnicity and age group biasness as all candidates shall be given fair and equal treatment. The Board believes that there is no detriment to the Company in not adopting a formal gender, ethnicity and age group diversity policy as the Company is committed to provide fair and equal opportunities and nurturing diversity within the Company. The Board is of the view that the appointment of Board member or Management should be determined based on objective criteria, merit and with due regard for diversity in skills, experience and other qualities regardless of gender but will nevertheless consider appointing more directors of the female gender where suitable to be in line with the Code's target. Besides, the Board has also made progress in broadening the diversity of the Board and Senior Management from time to time.

PRINCIPLE A - BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

II. BOARD COMPOSITION (cont'd)

The activities carried out by the NC during FY2019 in discharging its functions are as follows:

- reviewed the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board;
- reviewed the training needs of the Directors; and
- undertaken review of independency of Independent Directors;

To facilitate the Directors' time planning, an annual meeting calendar is prepared and circulated to all Directors before the beginning of every year. The time table for the proposed Board meetings in the year 2020 was circulated on 5 November 2019.

III. REMUNERATION

The Board has in place policies and procedures to determine the remuneration of Directors and Senior Management, which takes into account the demands, complexities and performance of the Company and the Group as well as skills and experience required. The Group's remuneration policies and decisions are made through a transparent and independent process. The policies and procedures are periodically reviewed to ensure it remain competitive and consistent with the Group's and the Company's business strategy and long-term objectives.

PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT

I. Audit Committee

The Audit Committee ("AC") comprises solely of Independent Non-Executive Directors. The Chairman of the AC is not the Chairman of the Board. This composition of the AC meets the requirements of paragraph 15.09(1)(a) and (b) of the Main LR.

The Board has put in place a policy that requires a former key audit partner to observe a cooling-off period of at least two financial year ends before being appointed as a member of the AC.

The AC has adopted the Policy for the Assessment of the Suitability and Independence of External Auditors, guided by the factor as provided in the Main LR as well as the Auditors Independence Policy.

II. Risk Management and Internal Control Framework

The Board fulfils its responsibilities in the risk governance and oversight functions through its Risk Management Committee ("RMC") in order to manage the overall risk exposure of the Group. The RMC assessed and monitored the efficacy of the risk management controls and measures taken, whilst the adequacy and effectiveness of the internal controls were reviewed by the AC in relation to internal audit function for the Group. The Board through the AC reviewed the Group's internal control based on the audit test carried out by the Internal Auditors.

The Group's RMC is responsible to perform a periodic review, assessment and update of the Risk Register during the RMC meetings. The Group continues to enhance its Enterprise Risk Management ("ERM") system which is an ongoing and systematic process to identify, assess, respond and monitor risks. The RMC is led by the Chief Executive Officer, Chief Financial Officer acting as Secretary and Department Heads as its members.

Further details of the Risk Management and Internal Audit activities are set up in the Statement on Risk Management and Internal Control of the Annual Report.

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

I. Communication with Stakeholders

Dufu would always ensure there is continuous communication between the Company and stakeholders to facilitate mutual understanding of each other's objectives and expectations. Presently, the Board and Management of the Company communicate regularly with its shareholders and other stakeholders through the following channels of communication:

1. Website of Bursa Malaysia Securities Berhad ("Bursa Securities")
2. Company Website
3. Analyst Briefings and One-to-One Meetings

II. Conduct of General Meetings

Dufu's Annual General Meeting ("AGM") is an important and effective platform for Directors and Senior Management to communicate with the shareholders. Shareholders are able to participate, engage the Board and Senior Management effectively and make informed voting decisions at general meetings.

Dufu dispatches its notice of AGM to shareholders at-least 28-days before the AGM. The adequate time given to shareholders allows them to make necessary arrangements to attend and participate either in person, by corporate representative, by proxy or by attorney.

In line with the Practice 12.3 of the MCCG in promoting electronic voting, moving forward the Board will consider adopting electronic voting taking into consideration the advantages of electronic voting versus the costs involved and the number of voters at the Meeting.

This Statement is made in accordance with a resolution of the Board of Directors dated 3 March 2020.

AUDIT COMMITTEE REPORT

The Board of Directors ("the Board") presents the Audit Committee ("AC") report which provides insights into the manner in which the AC discharged its functions for the Group in the financial year ended 31 December 2019 ("FY2019").

Introduction

The AC was established to assist the Board in fulfilling its responsibilities with respect to its oversight responsibilities. The AC is committed to ensure the integrity of the Group's financial reporting process, monitoring the management of risk and system of internal control, external and internal audit processes, compliance with legal and regulatory matters and other matters that may be specifically delegated to the AC by the Board.

Composition and Meeting

The present composition of the AC consists of four (4) members of the Board, all of whom are Independent Non-Executive Directors. This meets the requirements of paragraph 15.09(1)(a) and (b) of the Bursa Malaysia Securities Berhad Main Market Listing Requirements ("Main LR"). The current composition of the AC are as follows: -

Chairman	Joyce Wong Ai May
Members	Sung, Cheng-Hsi Yin, Chih-Chu also known as Laurence Yin Lee Yoke Khay

Ms. Joyce Wong Ai May, the AC Chairman graduated from University of Tasmania with a Bachelor of Commerce, majoring in Accounting and Finance. She is an Accountant by profession and a member of the Malaysian Institute of Accountants and Certified Practicing Accountants, Australia. Her credentials meet the requirements of paragraph 15.09(1)(c) of the Main LR, which stipulates that at least one member of the AC must be a qualified Accountant.

Mr. Sung, Cheng-Hsi is the Chief Financial Officer of a TPEx Company, where he primarily manages the financial risk, financial planning as well as financial reporting to higher management whilst Mr. Yin, Chih-Chu also known as Laurence Yin has vast experiences in both financial and industrial-wide knowledge. Mr. Lee Yoke Khay is a practicing advocate & solicitor in profession and is currently a partner of Messrs. Ooi Lee & Co., a legal firm based in Penang. All the AC members are financially literate and able to analyse and interpret financial statements to effectively discharge their duties and responsibilities as AC members.

The Board had on 26 February 2020 assessed the performance of the AC and its members through an annual board committee effectiveness evaluation. The Nominating Committee is satisfied that the AC and its members have discharged their functions, duties and responsibilities in accordance with the AC's Terms of Reference and supported the Board in ensuring the Group upholds appropriate corporate governance standards.

During the FY2019, the AC had convened four (4) meetings and the details of attendance of each member at the AC meetings are as follows:-

AC	No. of AC Meetings held	No. of AC Meetings attended
Joyce Wong Ai May	4	4
Sung, Cheng-Hsi	4	2
Yin, Chih-Chu also known as Laurence Yin	4	4
Lee Yoke Khay	4	4

The AC meetings were of adequate length to allow the AC to accomplish its agenda with sufficient time to discuss emerging issues.

The AC conducted its meeting in an open and constructive manner and encouraged focused discussion, questioning and expressions of differing opinions. The External Auditors and Internal Auditors attended meetings of the AC to present their reports. As and when necessary, the AC would request the attendance of relevant personnel at its meeting to brief the AC on specific issues. The Chief Financial Officer also attended the AC meetings to present the unaudited quarterly financial statements, as well as other financial reporting related matters for the AC's deliberation and recommendation to the Board for approval, whereas the Group Chief Executive Officer presented the Group's outlook and operational update where appropriate.

Composition and Meeting (cont'd)

At each meeting, the Chairman of the AC reported the AC's deliberations and recommendations to the Board. Minutes of each AC meeting were recorded and tabled for confirmation at the following AC meeting and subsequently presented to the Board for notation.

Summary of Activities

In discharging its functions, the AC is guided by the terms of reference, which was approved by the Board and aligned to the provisions of the Main LR, Malaysian Code on Corporate Governance ("MCCG") and other best practices.

The activities of the AC for the FY2019 are summarized as follows:-

Financial Reporting

The AC reviewed the fourth quarterly financial statements of the Group and the draft financial statements of the Company and Group for FY2019 on 26 February 2020.

The Committee also reviewed the first, second and third quarterly financial statements of the Group for the FY2019 and recommended the same to the Board for approval during its AC meeting held on 7 May 2019, 7 August 2019 and 5 November 2019 respectively.

The Committee reviewed and was satisfied that the said quarterly financial statements are prepared in compliance with the Malaysian Financial Reporting Standards ("MFRS") 134: Interim Financial Reporting, IAS 34: Interim Financial Reporting issued by International Accounting Standards Board and the Main LR.

External Auditors

On 26 February 2019, the AC met with the External Auditors without the presence of the Executive Directors and Management to understand the audit status of the financial statements of the Company and Group for FY2018 and the outstanding audit areas as summarized in the Audit Review Memorandum. In compliance with ISA 701: Communicating Key Audit Matters ("KAM") in the Independent Auditor's Report, the External Auditors highlighted the identified KAM and the audit procedures in addressing such KAM to be presented in the Independent Auditors Report for AC's notation. The AC also deliberated on audit issues raised by the External Auditors and the action plans required to address those issues.

During the Meeting, the AC enquired the External Auditors whether they have encountered any matter/concern/issue during the course of audit including the co-operation rendered by the staff thus far which will in any way cause difficulties to discharge their duties that warrant the AC's attention. The External Auditor, Baker Tilly Monteiro Heng PLT ("BTMH") informed that the Management had granted full co-operation to them during their course of audit.

On 7 August 2019, the External Auditors tabled the Audit Planning Memorandum prior to the commencement of the audit of the financial statements for FY2019, more particularly outlined the nature and scope of audit, audit timetable, KAM, accounting development and audit engagement team to the AC. The External Auditors also confirmed that they have complied with the requirements for independence as required by International Standards on Auditing ("ISA") 260: Communication with Those Charged Governance.

In addition to the briefing by the External Auditors, the AC took note on the key amendments of the Main LR and key changes in the financial reporting standards and updates which are applicable to the Group. Further to the concern raised by the External Auditors, the AC deliberated on key areas of the Group that are subject to improvement to facilitate the smooth and effective progress of the audit review of the Group's financial statements.

The AC had two private meetings on 26 February 2019 and 7 August 2019 with the External Auditors without the presence of the Executive Directors or Management to reinforce the independence of the External Audit function of the Company during FY2019.

On 26 February 2020, the AC has undertaken an assessment of the suitability and independence of the External Auditors considering the factors which include adequacy of experience and resources of the firm and the professional staff assigned to the audit, independence, audit fees and the level of non-audit services to be rendered by the External Auditors to the Group and the Company. The Board maintains a transparent relationship with the External Auditors.

External Auditors (cont'd)

Based on the assessment and after taking into consideration the following factors, the AC recommended the appointment of Messrs. Crowe Malaysia PLT as the External Auditors of the Group for the ensuing year ending 31 December 2020, in place of the retiring Auditors of the Group:-

- Firm's reputation and qualifications of its professionals, including the breadth and depth of resources, expertise and experience of the team members;
- Networking ability and experience in addressing audit of overseas subsidiaries;
- Independence of the firm; and
- The indicative audit fees quoted and out of pocket expenses to be reimbursed are believed to be more cost-effective to the Group as compared to the retiring Kuala Lumpur based Auditors taking into consideration the involvement of Penang based audit team.

Internal Audit Function

The AC is responsible to review and monitor the adequacy and effectiveness of the Group's system of internal control. The review and monitoring of the adequacy and effectiveness of the system of internal control are carried out through the internal audit function.

The Company has outsourced the Internal Audit functions to Eco Asia Advisory Sdn. Bhd. ("Eco Asia"), an independent professional firm as the Internal Auditors for FY2019. During the financial year, Eco Asia carried out a total of four (4) audit assignments comprising eight (8) operating cycles on the Group in accordance with the audit plan. The Internal Auditors issue their internal audit findings and reports to the AC on quarterly basis.

On 26 February 2019, the Internal Audit Plan for year 2019 was tabled for AC's review and approval. The AC reviewed the Internal Audit Plan which was developed based on the methodology practiced by Eco Asia focusing on the core business processes of the Group. The AC approved the said Plan upon incorporation of the comments from the Committee and advise from the Internal Auditors;

The findings of internal audits including the audit recommendations made by the Internal Auditors and the Management responses to those recommendations are reported directly to the AC. Where appropriate, the AC directed the Management to rectify and improve control and workflow procedures based on the Internal Auditors' recommendations and suggestion for improvements.

Besides, the AC also follow up from time to time the updates and corrective actions by the Management on reported weaknesses reported in the prior quarters.

The cost incurred for the Group's internal audit function for FY2019 was RM85,331.

Risk Management and Internal Control

The AC reviewed the quarterly risk assessment exercise captured in the format of risk registers which is part of the Group's Enterprise Risk Management Framework. The AC were ensured and satisfied that the identified risks and the status of the risk management process implemented to facilitate the identification, assessment, evaluation, monitoring and management of risks are well managed.

On 26 February 2020, the AC reviewed the Statement on Risk Management and Internal Control for inclusion in this Annual Report.

Related Party Transactions

There was no related party transaction reported during FY2019.

The AC reviewed and discussed the recurrent related party transactions on quarterly basis to ensure that they were undertaken on an arm's length basis and on normal commercial terms not more favourable to the related party than those generally available to the public.

Employees' Share Option Scheme ("ESOS") Allocation

On 26 February 2020, the AC reviewed and verified the allocation of options pursuant to the ESOS for FY2019 and satisfied that it is in compliance with the criteria set out in the By-Laws and provision of the Scheme.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Introduction

The Malaysian Code on Corporate Governance requires the Board of Directors ("Board") to establish a sound risk management framework and internal controls system to safeguard shareholders' investments and the assets of the Group. Pursuant to paragraph 15.26 (b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of listed issuers is required to include in its Annual Report, a statement on the Group's state of internal control. The Board recognises its responsibilities for and the importance of a sound system of Risk Management and Internal Controls. Set out below is the Board's Statement on Risk Management and Internal Control, which provides an overview of the Group's state of Risk Management and Internal Control system.

Board Responsibility

The Board recognises the importance of the Group's sound internal controls as well as risk management practices, and affirms its overall responsibility of reviewing the adequacy and effectiveness of the Risk Management and Internal Control systems of the Group. The Board has via the Audit Committee ("AC") obtained the necessary assurance on the adequacy and effectiveness of the Group's Risk Management and Internal Control systems through ongoing and independent reviews carried out by the internal audit function.

Due to inherent limitations in any system of internal control, such systems can only manage rather than eliminate all possible risks resulting in the Group's inability to achieve its business objectives. Thus, the system can provide reasonable, and not absolute, assurance against material misstatement or loss.

The Board has also delegated the power/ authority to review, deliberate and approve the acquisition or disposal of investments or assets of the Group to be assumed by the Investment Committee ("IVC") where the composition of the IVC is majority held by Independent Non-Executive Directors.

This statement does not cover associate companies which the Group does not have any direct control. Nevertheless, the Board appointed representatives in the board of associate companies to oversight the business and to update key matters and significant information to the Board.

KEY COMPONENTS OF INTERNAL CONTROL PROCESSES

Risk Management Framework

The Board has put in a risk management framework and ongoing process to assess the various types of risks, which might have an impact on the profitable operation of the Group's business. These include strategic risk, operational risk, financial risk and project risk. The following outlines the Group's risk management objectives:-

(a) to assess the principle risks faced, or potential risk exposure by the Group in its business operations and to implement appropriate internal control systems that will mitigate those risks;

(b) to review the adequacy and integrity of the internal controls in compliance to guidelines, laws and regulations, and to respond to changes of business environment from time to time;

(c) to weigh business decisions against the philosophy that business risks would be necessarily incurred if the associated rewards are expected to enhance the Group's shareholder value;

(d) to ensure risks which may have a significant impact upon the Group are identified in a manner which would result in their expeditious treatment;

(e) to provide an assurance regarding the extent of the Group's compliance with regulatory requirements and the policies and procedures which are in place.

KEY COMPONENTS OF INTERNAL CONTROL PROCESSES (cont'd)

Risk Management Framework (cont'd)

The Group's Risk Management Committee ("RMC") is responsible to perform a periodic review, assessment and update of the Risk Register during the RMC meetings held quarterly. The Group continues enhancing its Enterprise Risk Management ("ERM") system which is an ongoing and systematic process to identify, assess, respond and monitor risks. The RMC is led by the Group Chief Executive Officer, Chief Financial Officer acting as Secretary and Department Heads as its members. The RMC is required to identify major business and compliance risks concerning their respective business units, oversees and ensures integration of risk management into their business processes to safeguard the interest of the Group covering fifteen (15) areas such as Purchasing, Sales and Marketing, Conversion and Production, Management Information System, Human Resource Management, Cash Management, Finance and Corporate, Inventory Management, Assets Management, Logistics, General Safety and Security, Intellectual Property, External Environment, Product and Process Development and Quality System. The risks are identified and assessed by employing the following methodologies:

❖ Identification of risks by the process owners;
❖ Assessment of the likelihood and impact of the risks identified;
❖ Evaluating the control strategies in relation to the risks;
❖ Formulating action plan to address control deficiencies; and
❖ Setting Key Risk Indicators to monitor the risks

Formal database of risks and controls information arising from the quarterly risk assessment exercise shall be captured in the format of risk registers. The identified risks are assessed and rated from low, moderate, high to significant depending upon the severity of consequence and the likelihood of its occurrence and financial impact on the Group's cash flow and profit. The Chief Financial Officer, and where applicable the owner of the respective risk profiles shall present the Group's Risk Report and updates the AC every quarter on the status of the Group's ERM process, changes in risk profiles and their controls currently in place.

Board Meetings

The Board meets at least quarterly and has a formal agenda on matters for discussion. The Executive Chairman leads the presentation of board papers while the Executive Director, where applicable provides explanation of pertinent issues. Additionally, the Chief Executive Officer or Executive Director, where applicable updates the Board on key business and operational issues such as key products result and growth, business plan, corporate affairs and prospects. In arriving at any decision, on recommendation by the Management, a thorough deliberation and discussion by the Board is a prerequisite.

Organisational Structure

There exists a clearly defined organisational structure with defined lines of job responsibilities and delegation of authority. This will assist in ensuring that effective communication of risk control objectives as well as establishment of authority and accountability is in accordance with Management criteria.

Internal Policies and Procedures

Internal Policies and Procedures have been developed throughout the Group. The policies and procedures are updated timely to incorporate changes to systems, work environment and guidelines. Testament to our efforts in doing so, the Group's Standard Operating Procedures ("SOP") are aligned and adhered to Responsible Business Alliance ("RBA"), EMS 14001 Environmental Management System, OHSAS 18001 Occupational Health & Safety Management System and Quality Management System ISO 9001:2015 and IATF 16949:2016 accreditation.

There are also documented Limits of Approving Authority for key aspects of the businesses. This provides a sound framework of authority and accountability within the organisation and facilitates proper corporate decision making at the appropriate level in the organisation's hierarchy. The delegation of limits is subject to periodic review as to its implementation and continuing suitability in meeting the Group's business objectives and operational needs.

KEY COMPONENTS OF INTERNAL CONTROL PROCESSES (cont'd)

Performance Management Framework

Management reports are generated on a regular and consistent basis to facilitate the Board, the Company's and the Group's Management to perform financial and operational reviews on its various business units. The reviews encompass areas such as financial and non-financial Key Performance Index (KPI"), variances between standard and operating results and compliance with laws and regulations. The KPI meetings is chaired by the Group Chief Executive Officer and comprises of Senior Management, Department Heads and supporting staff, and is held once a month to assess and measure the performance and risks of various business units. On top of this, "Management Review" meeting is held once a year.

Internal Audit

The AC is responsible to review and monitor the adequacy and effectiveness of the Group's system of internal control via the internal audit function. The internal audit function assists the AC to achieve the following objectives:

- assess and report on the effectiveness of the risk management and internal control systems;
- assess and report the reliability of systems and reporting information;
- assess and report on the operational efficiency of various business units and departments within the Group and identify cost saving potentials, where practical; and
- review on compliance with the Group policies, standing instructions and guidelines requested by Management, and applicable laws and regulations.

The Company has outsourced the Internal Audit functions to Eco Asia Advisory Sdn. Bhd. ("Eco Asia"), an independent professional firm as the Internal Auditors since 2018. During the financial year ended 31 December 2019 ("FY2019"), Eco Asia carried out a total of four (4) audit assignments comprising eight (8) operating cycles on the Group in accordance with their audit plan. The Internal Auditors issue their internal audit findings and reports to the AC on quarterly basis. The Internal Audit Review Report for FY2019 prepared by Eco Asia covered the review of the Group's three main subsidiaries namely Dufu Industries Sdn Bhd, Guangzhou Futron Technology Co., Ltd and Dufu Industries Services Pte. Ltd in the following areas:

- Procurement
- Management Information System
- Cash Management
- Property, Plant and Equipment Management
- Credit Control
- Sales and Marketing
- Maintenance of Machinery
- General Affairs

On 26 February 2019, the Internal Audit Plan for year 2019 was tabled for AC's review and approval. The AC reviewed the Internal Audit Plan which was developed based on the methodology practiced by Eco Asia focusing on the core business processes of the Group. The AC approved the said Plan upon incorporation of the comments from the Committee and advise from the Internal Auditors.

The findings of internal audits including the audit recommendations made by the Internal Auditors and the Management responses to those recommendations are reported directly to the AC. Where appropriate, the AC directed the Management to rectify and improve control and workflow procedures based on the Internal Auditors' recommendations and suggestion for improvements.

Besides, the AC also follow up from time to time the updates and corrective actions by the Management on reported weaknesses reported in the prior quarters.

The total cost incurred for the Internal Audit function for the FY2019 was RM85,331.

REVIEW OF THIS STATEMENT

The Internal Auditor has reported to the AC that all internal control weaknesses identified during the course of its audit assignments for the FY2019 have been, or are being, addressed and that none of the weaknesses have resulted in any material losses, contingencies or uncertainties that require disclosure in the Company's Annual Report.

The Board has received assurance from the Group Chief Executive Officer and the Chief Financial Officer that the Group's Risk Management and Internal Control system is operating adequately and effectively, in all material aspects, based on the Risk Management and Internal Control system of the Group.

As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad Listing Requirements, the External Auditors have conducted a limited assurance engagement on this Statement of Risk Management and Internal Control. Their limited assurance engagement was performed in accordance with ISAE 3000, Assurance, Assurance Engagement other than Audits or Review of Historical Information and AAPG3, Guidance for Auditors on the Review of Directors' Statement on Internal Control included in the Annual Report.

Based on their procedures performed, the External Auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is not prepared, in all material respect, in accordance with the disclosure required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidance for Directors of Listed Issuers as set out, nor it is factually inaccurate. AAPG3 does not require the External Auditors to consider whether this Statement covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk and control system.

The Board is of the view that the ERM and system of internal controls in place for the FY2019 and up to the date of approval of this report is sound and sufficient to safeguard the shareholders' investment, interests of customers, regulators, employees and other stakeholders of the Group.

This Statement is made in accordance with a resolution of the Board of Directors dated 3 March 2020.

OTHER DISCLOSURE REQUIREMENTS

PURSUANT TO THE BURSA MALAYSIA SECURITIES BERHAD MAIN MARKET LISTING REQUIREMENTS

UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSAL

During the financial year, there were no proceeds raised by the Company from any corporate proposal.

AUDIT AND NON-AUDIT FEES

The amount of audit and non-audit fees incurred for services rendered to the Company and its subsidiaries for the financial year ended 31 December 2019 by the Company's Auditors, or a firm or company affiliated to the Auditors' firm are as follows:-

Category	Audit Fees (RM)	Non-Audit Fees (RM)
Company	113,500	3,000
Subsidiaries	123,800	-
Total	**237,300**	**3,000**

EMPLOYEES' SHARE OPTION SCHEME

The shareholders of the Company had via its Extraordinary General Meeting held on 12 June 2019, amongst others, approved the establishment, implementation and administration of an Employees' Share Option Scheme ("ESOS") of up to 10% of the total number of issued shares of the Company at any point of time during the duration of the ESOS for eligible Executive Directors and Employees of the Company and its subsidiaries.

The implementation of the ESOS is effective from 17 June 2019. The movement of ESOS granted, forfeited, exercised and outstanding as at 31 December 2019 are set out below:-

	Number of ESOS as at 31 December 2019				
	Balance as at 1 January 2019	Granted	Exercised	Lapse / Forfeited	Balance as at 31 December 2019
Directors	-	860,000	-	-	860,000
Chief Executive Officer		1,075,000	-	-	1,075,000
Employees	-	7,097,000	-	(9,000)	7,088,000
Total	**-**	**9,032,000**	-	**(9,000)**	**9,023,000**

Pursuant to the Company's ESOS, not more than 50% of the options available under scheme shall be allotted, in aggregate, to the Executive Directors and Senior Management. Since the commencement of the scheme during the financial year, 40.5% of the options available under the scheme have been granted to Executive Directors and Senior Management.

MATERIAL CONTRACTS INVOLVING DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST

There were no material contracts entered into by the Company and its subsidiaries involving the Directors, Chief Executive Officer (who is not a director or major shareholders) and Major Shareholders' interests, either still subsisting at the end of the financial year or, if not then subsisting, entered into since the end of the previous financial year.

STATEMENT ON DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE AUDITED FINANCIAL STATEMENTS

The Board has the overall responsibility to prepare the financial statements for each financial year as required by the Companies Act 2016. The financial statements should be prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the requirements of the Companies Act 2016 in Malaysia and the relevant provisions of the Bursa Malaysia Securities Berhad Main Market Listing Requirements so as to present a true and fair view of the financial position of affairs of the Group and of the Company as at end of the financial year and of their financial performance and cash flows for the year ended.

In this regard, the Directors have, with the assistance of the Audit Committee:

- Ensured that suitable accounting policies are used and applied consistently.
- Ensured that new and revised Malaysian Financial Reporting Standards and Issued Committee Interpretations issued by MASB that are relevant to the Group's operations and effective for accounting periods are fully adopted.
- Ensured proper accounting records are kept.
- Ensured adequate system of internal control exist to safeguard the assets of the Group to prevent and detect fraud and other irregularities.
- Ensured that the financial statements presents a balanced and understandable assessment of the financial position and prospect of the Group and of the Company.
- Made appropriate enquires to the senior management of the Group to ensure that the Group have adequate resources to continue in operational existence in the foreseeable future.
- Ensured that the accounting estimates included in the financial statements are reasonable and prudent.

The financial statements for the year ended 31 December 2019 had been approved by the Board on 3 March 2020.

This statement is made in accordance with a resolution of the Board of Directors dated 3 March 2020.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are disclosed 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, net of tax	44,104,623	20,980,308
Attributable to:		
Owners of the Company	44,521,865	20,980,308
Non-controlling interests	(417,242)	-
	44,104,623	20,980,308

DIVIDENDS

The amount of dividend declared and paid by the Company since the end of the previous financial year were as follows:

	RM
Single tier final dividend of 2.5 sen per ordinary share by way of share dividend on the basis of one treasury share for every twenty existing ordinary shares in respect of the financial year ended 31 December 2018, paid on 12 June 2019	6,110,033
Single tier interim dividend of 2 sen per ordinary share in respect of the financial year ended 31 December 2019, paid on 25 September 2019	5,126,183
	11,236,216

At the forthcoming Annual General Meeting, a single tier final dividend of 6.0 sen per ordinary share will be proposed for the shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2020.

RESERVES OR PROVISIONS

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

BAD AND DOUBTFUL DEBTS

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

At the date of this report, the directors are not aware of any circumstances which would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent.

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF MATERIAL AND UNUSUAL NATURE

In the opinion of the directors,

(i) the results of the operations of the Group and of the Company for the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

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

ISSUE OF SHARES AND DEBENTURES

During the financial year, no new issue of shares or debentures were made by the Company.

TREASURY SHARES

Treasury shares relate to ordinary shares of the Company that are repurchased and held by the Company in accordance with the requirement of Section 127 of the Companies Act 2016 in Malaysia.

During the financial year, the Company distributed a single tier final dividend for the financial year ended 31 December 2018 by way of share dividend on the basis of one treasury share for every twenty existing ordinary shares.

There were no repurchase of the Company's issued ordinary shares nor any resale of treasury shares during the financial year.

As at 31 December 2019, the Company held 6,896,244 treasury shares out of its 263,205,367 issued and paid-up ordinary shares. Such treasury shares are held at a carrying amount of RM3,452,490. Further details are disclosed in Note 17 to the financial statements.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up the unissued shares of the Company during the financial year other than the issue of options pursuant to the Employee's Share Option Scheme ("ESOS").

At an Extraordinary General Meeting held on 12 June 2019, the Company's shareholders approved the establishment of an ESOS for eligible executive directors and employees who meet the criteria of eligibility for participation.

The salient features and other details of the ESOS are disclosed in Note 18(a) to the financial statements.

The options offered for the subscription of unissued ordinary shares and the respective exercise prices are as follows:

			Number of option over ordinary shares				
Grant date	Expiry date	Exercise price	At 1 January 2019	Granted	Exercised	Forfeited	At 31 December 2019
1 July 2019	16 June 2024	RM1.39	-	4,413,000	-	-	4,413,000
1 July 2019	16 June 2024	RM1.39	-	4,619,000	-	(9,000)	4,610,000
			-	9,032,000	-	(9,000)	9,023,000

DIRECTORS

The directors in office during the financial year and during the period from the end of the financial year to the date of the report are:

Lee, Hui-Ta also known as Li Hui Ta *
Wu, Mao-Yuan *
Sung, Cheng-Hsi
Joyce Wong Ai May
Yin, Chih-Chu also known as Laurence Yin
Lee Yoke Khay

* Directors of the Company and certain subsidiaries

DIRECTORS (cont'd)

Other than as stated above, the names of the directors of the subsidiaries of the Company in office during the financial year and during the period from the end of the financial year to the date of the report are:

Yeoh Beng Hooi
Wong Ser Yian
Cheah Wai Leong
Tan Chie Pin
Tay Lon @ Tay Tong Loon
Lee, Wen-Jung

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings required to be kept by the Company under Section 59 of the Companies Act 2016 in Malaysia, the interests of directors in office at the end of the financial year in shares in the Company and its related corporations during the financial year were as follows:

Interest in the Company

		Number of ordinary shares				
		At 1 January 2019	Dividend distributions	Bought	Sold	At 31 December 2019
Direct interests:						
Lee, Hui-Ta also known as Li Hui Ta		23,636,047	1,181,802	-	-	24,817,849
Wu, Mao-Yuan		8,231,500	411,575	121,925	-	8,765,000
Indirect interests:						
Lee, Hui-Ta also known as Li Hui Ta	(1)	26,827,572	1,341,378	-	-	28,168,950

(1) Shares held through company in which the director or director's spouse has substantial financial interests.

By virtue of his interests in the ordinary shares of the Company and pursuant to Section 8 of the Companies Act 2016 in Malaysia, Lee, Hui-Ta also known as Li Hui Ta is deemed to have an interest in the ordinary shares of the subsidiaries to the extent that the Company has an interest.

Other than as stated above, none of the other directors in office at the end of the financial year had any interest in ordinary shares or debentures of the Company and its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no directors of the Company has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable, by the directors as disclosed in Note 24 to the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, other than any deemed benefit which may arise from transactions disclosed in Note 30 to the financial statements.

Neither during, nor at the end of the financial year, was the Company a party to any arrangements where the object is to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate, other than those arising from the share options granted under the ESOS.

INDEMNITY TO DIRECTORS AND OFFICERS

During the financial year, the total amount of indemnity coverage and insurance premium paid for the directors and certain officers of the Group and of the Company were RM10,000,000 and RM17,580 respectively.

SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 8 to the financial statements.

The available auditors' reports on the accounts of the subsidiaries did not contain any qualification.

SIGNIFICANT EVENTS SUBSEQUENTS TO THE END OF THE FINANCIAL YEAR

The details of significant events subsequent to the end of the financial year are disclosed in Note 34 to the financial statements.

AUDITORS' REMUNERATION

The details of the auditors' remuneration are disclosed in Note 26 to the financial statements.

INDEMNITY TO AUDITORS

The Company has agreed to indemnify the auditors of the Company as permitted under Section 289 of the Companies Act 2016 in Malaysia. No payment has been made to indemnify the auditors during the financial year.

AUDITORS

The auditors, Messrs Baker Tilly Monteiro Heng PLT (converted from a conventional partnership, Baker Tilly Monteiro Heng on 5 March 2019), have expressed their willingness to continue in office.

This report was approved and signed on behalf of the Board of Directors in accordance with a resolution of the directors:

....

LEE, HUI-TA also known as LI HUI TA
Director

....

WU, MAO-YUAN
Director

Date: 3 March 2020

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

		Group		Company	
		2019	2018	2019	2018
	Note	RM	RM	RM	RM
ASSETS					
Non-current assets					
Property, plant and equipment	5.1	38,378,098	45,304,005	-	-
Land use right	5.2	-	7,369,801	-	-
Right-of-use assets	6	29,891,026	-	-	-
Investment properties	7	8,541,017	9,090,423	-	-
Investment in subsidiaries	8	-	-	87,590,348	73,245,890
Investment in an associate	9	3,599,534	3,783,076	3,599,534	6,144,000
Investment in club membership	10	66,966	79,395	-	-
Deferred tax assets	11	1,176,798	375,097	-	-
Total non-current assets		81,653,439	66,001,797	91,189,882	79,389,890
Current assets					
Inventories	12	59,785,190	53,797,089	-	-
Trade and other receivables	13	83,385,139	58,778,225	19,226,050	15,029,189
Prepayments		148,784	102,484	-	-
Current tax assets		26,488	-	26,488	-
Other investments	14	180,146	175,574	180,146	175,574
Cash, bank balances and short-term deposits	15	43,500,465	41,337,928	3,401,883	1,146,847
Total current assets		187,026,212	154,191,300	22,834,567	16,351,610
TOTAL ASSETS		268,679,651	220,193,097	114,024,449	95,741,500
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company					
Share capital	16	87,735,185	87,735,185	87,735,185	87,735,185
Treasury shares	17	(3,452,490)	(9,562,523)	(3,452,490)	(9,562,523)
Reserves	18	130,084,763	95,462,147	29,668,054	17,497,138
		214,367,458	173,634,809	113,950,749	95,669,800
Non-controlling interests	8 (b)	428,827	846,069	-	-
TOTAL EQUITY		214,796,285	174,480,878	113,950,749	95,669,800
Non-current liabilities					
Loans and borrowings	19	11,901,288	6,706,785	-	-
Deferred tax liabilities	11	1,019	321,068	-	-
Total non-current liabilities		11,902,307	7,027,853	-	-
Current liabilities					
Loans and borrowings	19	5,619,412	3,974,750	-	-
Trade and other payables	20	32,583,241	29,553,246	73,700	71,700
Contract liabilities	21	546,701	770,679	-	-
Current tax liabilities		3,231,705	4,385,691	-	-
Total current liabilities		41,981,059	38,684,366	73,700	71,700
TOTAL LIABILITIES		53,883,366	45,712,219	73,700	71,700
TOTAL EQUITY AND LIABILITIES		268,679,651	220,193,097	114,024,449	95,741,500

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

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

		Group		Company	
		2019	2018	2019	2018
	Note	RM	RM	RM	RM
Revenue	22	249,122,579	241,451,305	24,453,736	12,774,800
Other income	23	6,222,797	6,906,688	-	-
Changes in work-in-progress and finished goods		(13,120,128)	(8,748,296)	-	-
Raw materials and consumable used		(69,121,257)	(64,460,831)	-	-
Depreciation and amortisation		(10,344,014)	(7,808,933)	-	-
Employees benefits expense	24	(60,830,169)	(58,051,162)	(274,201)	(264,686)
Net impairment (gain)/losses on financial instruments		(26,408)	998,176	8,282,366	-
Other expenses		(46,303,560)	(42,722,196)	(11,465,082)	(542,405)
Total expenses		(199,745,536)	(180,793,242)	(3,456,917)	(807,091)
Operating profit		55,599,840	67,564,751	20,996,819	11,967,709
Finance costs	25	(955,502)	(421,393)	-	-
Share of results of associate, net of tax	9	(877,244)	(2,078,426)	-	-
Profit before tax	26	53,767,094	65,064,932	20,996,819	11,967,709
Income tax expense	27	(9,662,471)	(13,239,167)	(16,511)	(97,569)
Profit for the financial year		44,104,623	51,825,765	20,980,308	11,870,140
Other comprehensive loss, net of tax					
Item that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations		(1,089,857)	(1,617,916)	-	-
Total comprehensive income for the financial year		43,014,766	50,207,849	20,980,308	11,870,140
Profit attributable to:					
Owners of the Company		44,521,865	51,854,696	20,980,308	11,870,140
Non-controlling interests	8 (b)	(417,242)	(28,931)	-	-
		44,104,623	51,825,765	20,980,308	11,870,140
Total comprehensive income attributable to:					
Owners of the Company		43,432,008	50,236,780	20,980,308	11,870,140
Non-controlling interests	8 (b)	(417,242)	(28,931)	-	-
		43,014,766	50,207,849	20,980,308	11,870,140
Earnings per share attributable to owners of the Company (sen):					
Basic	28 (a)	17.75	20.64		
Diluted	28 (b)	17.67	20.64		

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	Share capital RM	Treasury shares RM	Exchange reserve RM	Reverse acquisition reserve RM	Share option reserve RM	Statutory reserve RM	Retained earnings RM	Sub-total RM	Non-controlling interest RM	Total equity RM
		Attributable to owners of the Company									
Group											
At 1 January 2019		87,735,185	(9,562,523)	2,992,695	(24,110,002)	-	1,323,940	115,255,514	173,634,809	846,069	174,480,878
Total comprehensive income for the financial year											
Profit for the financial year		-	-	-	-	-	-	44,521,865	44,521,865	(417,242)	44,104,623
Other comprehensive loss for the financial year		-	-	(1,089,857)	-	-	-	-	(1,089,857)	-	(1,089,857)
Total comprehensive income		-	-	(1,089,857)	-	-	-	44,521,865	43,432,008	(417,242)	43,014,766
Transactions with owners											
Transfer to statutory reserve	**18**	-	-	-	-	-	581,361	(581,361)	-	-	-
Share option issued	**18**	-	-	-	-	2,426,824	-	-	2,426,824	-	2,426,824
Dividends paid on shares	**17, 29**	-	6,110,033	-	-	-	-	(11,236,216)	(5,126,183)	-	(5,126,183)
Total transactions with owners		-	6,110,033	-	-	2,426,824	581,361	(11,817,577)	(2,699,359)	-	(2,699,359)
At 31 December 2019		87,735,185	(3,452,490)	1,902,838	(24,110,002)	2,426,824	1,905,301	147,959,802	214,367,458	428,827	214,796,285

	Note	Share capital RM	Treasury shares RM	Exchange reserve RM	Reverse acquisition reserve RM	Statutory reserve RM	Retained earnings RM	Sub-total RM	Non-controlling interest RM	Total equity RM
		Attributable to owners of the Company								
Group										
At 31 December 2017										
- As previously reported		87,735,185	(5,352,606)	4,610,611	(24,110,002)	1,323,940	77,520,766	141,727,894	-	141,727,894
- Effects of adoption of MFRS 15		-	-	-	-	-	(2,705,899)	(2,705,899)	-	(2,705,899)
Restated balance at 1 January 2018		87,735,185	(5,352,606)	4,610,611	(24,110,002)	1,323,940	74,814,867	139,021,995	-	139,021,995
Total comprehensive income for the financial year										
Profit for the financial year		-	-	-	-	-	51,854,696	51,854,696	(28,931)	51,825,765
Other comprehensive loss for the financial year		-	-	(1,617,916)	-	-	-	(1,617,916)	-	(1,617,916)
Total comprehensive income		-	-	(1,617,916)	-	-	51,854,696	50,236,780	(28,931)	50,207,849
Transactions with owners										
Purchases of own shares	**17**	-	(4,209,917)	-	-	-	-	(4,209,917)	-	(4,209,917)
Dividends paid on shares	**29**	-	-	-	-	-	(11,414,049)	(11,414,049)	-	(11,414,049)
Non-controlling interests arising from acquisition of a new subsidiary	**8(c)**	-	-	-	-	-	-	-	875,000	875,000
Total transactions with owners		-	(4,209,917)	-	-	-	(11,414,049)	(15,623,966)	875,000	(14,748,966)
At 31 December 2018		87,735,185	(9,562,523)	2,992,695	(24,110,002)	1,323,940	115,255,514	173,634,809	846,069	174,480,878

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONT'D)

		Attributable to owners of the Company				
	Note	Share capital RM	Treasury shares RM	Share option reserve RM	Retained earnings RM	Total equity RM
Company						
At 1 January 2018		87,735,185	(5,352,606)	-	17,041,047	99,423,626
Total comprehensive income for the financial year						
Profit for the financial year		-	-	-	11,870,140	11,870,140
Transactions with owners						
Purchase of own shares	**17**	-	(4,209,917)	-	-	(4,209,917)
Dividends paid on shares	**29**	-	-	-	(11,414,049)	(11,414,049)
Total transactions with owners		-	(4,209,917)	-	(11,414,049)	(15,623,966)
At 31 December 2018		87,735,185	(9,562,523)	-	17,497,138	95,669,800
Total comprehensive income for the financial year						
Profit for the financial year		-	-	-	20,980,308	20,980,308
Transactions with owners						
Share option issued	**18**	-	-	2,426,824	-	2,426,824
Dividends paid on shares	**17, 29**	-	6,110,033	-	(11,236,216)	(5,126,183)
Total transactions with owners		-	6,110,033	2,426,824	(11,236,216)	(2,699,359)
At 31 December 2019		87,735,185	(3,452,490)	2,426,824	27,241,230	113,950,749

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

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
CASH FLOWS FROM OPERATING ACTIVITIES:				
Profit before tax	53,767,094	65,064,932	20,996,819	11,967,709
Adjustments for:				
Amortisation for investment in club memberships	11,756	11,930	-	-
Depreciation for:				
- Investment properties	549,406	549,525	-	-
- Property, plant and equipment	7,644,542	7,247,478	-	-
- Right-of-use assets	2,138,310	-	-	-
Dividend income	-	-	(24,400,000)	(12,586,050)
Share-based payments	2,426,824	-	-	-
Loss/(gain) on disposal of property, plant and equipment	2,458	(93,639)	-	-
Impairment loss on trade receivables	50,800	58,652	-	-
Impairment loss on investments in:				
- Associate	-	-	2,544,466	-
- Subsidiaries	-	-	8,282,366	-
Interest expenses	955,502	421,393	-	-
Interest income	(732,152)	(630,268)	(53,736)	(188,750)
Inventories written down	48,182	388,620	-	-
Property, plant and equipment written off	18,927	151,011	-	-
Reversal of impairment loss on:				
- Trade receivables	(1,975)	(826,986)	-	-
- Other receivables	(22,417)	(229,842)	-	-
- Amount owing by subsidiaries	-	-	(8,282,366)	-
Share of results of associate	877,244	2,078,426	-	-
Unrealised loss/(gain) on foreign exchange	709,788	(235,166)	-	-
Operating profit before changes in working capital	68,444,289	73,956,066	(912,451)	(807,091)
Changes in working capital:				
Inventories	(6,036,283)	(20,636,701)	-	-
Trade and other receivables	(24,671,258)	(6,293,357)	(17,392,903)	1,843,512
Trade and other payables	3,029,179	1,099,405	2,000	12,200
Contract liabilities	(223,978)	770,679	-	-
Net cash generated from/(used in) operations	40,541,949	48,896,092	(18,303,354)	1,048,621
Income tax paid	(11,918,602)	(10,365,830)	(42,999)	(97,569)
Interest paid	(57,856)	(136,463)	-	-
Interest received	732,152	630,268	53,736	188,750
Net cash from/(used in) operating activities	29,297,643	39,024,067	(18,292,617)	1,139,802

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONT'D)

	Note	Group 2019 RM	Group 2018 RM	Company 2019 RM	Company 2018 RM
CASH FLOWS FROM INVESTING ACTIVITIES:					
Dividend received		-	-	7,000,000	10,000,000
Repayment from subsidiaries		-	-	46,678,408	16,678,096
Proceed for other investment		(4,572)	1,786,648	(4,572)	1,786,648
Acquisition of subsidiaries, net of cash		-	-	-	(17,685,000)
Addition in investment in subsidiaries		-	-	(28,000,000)	-
Proceeds from disposal of property, plant and equipment		1,442,152	93,639	-	-
Purchase of property, plant and equipment, land use rights and right-of-use assets	**(a)**	(25,774,137)	(23,749,086)	-	-
Net cash (used in)/from investing activities		(24,336,557)	(21,868,799)	25,673,836	10,779,744
CASH FLOWS FROM FINANCING ACTIVITIES:					
Dividend paid		(5,126,183)	(11,414,049)	(5,126,183)	(11,414,049)
Interest paid		(897,646)	(284,930)	-	-
Drawdown of short-terms borrowings	**(b)**	898,906	1,733,945	-	-
Drawdown of revolving term loan		1,255,500	-	-	-
Repurchase of treasury shares		-	(4,209,917)	-	(4,209,917)
Repayment of lease liabilities	**(b)**	(989,764)	(1,338,615)	-	-
Net drawdown of term loan	**(b)**	4,156,231	4,290,519	-	-
Net proceeds from issuance of shares to non-controlling interests		-	875,000	-	-
Net cash used in financing activities		(702,956)	(10,348,047)	(5,126,183)	(15,623,966)
Net change in cash and cash equivalents		4,258,130	6,807,221	2,255,036	(3,704,420)
Cash and cash equivalents at the beginning of the financial year		41,337,928	35,641,934	1,146,847	4,851,267
Effects of exchange rate changes on cash and cash equivalents		(2,095,593)	(1,111,227)	-	-
Cash and cash equivalents at the end of the financial year	**15**	43,500,465	41,337,928	3,401,883	1,146,847

(a) Purchase on property, plant and equipment, land use right and right-of-use assets:

	Group 2019 RM	Group 2018 RM
Cash payments on purchase of property, plant and equipment, land use rights and right-of-use assets	25,774,137	23,749,086
Finance by way of lease arrangements	1,518,292	-
	27,292,429	23,749,086

(b) Reconciliation of liabilities arising from financing activities:

	1.1.2019 RM	Cash flows RM	Non-cash Acquisition/ Disposal RM	31.12.2019 RM
Term loans	7,993,054	4,156,231	-	12,149,285
Lease liabilities	954,536	(989,764)	1,518,292	1,483,064
Revolving term loan	-	1,255,500	-	1,255,500
Short-term borrowings	1,733,945	898,906	-	2,632,851
	10,681,535	5,320,873	1,518,292	17,520,700

	1.1.2018 RM	Cash flows RM	Non-cash Acquisition/ Disposal RM	31.12.2018 RM
Term loans	3,702,535	4,290,519	-	7,993,054
Finance lease liabilities	2,293,151	(1,338,615)	-	954,536
Short-term borrowings	-	1,733,945	-	1,733,945
	5,995,686	4,685,849	-	10,681,535

(c) Total cash outflows for leases as a lessee

	2019 RM
Included in net cash flows from operating activities:	
Payment relating to short-term leases	590,426
Included in net cash from financing activities:	
Payment of lease liabilities	989,764
Total cash flows for leases	**1,580,190**

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

1. CORPORATE INFORMATION

Dufu Technology Corp. Berhad ("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 registered office of the Company is located at 57-G, Persiaran Bayan Indah, Bayan Bay, Sungai Nibong, 11900 Bayan Lepas, Penang. The principal place of business of the Company is located at 19, Hilir Sungai Keluang 2, Taman Perindustrian Bayan Lepas, Fasa IV, 11900 Bayan Lepas, Penang.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are disclosed in Note 8 to the financial statements.

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 3 March 2020.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Adoption of new MFRS, amendments/improvements to MFRSs and new IC Interpretation ("IC Int")

The Group and the Company have adopted the following new MFRS, amendments/improvements to MFRSs and new IC Int that are mandatory for the current financial year:

<u>New MFRS</u>

MFRS 16	Leases

<u>Amendments/Improvements to MFRSs</u>

MFRS 3	Business Combinations
MFRS 9	Financial Instruments
MFRS 11	Joint Arrangements
MFRS 112	Income Taxes
MFRS 119	Employee Benefits
MFRS 123	Borrowings Costs
MFRS 128	Investments in Associates and Joint Ventures

<u>New IC Int</u>

IC Int 23	Uncertainty over Income Tax Treatments

The adoption of the above new MFRS, amendments/improvements to MFRSs and new IC Int did not have any significant effect on the financial statements of the Group and of the Company, and did not result in significant changes to the Group's and the Company's existing accounting policies, except for those as discussed below:

2. BASIS OF PREPARATION (cont'd)

2.2 Adoption of new MFRS, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") (cont'd)

MFRS 16 Leases

Effective 1 January 2019, MFRS 16 has replaced MFRS 117 *Leases* and IC Int 4 *Determining whether an Arrangement contains a Lease.*

Under MFRS 117, leases are classified either as finance leases or operating leases. A lessee recognises on its statements of financial position assets and liabilities arising from finance leases. For operating leases, lease payments are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

MFRS 16 eliminates the distinction between finance and operating leases for lessees. Instead, all leases are brought onto the statements of financial position except for short-term and low value asset leases.

The Group has applied MFRS 16 using the modified retrospective approach and the adoption of the MFRS 16 does not has any impact to the opening balance of retained earnings at the date of initial application (i.e. 1 January 2019). The comparative information was not restated and continues to be reported under MFRS 117 and IC Int 4.

Definition of a lease

MFRS 16 changes the definition of a lease mainly to the concept of control. MFRS 16 defines that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all the economic benefits from that use.

The Group has elected the practical expedient not to reassess whether a contract contains a lease at the date of initial application. Accordingly, the definition of a lease under MFRS 16 was applied only to contracts entered or changed on or after 1 January 2019. Existing lease contracts that are still effective on 1 January 2019 will be accounted for as lease contracts under MFRS 16.

Impact of the adoption of MFRS 16

The application of MFRS 16 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements as at the date of initial application. Other than the enhanced new disclosures relating to leases, which the Group has complied with in the current financial year, the application of this standard does not have any significant effect on the financial statements of the Group, except for those as discussed below.

(i) Classification and measurement

As a lessee, the Group previously classified leases as operating or finance leases based on their assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Group.

For leases that were classified as finance lease under MFRS 117

The Group recognised the carrying amount of the lease assets and finance lease liabilities under MFRS 117 immediately before transition as the carrying amount of the right-of-use assets and the lease liabilities at the date of initial application. The measurement requirements of MFRS 16 are applied after that date.

2. BASIS OF PREPARATION (cont'd)

2.2 Adoption of new MFRS, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") (cont'd)

***MFRS 16 Leases* (cont'd)**

***Impact of the adoption of MFRS 16* (cont'd)**

(i) Classification and measurement (cont'd)

For land use rights that were classified as intangible assets under MFRS 138

The Group recognised the carrying amount of the land use rights under MFRS 138 immediately before transition as the carrying amount of the right-of-use assets at the date of initial application. The measurement requirements of MFRS 16 are applied after that date.

For leasehold land and buildings that were classified as property, plant and equipment under MFRS 116

The Group recognised the carrying amount of the leasehold land and buildings under MFRS 116 as the carrying amount of the right-of-use assets at the date of initial application. The measurement requirements of MFRS 16 are applied after that date.

For leasehold land and buildings that were classified as investment properties under MFRS 140

For right-of-use assets that meet the definition of investment properties, the Group continues to present and recognise the carrying amount of the investment properties under MFRS 140 at the date of initial application.

(ii) Short-term lease

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

The effects of adoption of MFRS 16 as at 1 January 2019 are as follows:

	Adjustments	Group Increase/ (Decrease) RM
Assets		
Non-current assets		
Property, plant and equipment	(i)	(9,038,783)
Land use rights	(i)	(7,369,801)
Right-of-use assets	(i)	16,408,584
Total non-current assets		-

2. BASIS OF PREPARATION (cont'd)

2.2 Adoption of new MFRS, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") (cont'd)

MFRS 16 Leases **(cont'd)**

Impact of the adoption of MFRS 16 **(cont'd)**

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments disclosed applying MFRS 117 as at 31 December 2018, as follows:

	Group RM
Assets	
Operating lease commitments as at 31 December 2018	392,447
Less:	
Commitments relating to short-term leases	(364,247)
Lease payments relating to renewal periods included in operating lease commitments as at 31 December 2018	(28,200)
Add:	
Commitments relating to lease previously classified as finance leases	954,536
Lease liabilities as at 1 January 2019	954,536

Other than as disclosed above, the adoption of MFRS 16 did not have a material impact on the Group's and the Company's statements of comprehensive income, statements of changes in equity or the Group's and the Company's operating, investing and financing cash flows.

Amendments to MFRS 3 Business Combinations and MFRS 11 Joint Arrangements

Amendments to MFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. Amendments to MFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

Amendments to MFRS 9 Financial Instruments

Amendments to MFRS 9 allow companies to measure prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income if certain conditions are met.

The amendments also clarify that when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss.

Amendments to MFRS 112 Income Taxes

Amendments to MFRS 112 clarify that an entity recognises the income tax consequences of dividends in profit or loss because income tax consequences of dividends are linked more directly to past transactions than to distributions to owners, except if the tax arises from a transaction which is a business combination or is recognised in other comprehensive income or directly in equity.

2. BASIS OF PREPARATION (cont'd)

2.2 Adoption of new MFRS, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") (cont'd)

Amendments to MFRS 123 Borrowing Costs

Amendments to MFRS 123 clarify that when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that qualifying asset as part of general borrowings.

Amendments to MFRS 128 Investments in Associates and Joint Ventures

Amendments to MFRS 128 clarify that companies shall apply MFRS 9, including its impairment requirements, to account for long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture to which the equity method is not applied.

IC Int 23 Uncertainty over Income Tax Treatments

IC Int 23 clarifies that where there is uncertainty over income tax treatments, an entity shall:

(i) assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.

(ii) reflect the effect of uncertainty in determining the related tax position (using either the most likely amount or the expected value method) if it concludes it is not probable that the taxation authority will accept an uncertain tax treatment.

2.3 New MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective

(a) The Group and the Company have not adopted the following new MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective:

		Effective for financial periods beginning on or after
New MFRS		
MFRS 17		1 January 2021
Amendments/Improvements to MFRSs		
MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards	1 January 2021#
MFRS 3	Business Combinations	1 January 2020/ 1 January 2021#
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2021#
MFRS 7	Financial Instruments: Disclosures	1 January 2020/ 1 January 2021#
MFRS 9	Financial Instruments	1 January 2020/ 1 January 2021#
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 15	Revenue from Contracts with Customers	1 January 2021#
MFRS 101	Presentation of Financial Statements	1 January 2020/ 1 January 2021#

2. BASIS OF PREPARATION (cont'd)

2.3 New MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective (cont'd)

(a) The Group and the Company have not adopted the following new MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective: (cont'd)

		Effective for financial periods beginning on or after
MFRS 107	Statement of Cash Flows	1 January 2021#
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020
MFRS 116	Property, Plant and Equipment	1 January 2021#
MFRS 119	Employee Benefits	1 January 2021#
MFRS 128	Investments in Associates and Joint Ventures	Deferred/ 1 January 2021#
MFRS 132	Financial Instruments: Presentation	1 January 2021#
MFRS 136	Impairment of Assets	1 January 2021#
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2021#
MFRS 138	Intangible Assets	1 January 2021#
MFRS 139	Financial Instruments: Recognition and Measurement	1 January 2020
MFRS 140	Investment Property	1 January 2021#

Amendments as to the consequence of effective of MFRS 17 Insurance Contracts

(b) The Group and the Company plan to adopt the above applicable new MFRS and amendments/ improvements to MFRSs when they become effective. A brief discussion on the above significant new MFRS and amendments/improvements to MFRSs that may be applicable to the Group and the Company are summarised below.

Amendments to MFRS 3 Business Combinations

The amendments clarify the definition of a business with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The distinction is important because an acquirer does not recognise goodwill in an asset acquisition.

The amendments, amongst others, clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments also add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures

These amendments address an acknowledged inconsistency between the requirements in MFRS 10 and those in MFRS 128, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business, as defined in MFRS 3. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business.

2. BASIS OF PREPARATION (cont'd)

2.3 New MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective (cont'd)

(b) The Group and the Company plan to adopt the above applicable new MFRS and amendments/ improvements to MFRSs when they become effective. A brief discussion on the above significant new MFRS and amendments/improvements to MFRSs that may be applicable to the Group and the Company are summarised below. (cont'd)

Amendments to MFRS 9 Financial Instruments, MFRS 139 Financial Instruments: Recognition and Measurement and MFRS 7 Financial Instruments: Disclosures

The Malaysian Accounting Standards Board has issued *Interest Rate Benchmark Reform* (Amendments to MFRS 9, MFRS 139 and MFRS 7).

The *Interest Rate Benchmark Reform* amends some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the interbank offered rates reform. In applying the amendments, companies would continue to apply those hedge accounting requirements assuming that the interest rate benchmark associated with the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

Applying the amendments, entities are not required to apply the MFRS 139 retrospective assessment but continue to apply hedge accounting to a hedging relationship for which effectiveness is outside of the 80 – 125% range during the period of uncertainty arising from the reform.

Amendments to MFRS 101 Presentation of Financial Statements and MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors

The amendments refine the definition by including 'obscuring information' in the definition of material to respond to concerns that the effect of including immaterial information should not reduce the understandability of a company's financial statements. The prior definition focuses only on information that cannot be omitted (material information) and does not also consider the effect of including immaterial information.

Other refinements to the definition include incorporating some existing wording in MFRS 101 and the Conceptual Framework for Financial Reporting. Consequently, the amendments align the definition of material across MFRS Standards and other publications.

2.4 Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which they operate ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency.

2.5 Basis of measurement

The financial statements of the Group and the Company have been prepared on the historical cost basis, except as otherwise disclosed in Note 3 to the financial statements.

2. BASIS OF PREPARATION (cont'd)

2.6 Use of estimates and judgement

The preparation of financial statements in conformity with MFRSs requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenue and expenses during the reported period. It also requires directors to exercise their judgement in the process of applying the Group's and the Company's accounting policies. Although these estimates and judgements are based on the directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Group's and the Company's financial statements are disclosed in Note 4 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been applied consistently to all the financial years presented in the financial statements of the Group and of the Company.

3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of the subsidiaries and associate used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

(a) Subsidiaries and business combination

Subsidiaries are entities over which the Group is exposed, or has rights, to variable returns from its involvement with the acquirees and has the ability to affect those returns through its power over the acquirees.

The financial statements of subsidiaries are included in the consolidated financial statements from the date the Group obtains control of the acquirees until the date the Group loses control of the acquirees.

The Group applies the acquisition method to account for business combinations from the acquisition date.

For a new acquisition, goodwill is initially measured at cost, being the excess of the following:

- the fair value of the consideration transferred, calculated as the sum of the acquisition-date fair value of assets transferred (including contingent consideration), the liabilities incurred to former owners of the acquiree and the equity instruments issued by the Group. Any amounts that relate to pre-existing relationships or other arrangements before or during the negotiations for the business combination, that are not part of the exchange for the acquiree, will be excluded from the business combination accounting and be accounted for separately; plus
- the recognised amount of any non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date (the choice of measurement basis is made on an acquisition-by-acquisition basis); plus
- if the business combination is achieved in stages, the acquisition-date fair value of the previously held equity interest in the acquiree; less
- the net fair value of the identifiable assets acquired and the liabilities (including contingent liabilities) assumed at the acquisition date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Basis of consolidation (cont'd)

(a) Subsidiaries and business combination (cont'd)

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

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

If the business combination is achieved in stages, the Group remeasures the previously held equity interest in the acquiree to its acquisition-date fair value, and recognises the resulting gain or loss, if any, in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss or transferred directly to retained earnings on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Group uses provisional fair value amounts for the items for which the accounting is incomplete. The provisional amounts are adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date, including additional assets or liabilities identified in the measurement period. The measurement period for completion of the initial accounting ends as soon as the Group receives the information it was seeking about facts and circumstances or learns that more information is not obtainable, subject to the measurement period not exceeding one year from the acquisition date.

Upon the loss of control of subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any gain or loss arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an associate, joint venture, an available-for-sale financial asset or a held for trading financial asset.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The difference between the Group's share of net assets before and after the change, and the fair value of the consideration received or paid, is recognised directly in equity.

(b) Associates

Associates are entities over which the Group has significant influence, but not control, to the financial and operating policies.

Investment in associates are accounted for in the consolidated financial statements using the equity method.

Under the equity method, the investment in associates are initially recognised at cost. The cost of investment includes transaction costs. Subsequently, the carrying amount is adjusted to recognise changes in the Group's share of net assets of the associate.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Basis of consolidation (cont'd)

(b) Associates (cont'd)

When the Group ceases to have significant influence over an associate, any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of an available-for-sale financial asset or a held for trading financial asset. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not remeasured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

(c) Non-controlling interests

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company and are presented separately in the consolidated statement of financial position within equity.

Losses attributable to the non-controlling interests are allocated to the non-controlling interests even if the losses exceed the non-controlling interests.

(d) Transactions eliminated on consolidation

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

Unrealised gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Separate financial statements

In the Company's statement of financial position, investment in subsidiaries and associate are measured at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs. The policy for the recognition and measurement of impairment losses shall be applied on the same basis as would be required for impairment of non-financial assets as disclosed in Note 3.12(b) to the financial statements.

Contributions to subsidiaries are amounts for which the settlement is neither planned nor likely to occur in the foreseeable future is, in substance, considered as part of the Company's investment in the subsidiaries.

3.3 Foreign currency transactions and operations

(a) Translation of foreign currency transactions

Foreign currency transactions are translated to the respective functional currencies of the Group's entities using the exchange rates prevailing at the transaction dates.

At the end of each reporting date, monetary items denominated in foreign currencies are retranslated at the exchange rates prevailing at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Foreign currency transactions and operations (cont'd)

(a) Translation of foreign currency transactions (cont'd)

Non-monetary items denominated in foreign currencies that are measured at fair value are retranslated at the rates prevailing at the dates the fair values were determined. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated at the historical rates as at the dates of the initial transactions.

Foreign exchange differences arising on settlement or retranslation of monetary items are recognised in profit or loss except for monetary items that are designated as hedging instruments in either a cash flow hedge or a hedge of the Group's net investment of a foreign operation. When settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, exchange differences are recognised in profit or loss in the separate financial statements of the parent company or the individual financial statements of the foreign operation. In the consolidated financial statements, the exchange differences are considered to form part of a net investment in a foreign operation and are recognised initially in other comprehensive income until its disposal, at which time, the cumulative amount is reclassified to profit or loss.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

(b) Translation of foreign operations

The assets and liabilities of foreign operations denominated in the functional currency different from the presentation currency, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency at exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated at exchange rates at the dates of the transactions.

Exchange differences arising on the translation are recognised in other comprehensive income. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in foreign exchange translation reserves related to that foreign operation is reclassified to profit or loss. For a partial disposal not involving loss of control of a subsidiary that includes a foreign operation, the proportionate share of cumulative amount in foreign exchange translation reserve is reattributed to non-controlling interests. For partial disposals of associates or joint ventures that do not result in the Group losing significant influence or joint control, the proportionate share of the cumulative amount in foreign exchange translation reserve is reclassified to profit or loss.

3.4 Financial instruments

Financial instruments are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contract provisions of the financial instruments.

Except for the trade receivables that do not contain a significant financing component or for which the Group and the Company have applied the practical expedient, the financial instruments are recognised initially at their fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset and financial liability. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Trade receivables that do not contain a significant financing component or for which the Group and the Company have applied the practical expedient are measured at the transaction price determined under MFRS 15.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Financial instruments (cont'd)

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

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

(a) Subsequent measurement

The Group and the Company categorise the financial instruments as follows:

(i) Financial assets

For the purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost
- Financial assets at fair value through other comprehensive income with recycling of cumulative gains and losses upon derecognition
- Financial assets designated at fair value through other comprehensive income with no recycling of cumulative gains and losses upon derecognition
- Financial assets at fair value through profit or loss

The classification depends on the entity's business model for managing the financial assets and the contractual cash flows characteristics of the financial assets.

The Group and the Company reclassify financial assets when and only when their business models for managing those assets change.

<u>Debt instruments</u>

Subsequent measurement of debt instruments depends on the Group's and the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group and the Company classify their debt instruments:

- Amortised cost

  Financial assets that are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.12(a) to the financial statements. Gains and losses are recognised in profit or loss when the financial asset is derecognised, modified or impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Financial instruments (cont'd)

(a) Subsequent measurement (cont'd)

The Group and the Company categorise the financial instruments as follows (cont'd):

(i) Financial assets (cont'd)

Debt instruments (cont'd)

- Fair value through other comprehensive income (FVOCI)

  Financial assets that are held for collection of contractual cash flows and for selling the financial assets, and the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.12(a) to the financial statements. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

- Fair value through profit or loss (FVPL)

  Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

  Financial assets at fair value through profit or loss are carried in the statements of financial position at fair value with net changes in fair value recognised in the profit or loss.

Equity instruments

The Group and the Company subsequently measure all equity investments at fair value. Upon initial recognition, the Group and the Company can make an irrevocable election to classify its equity investments that is not held for trading as equity instruments designated at FVOCI. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are not recycled to profit or loss. Dividends are recognised as other income in the profit or loss when the right of payment has been established, except when the Group and the Company benefit from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at FVOCI are not subject to impairment assessment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Financial instruments (cont'd)

(a) Subsequent measurement (cont'd)

The Group and the Company categorise the financial instruments as follows (cont'd):

(ii) Financial liabilities

The Group and the Company classify their financial liabilities in the following measurement categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost

<u>Financial liabilities at fair value through profit or loss</u>

Financial liabilities at fair value through profit or loss include financial liabilities held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities designated into this category upon initial recognition.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value with the gain or loss recognised in profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in MFRS 9 are satisfied. The Group and the Company have not designated any financial liability as at fair value through profit or loss.

<u>Financial liabilities at amortised cost</u>

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss through the amortisation process.

(b) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the liability is measured at the higher of the amount of the loss allowance determined in accordance with Section 5.5 of MFRS 9 and the amount initially recognised, when appropriate, the cumulative amount of income recognised in accordance with the principles of MFRS 15.

(c) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting (i.e. the date the Group and the Company commit themselves to purchase or sell an asset).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Financial instruments (cont'd)

(c) Regular way purchase or sale of financial assets (cont'd)

Trade date accounting refers to:

(i) the recognition of an asset to be received and the liability to pay for it on the trade date; and

(ii) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Generally, interest does not start to accrue on the asset and corresponding liability until the settlement date when title passes.

(d) Derecognition

A financial asset or a part of it is derecognised when, and only when:

(i) the contractual rights to receive the cash flows from the financial asset expire, or

(ii) the Group and the Company have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party; and either (a) the Group and the Company have transferred substantially all the risks and rewards of the asset, or (b) the Group and the Company have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

The Group and the Company evaluate if, and to what extent, they have retained the risks and rewards of ownership. When they have neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group and the Company continue to recognise the transferred asset to the extent of their continuing involvement. In that case, the Group and the Company also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group and the Company have retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Company could be required to repay.

On derecognition of a financial asset, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

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

(e) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Property, plant and equipment

(a) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.12(b) to the financial statements.

Cost of assets includes expenditures that are directly attributable to the acquisition of the asset and any other costs that are directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes cost of materials, direct labour, and any other direct attributable costs but excludes internal profits. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs in Note 3.18 to the financial statements.

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

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(b) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the part will flow to the Group or the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss as incurred.

(c) Depreciation

Capital work-in-progress included in property, plant and equipment are not depreciated as these assets are not yet available for use.

All other property, plant and equipment are depreciated on straight-line basis over the estimated useful lives of the assets using the following annual rates:

Buildings	5% - 6.67%
Plant and machinery	10%
Furniture, fittings and office equipment	8% - 20%
Renovation and electrical installation	10% - 20%
Motor vehicles	10% - 20%

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

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

Leasehold land is depreciated on a straight-line basis over the lease terms of 38 to 57 years.

(d) Derecognition

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.6 Land use right

Accounting policies applied until 31 December 2018

Land use rights are measured at cost less accumulated amortisation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.12(b) to the financial statements. The land use rights are amortised over their lease terms of 50 years.

3.7 Leases

(a) Definition of lease

Accounting policies applied from 1 January 2019

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

- the contract involves the use of an identified asset;
- the Group and the Company have the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- the Group and the Company have the right to direct the use of the asset.

Accounting policies applied until 31 December 2018

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases that do not meet this criterion are classified as operating leases.

(b) Lessee accounting

Accounting policies applied from 1 January 2019

At the lease commencement date, the Group and the Company recognise a right-of-use asset and a lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

The Group and the Company present right-of-use assets that do not meet the definition of investment property in Note 6 to the financial statements and lease liabilities at Note 19 to the financial statements.

Right-of-use asset

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

The right-of-use asset is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses and adjust for any remeasurement of the lease liabilities. The right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If the Group and the Company expect to exercise a purchase option, the right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts from the commencement date of the underlying asset. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.12(b) to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.7 Leases (cont'd)

(b) Lessee accounting (cont'd)

Lease liability

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

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

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The Group and the Company remeasure the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Variable lease payments that do not depend on an index or a rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "other expenses" in the statements of comprehensive income.

The Group and the Company have elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Short-term leases and leases of low value assets

The Group and the Company have elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low value assets. The Group and the Company recognise the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.7 Leases (cont'd)

(b) Lessee accounting (cont'd)

Accounting policies applied until 31 December 2018

If an entity in the Group is a lessee in a finance lease, it capitalises the leased asset and recognises the related liability. The amount recognised at the inception date is the fair value of the underlying leased asset or, if lower, the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are charged as expenses in the periods in which they are incurred.

The capitalised leased asset is classified by nature as property, plant and equipment or investment properties.

For operating leases, the Group does not capitalise the leased asset or recognise the related liability. Instead lease payments under an operating lease are recognised as an expense on the straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Any upfront lease payments are classified as land use rights within intangible assets.

(c) Lessor accounting

Accounting policies applied from 1 January 2019

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases that do not meet this criterion are classified as operating leases.

When the Group and the Company are intermediate lessors, they account for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the Group applies the exemption described in Note 3.7(b) to the financial statements, then it classifies the sub-lease as an operating lease.

If an entity in the Group is a lessor in a finance lease, it derecognises the underlying asset and recognises a lease receivable at an amount equal to the net investment in the lease. Finance income is recognised in profit or loss based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

If an entity in the Group is a lessor in an operating lease, the underlying asset is not derecognised but is presented in the statements of financial position according to the nature of the asset. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

When a contract includes lease and non-lease components, the Group and the Company apply MFRS 15 to allocate the consideration under the contract to each component.

Accounting policies applied until 31 December 2018

If an entity in the Group is a lessor in a finance lease, it derecognises the underlying asset and recognises a lease receivable at an amount equal to the net investment in the lease. Finance income is recognised in profit or loss based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

If an entity in the Group is a lessor in an operating lease, the underlying asset is not derecognised but is presented in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Investment properties

Investment properties are properties held to earn rental income or for capital appreciation or both.

Investment properties are initially measured at cost, including transaction costs. The Group uses the cost model to measure its investment properties after initial recognition. Accordingly, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.12(b) to the financial statements.

Leasehold land is depreciated on a straight-line basis over the lease term of 38 years. Buildings are depreciated on a straight-line basis over their estimated useful lives of 15 years.

Cost includes purchase price and any directly attributable costs incurred to bring the property to its present location and condition intended for use as an investment property. The cost of a self-constructed investment property includes the cost of material, direct labour and any other direct attributable costs. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs in Note 3.18 to the financial statements.

An investment property is derecognised on their disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gains and losses arising from derecognition of the asset is recognised in the profit or loss.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property carried at fair value to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. For a transfer from owner-occupied property to investment property, any difference arising on the date of change in use between the carrying amount of the item immediately prior to the transfer and its fair value is recognised directly in equity as a revaluation of investment properties.

3.9 Investment in club memberships

Investment in club memberships are stated at cost less impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.12(b) to the financial statements. The investment in club memberships are amortised over the membership terms.

3.10 Inventories

Inventories of materials and goods are measured at the lower of cost (determined principally on the first-in first-out basis) and net realisable value.

Costs consists of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

3.11 Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand, bank balances and deposits and other short-term, highly liquid investments with a maturity of three months or less, that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 Impairment of assets

(a) Impairment of financial assets and contract assets

Financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income (FVOCI), lease receivables, contract assets, a loan commitment and financial guarantee contracts will be subject to the impairment requirement in MFRS 9 which is related to the accounting for expected credit losses on the financial assets. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

The Group and the Company measure loss allowance at an amount equal to lifetime expected credit losses, except for the following, which are measured as 12-month expected credit losses:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

For trade receivables, contract assets and lease receivables, the Group and the Company apply the simplified approach permitted by MFRS 9 to measure the loss allowance at an amount equal to lifetime expected credit losses.

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

The Group and the Company assume that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group and the Company consider a financial asset to be in default when:

- the borrower is unable to pay its credit obligations to the Group and the Company in full, without taking into account any credit enhancements held by the Group and the Company; or
- the contractual payment of the financial asset is more than 90 days past due unless the Group and the Company have reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

12-month expected credit losses are the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company are exposed to credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

Expected credit losses are discounted at the effective interest rate of the financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 Impairment of assets (cont'd)

(a) Impairment of financial assets and contract assets (cont'd)

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default of past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The amount of impairment losses (or reversal) shall be recognised in profit or loss, as an impairment gain or loss. For financial assets measured at FVOCI, the loss allowance shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statements of financial position.

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

(b) Impairment of non-financial assets

The carrying amounts of non-financial assets (except for inventories and deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the Group and the Company make an estimate of the asset's recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of non-financial assets or cash-generating units ("CGUs").

The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining the fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

Where the carrying amount of an asset exceed its recoverable amount, the carrying amount of asset is reduced to its recoverable amount.

Impairment losses are recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 Impairment of assets (cont'd)

(b) Impairment of non-financial assets (cont'd)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. An impairment loss is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. Reversal of impairment loss is restricted by the asset's carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

3.13 Share capital

(a) Ordinary shares

Ordinary shares are equity instruments. An equity instrument is a contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(b) Treasury shares

When share capital recognised as equity is repurchased, the amount of consideration paid is recognised directly in equity. Repurchased shares that have not been cancelled including any attributable transaction costs are classified as treasury shares and presented as a deduction from total equity.

When treasury shares are sold or reissued subsequently, the difference between the sales consideration and the carrying amount is presented as a movement in equity.

3.14 Employee benefits

(a) Short-term employee benefits

Short-term employee benefit obligations in respect of wages, salaries, social security contributions, annual bonuses, paid annual leave, sick leave and non-monetary benefits are recognised as an expense in the financial year where the employees have rendered their services to the Group and the Company.

(b) Defined contribution plans

As required by law, the Group and the Company contribute to the Employees Provident Fund ("EPF"), the national defined contribution plan. The Group's foreign subsidiaries make contributions to their respective countries' statutory pension schemes. Such contributions are recognised as an expense in the profit or loss in the period in which the employees render their services.

3.15 Share-based payments

Equity-settled share-based payment

The cost of equity-settled share-based payment is determined by the fair value at the date when the grant is made using an appropriate valuation model. Details regarding the determination of the fair value of equity-settled share-based payments are set out in Note 18 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.15 Share-based payments (cont'd)

Equity-settled share-based payment (cont'd)

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's and the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group and the Company revise their estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

3.16 Provisions

Provisions are recognised when the Group and the Company have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

If the effect of the time value of money is material, provisions that are determined based on the expected future cash flows to settle the obligation are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provisions due to passage of time is recognised as finance costs.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed.

3.17 Revenue and other income

The Group and the Company recognise revenue that depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group and the Company expect to be entitled in exchange for those goods or services.

Revenue recognition of the Group and the Company are applied for each contract with a customer or a combination of contracts with the same customer (or related parties of the customer). For practical expedient, the Group and the Company applied revenue recognition to a portfolio of contracts (or performance obligations) with similar characteristics if the Group and the Company reasonably expect that the effects on the financial statements would not differ materially from recognising revenue on the individual contracts (or performance obligations) within that portfolio.

The Group and the Company measure revenue at its transaction price, being the amount of consideration to which the Group and the Company expect to be entitled in exchange for transferring promised good or service to a customer, excluding amounts collected on behalf of third parties, adjusted for the effects of any variable consideration, constraining estimates of variable consideration, significant financing components, non-cash consideration and consideration payable to customer. If the transaction price includes variable consideration, the Group and the Company use the expected value method by estimating the sum of probability-weighted amounts in a range or possible consideration amounts, or the most likely outcome method, depending on which method the Group and the Company expect to better predict the amount of consideration to which it is entitled.

Revenue from contracts with customers is recognised by reference to each distinct performance obligation in the contract with customer, i.e. when or as a performance obligation in the contract with customer is satisfied. A performance obligation is satisfied when or as the customer obtains control of the good or service underlying the particular performance obligation, which the performance obligation may be satisfied at a point in time or over time.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.17 Revenue and other income (cont'd)

A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. A modification exists when the change either creates new or changes existing enforceable rights and obligations of the parties to the contract. The Group and the Company have assessed the type of modification and accounted for as either creates a separate new contract, terminates the existing contract and creation of a new contract; or forms a part of the existing contracts.

Financing components

The Group and the Company have applied the practical expedient for not to adjust the promised amount of consideration for the effects of a significant financing components if the Group and the Company expect that the period between the transfer of the promised goods or services to the customer and payment by the customer will be one year or less.

(a) Sale of goods - manufacturing

The Group manufactures and sells a range high precision engineering parts, module assembly and metal fabrication parts for hard disk drive, control and sensors, electronics, semiconductor and office equipment relating to automation industries to local and foreign customers. Revenue from sale of goods are recognised at a point in time when control of the goods is transferred, generally when the customer accepts the delivery of the goods.

Sales are made within a credit term of 30 to 90 days, therefore, no element of financing is deemed present. A receivable is recognised when the customer accepts the delivery of the goods as the consideration is unconditional other than the passage of time before the payment is due.

Revenue is recognised based on the price specified in the contract, net of the estimated volume discounts where applicable. Accumulated experience with the customer's purchasing pattern is used to estimate and provide for the discounts, using the expected value method. The Group uses the expected value method because it is the method that the Group expects to better predict the estimated volume discounts to which it will be provided to the customers. The estimated volume discounts recognised is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Group's customary business practice is to allow a customer to return any defected products and receive a full refund. The Group uses its experience in estimating returns for this product and customer class. The Group uses the expected value method because it is the method that the Group expects to better predict the amount of consideration to which the products will be refunded. With that, upon transfer the control of the product, the Group does not recognise revenue for products that it is highly probable to be returned.

A contract liability is recognised for expected volume discounts payable to customers and for products expected to be returned from customers in relation to sales made until the end of the reporting period.

A right to recover goods from customer on settling the refund liability is recognised as an asset and included as part of inventories for the goods expected to be returned.

Where consideration is collected from customer in advance for sale of manufactured good, a contract liability is recognised for the customer deposits. Contract liability would be recognised as revenue upon sale of manufactured goods to the customer.

(b) Interest income

Interest income is recognised using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.17 Revenue and other income (cont'd)

(c) Dividend income

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

(d) Rental income

Rental income from investment property is recognised on a straight-line basis over the term of the lease. Lease incentive granted is recognised as an integral part of the total rental income, over the term of the lease.

3.18 Borrowing costs

Borrowing costs are interests and other costs that the Group incurs in connection with borrowing of funds.

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

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

The Group begins capitalising borrowing costs when the Group has incurred the expenditures for the asset, incurred related borrowing costs and undertaken activities that are necessary to prepare the asset for its intended use or sale.

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

3.19 Taxes

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

(a) Current tax

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

(b) Deferred tax

Deferred tax is recognised using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the statements of financial position. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unutilised tax losses and unused tax credits, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary differences arise from the initial recognition of assets and liabilities in a transaction which is not a business combination and that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.19 Taxes (cont'd)

(b) Deferred tax (cont'd)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associate, except where the Group is able to control the reversal timing of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

(c) Sales and services tax

Revenues, expenses and assets are recognised net of amount of sales and services tax except:

- where the sales and services tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales and services tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales and services tax included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

3.20 Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.21 Operating segment

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Chief Executive Officer of the Group, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief operating decision-maker that makes strategic decisions.

3.22 Fair value measurements

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

For a non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group and the Company can access at the measurement date.
Level 2 : Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 : Unobservable inputs for the asset or liability.

There was no transfer between levels of the fair value hierarchy during the financial year.

3.23 Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group and of the Company.

Contingent liability is also referred as a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities and assets are not recognised in the statements of financial position.

3.24 Contract asset/(liability)

Contract asset is the right to consideration in exchange for goods or services transferred to the customers when that right is conditioned on something other than the passage of time (for example, the Group's and the Company's future performance).

The policy for the recognition and measurement of impairment losses is in accordance with Note 3.12(a) to the financial statements.

Contract liability is the obligation to transfer goods or services to customer for which the Group and the Company have received the consideration or have billed the customer.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have significant effect in determining the amount recognised in the financial year include the following:

(a) Impairment of financial assets

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rate. The Group uses judgement in making these assumptions and selecting inputs to the impairment calculation, based on the Group's past history and forward-looking estimates at the end of each reporting period.

The Group uses a provision matrix to calculate expected credit losses for trade receivables. The provision rates are depending on the number of days that a trade receivable is past due. The Group uses the grouping according to the customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forward-looking estimates and expected credit losses is a significant estimate. The amount of expected credit loss is sensitive to changes in circumstances and of forecast economic conditions over the expected lives of trade receivables. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The information about the impairment on the Group's and the Company's financial assets are disclosed in Note 32(b)(i) to the financial statements.

(b) Valuation of inventories

The costs of inventories comprise the cost of purchase of raw materials, direct labour, plus conversion costs such as variable and fixed overheads. The cost allocation process involves multiple inputs and judgement is required to estimate the cost of finished goods and work-in-progress which comprise the cost of raw materials, direct labour, other direct costs, and the appropriate allocation of overheads based on normal operating capacity.

The Group writes down their obsolete or slow-moving inventories based on the assessment of their estimated net selling price. Inventories are written down when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Where expectations differ from the original estimates, the differences will impact the carrying amount of inventories.

The carrying amounts of the Group's inventories are disclosed in Note 12 to the financial statements.

5.1 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land RM	Buildings RM	Plant and machinery RM	Furniture, fixtures and office equipment RM	Renovation and electrical installation RM	Motor vehicles RM	Capital work-in-progress RM	Total RM
Group								
2019								
Cost								
At 1 January 2019								
- As previously reported	4,800,000	26,664,775	125,006,263	3,971,740	2,908,024	3,885,697	-	167,236,499
- Effect of adoption of MFRS 16	(4,800,000)	(25,064,775)	-	-	-	(1,019,270)	-	(30,884,045)
Adjusted balance at 1 January 2019	-	1,600,000	125,006,263	3,971,740	2,908,024	2,866,427	-	136,352,454
Additions	-	-	10,143,759	841,350	103,870	354,909	460,530	11,904,418
Disposals/Write-offs	-	-	(11,435,242)	(615,809)	-	(38,997)	-	(12,090,048)
Reclassification to right-of-use assets	-	-	-	-	(500,793)	-	-	(500,793)
Exchange differences	-	-	(887,959)	(21,831)	(62,101)	(19,928)	-	(991,819)
At 31 December 2019	-	1,600,000	122,826,821	4,175,450	2,449,000	3,162,411	460,530	134,674,212
Accumulated depreciation and impairment loss								
At 1 January 2019								
- As previously reported	1,789,473	20,035,075	94,937,008	2,467,705	1,067,271	1,635,962	-	121,932,494
- Effect of adoption of MFRS 16	(1,789,473)	(19,722,408)	-	-	-	(333,381)	-	(21,845,262)
Adjusted balance at 1 January 2019	-	312,667	94,937,008	2,467,705	1,067,271	1,302,581	-	100,087,232
Depreciation charge for the financial year	-	107,120	6,008,115	430,783	668,702	429,822	-	7,644,542
Disposals/Write-offs	-	-	(10,127,158)	(460,356)	-	(38,997)	-	(10,626,511)
Reclassification to right-of-use assets	-	-	-	-	(54,541)	-	-	(54,541)
Exchange differences	-	-	(681,956)	(16,041)	(42,662)	(13,949)	-	(754,608)
At 31 December 2019	-	419,787	90,136,009	2,422,091	1,638,770	1,679,457	-	96,296,114
Carrying amount								
At 1 January 2019 (Adjusted)	-	1,287,333	30,069,255	1,504,035	1,840,753	1,563,846	-	36,265,222
At 31 December 2019	-	1,180,213	32,690,812	1,753,359	810,230	1,482,954	460,530	38,378,098

5.1 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Leasehold land RM	Buildings RM	Plant and machinery RM	Furniture, fixtures and office equipment RM	Renovation and electrical installation RM	Motor vehicles RM	Total RM
Group							
2018							
Cost							
At 1 January 2018	4,800,000	26,742,107	117,481,403	4,163,253	1,232,050	3,471,334	157,890,147
Additions	-	-	12,912,899	195,173	1,728,868	1,466,506	16,303,446
Disposals/ Write-offs	-	-	(4,831,736)	(373,927)	-	(1,040,782)	(6,246,445)
Exchange differences	-	(77,332)	(556,303)	(12,759)	(52,894)	(11,361)	(710,649)
At 31 December 2018	4,800,000	26,664,775	125,006,263	3,971,740	2,908,024	3,885,697	167,236,499
Accumulated depreciation and impairment loss							
At 1 January 2018	1,705,262	18,830,698	95,359,988	2,444,026	659,375	2,317,415	121,316,764
Depreciation charge for the financial year	84,211	1,246,212	4,724,652	389,979	430,180	372,244	7,247,478
Disposals/ Write-offs	-	-	(4,699,721)	(354,932)	-	(1,040,781)	(6,095,434)
Exchange differences	-	(41,835)	(447,911)	(11,368)	(22,284)	(12,916)	(536,314)
At 31 December 2018	1,789,473	20,035,075	94,937,008	2,467,705	1,067,271	1,635,962	121,932,494
Carrying amount							
At 1 January 2018	3,094,738	7,911,409	22,121,415	1,719,227	572,675	1,153,919	36,573,383
At 31 December 2018	3,010,527	6,629,700	30,069,255	1,504,035	1,840,753	2,249,735	45,304,005

Assets pledged as security

In the previous financial year, leasehold land and buildings with carrying amounts of RM7,304,261 have been pledged as security for credit facilities granted with the Group as disclosed in Note 19 to the financial statements.

5.2 LAND USE RIGHTS

	Group 2019 RM	Group 2018 RM
Cost		
At 1 January		
- As previously reported	7,369,801	-
- Effect of adoption of MFRS 16	(7,369,801)	-
Adjusted balance at 1 January	-	-
Addition during the financial year	-	7,445,640
Exchange differences	-	(75,839)
At 31 December	-	7,369,801

6. RIGHT-OF-USE ASSETS

The Group leases several assets and the information about leases of the Group as lessee is presented below:

	Leasehold land RM	Buildings RM	Land use rights RM	Plant and machinery RM	Motor vehicles RM	Total RM
Group						
Carrying amount						
At 1 January 2019	3,010,527	5,342,367	7,369,801	-	685,889	16,408,584
Additions	3,833,412	9,877,811	-	1,594,788	82,000	15,388,011
Depreciation	(140,223)	(1,568,673)	(146,732)	(132,899)	(149,783)	(2,138,310)
Reclassification from property, plant and equipment	-	446,252	-	-	-	446,252
Exchange differences	-	(33,447)	(175,680)	-	(4,384)	(213,511)
At 31 December 2019	6,703,716	14,064,310	7,047,389	1,461,889	613,722	29,891,026

(a) Lease term

The leasehold land and buildings generally have lease terms between 38 to 57 years. Plant and machinery and motor vehicles have lease term between 3 to 5 years.

(b) Land use rights

Land use rights represent up-front payment to acquire long-term interests in the usage of land.

The Group was granted land use rights for a period of fifty (50) years in relation to a land situated in China.

(c) Assets pledged as security

Leasehold land and buildings with carrying amounts of RM6,205,582 have been pledged as security for credit facilities granted with the Group as disclosed in Note 19 to the financial statements.

7. INVESTMENT PROPERTIES

	Leasehold land RM	Buildings RM	Total RM
Group			
2019			
Cost			
At 1 January 2019/ 31 December 2019	6,651,022	5,601,523	12,252,545
Accumulated depreciation			
At 1 January 2019	1,098,865	2,063,257	3,162,122
Depreciation charge for the financial year	173,505	375,901	549,406
At 31 December 2019	1,272,370	2,439,158	3,711,528
Carrying amount			
At 31 December 2019	5,378,652	3,162,365	8,541,017
Group			
2018			
Cost			
At 1 January 2018/ 31 December 2018	6,651,022	5,601,523	12,252,545
Accumulated depreciation			
At 1 January 2018	925,360	1,687,237	2,612,597
Depreciation charge for the financial year	173,505	376,020	549,525
At 31 December 2018	1,098,865	2,063,257	3,162,122
Carrying amount			
At 31 December 2018	5,552,157	3,538,266	9,090,423

The Group's investment properties are leased to a third party. The lease arrangement contains a non-cancellable period of 3 years, with no further right of renewal or extension beyond the termination date.

The following are recognised in profit or loss in respect of investment properties:

	Group 2019 RM	Group 2018 RM
Rental income	1,403,200	1,387,200
Direct operating expenses:		
- income generating investment properties	633,478	657,442

7. INVESTMENT PROPERTIES (cont'd)

Fair value information

Fair value of investment properties is categorised as follows:

	Group	
	2019	**2018**
	RM	**RM**
Level 2		
Leasehold land	15,422,627	12,918,454
Buildings	8,063,101	6,753,895
	23,485,728	19,672,349

Level 2 fair value

The fair value for the investment properties of the Group is based on directors' estimation using sales comparison approach. Sales price of comparable properties in the same location or close proximity are adjusted for differences in key attributes such as property size. The most significant input in this valuation approach is price per square foot of comparable properties.

Highest and best use

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

8. INVESTMENT IN SUBSIDIARIES

	Company	
	2019	**2018**
	RM	**RM**
At cost		
Unquoted shares	95,445,890	67,445,890
Less: Accumulated impairment losses	(10,282,366)	(2,000,000)
	85,163,524	65,445,890
Loan that was part of net investment	-	7,800,000
Deemed capital contribution:		
- Share options granted	2,426,824	-
	87,590,348	73,245,890

8. INVESTMENT IN SUBSIDIARIES (cont'd)

Details of the subsidiaries are as follows:

Name of company	Principal place of business/country of incorporation	Ownership interest 2019 %	Ownership interest 2018 %	Principal activities
Dufu Industries Sdn. Bhd.	Malaysia	100	100	Design, development, manufacturing, assembly and trading of die components and precision machining of vice, computer peripherals and parts, for hard disk drive.
Dufusion Sdn. Bhd.	Malaysia	100	100	Design, reseach and development, manufacturing, assembly and trading of medicine components for orthopaedics.
Dufu Metal Sdn. Bhd.	Malaysia	75	75	Manufacturing of high precision engineering parts, module assembly and metal fabrication parts for semiconductor, electronics industrial automation industries and etc.
Guangzhou Futron Technology Co., Ltd. (甫丰五金电子有限公司) *	People's Republic of China	100	100	Manufacture and trading of optics, magnetism driver and parts.
Guangzhou Futron Precision Industries Co., Ltd. (甫创精密工业有限公司) *	People's Republic of China	100	100	Engaging in metal precision manufacturing and processing parts such as metal components for special equipment for electronics industry, air conditioning compressor accessories, auto parts and etc.
<u>Subsidiary of Dufu Industries Sdn. Bhd.</u>				
Dufu Industries Services Pte. Ltd. *	Singapore	100	100	Processing and trading of high quality computer disk-drive related components.

* *Audited by auditors other than Messrs. Baker Tilly Monteiro Heng PLT.*

(a) Acquisition of additional interests in Dufu Industries Sdn. Bhd. and Dufusion Sdn. Bhd.

During the financial year, the Company acquired additional RM10,000,000 and RM18,000,000 equity interest in Dufu Industries Sdn. Bhd. and Dufusion Sdn. Bhd. at a price of RM1 per share respectively.

There is no change in the Company's effective ownership in the subsidiaries as a result of additional shares purchased.

8. INVESTMENT IN SUBSIDIARIES (cont'd)

(b) Non-controlling interests in a subsidiary

The financial information of the Group's and the Company's subsidiary that have non-controlling interests are as follows:

	Ownership interest 2019 %	2018 %
Dufu Metal Sdn. Bhd.		
Equity interest held by non-controlling interests	25	25

	2019 RM	2018 RM
Dufu Metal Sdn. Bhd.		
Carrying amount of non-controlling interests	428,827	846,069
Loss allocated to non-controlling interests	(417,242)	(28,931)

(c) Summarised financial information of material non-controlling interests

The summarised financial information (before intra-group elimination) of the Group's and the Company's subsidiary that have material non-controlling interests are as follows:

	2019 RM	2018 RM
Dufu Metal Sdn. Bhd.		
Summarised statement of financial position		
As at 31 December		
Current assets	1,017,588	3,412,333
Non-current assets	2,175,791	2,714
Current liabilities	(439,750)	(30,770)
Non-current liabilities	(992,292)	-
Net assets	1,761,337	3,384,277
Summarised statement of comprehensive income for the financial year ended 31 December		
Revenue	71,289	-
Loss for the financial year/period	(1,668,966)	(115,723)
Total comprehensive loss	(1,668,966)	(115,723)
Summarised cash flows information for the financial year ended 31 December		
Cash flows from operating activities	(1,409,707)	(299,433)
Cash flows from investing activities	(825,285)	(2,769)
Cash flows from financing activities	(204,338)	3,499,900
Net changes in cash and cash equivalents	(2,439,330)	3,197,698

9. INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
At cost				
Unquoted shares	6,144,000	6,144,000	6,144,000	6,144,000
Share of post-acquisition reserves	(2,955,670)	(2,078,426)	-	-
	3,188,330	4,065,574	6,144,000	6,144,000
Less: Impairment losses	-	-	(2,544,466)	-
Exchange differences	411,204	(282,498)	-	-
	3,599,534	3,783,076	3,599,534	6,144,000

Details of associate are as follows:

Name of company	Principal place of business/country of incorporation	Ownership interest 2019 %	Ownership interest 2018 %	Nature of relationship
Superior Plating Technology (Thailand) Co., Ltd *#	Thailand	19.59	19.59	Plating and polishing computer disk-drive related components. The activites contribute to the Group's manufacturing segment.

* *Audited by firm other than Messrs Baker Tilly Monteiro Heng PLT.*

The audited financial statements of the associate is not available. The management account has been used for the purpose of the consolidation.

Summarised financial information of material associate

The following table illustrates the summarised financial information of the Group's and Company's associate, adjusted for any differences in accounting policies and reconciles the information to the carrying amount of the Group's and Company's interest in the associate.

	2019	2018
	RM	RM
Group		
Assets and liabilities		
Current assets	10,271,715	5,233,303
Non-current assets	31,849,954	25,530,031
Current liabilities	(11,431,910)	(7,451,344)
Non-current liabilities	(12,315,415)	(4,000,729)
Net assets	18,374,344	19,311,261
Results		
Revenue	10,834,188	8,890,485
Loss after tax and total comprehensive loss	(4,478,019)	(5,589,948)
Interest in the associate	19.59%	19.59%
Carrying value of the Group's interest in associate	3,599,534	3,783,076

The Group's share of loss for the financial year of the associate is RM877,244 (2018: RM2,078,426).

10. INVESTMENT IN CLUB MEMBERSHIPS

	Group	
	2019 RM	2018 RM
At cost:		
At 1 January	79,395	92,748
Amortisation during the year	(11,756)	(11,930)
Exchange differences	(673)	(1,423)
At 31 December	66,966	79,395

11. DEFERRED TAX ASSETS/(LIABILITIES)

Presented after appropriate offsetting as follows:

	Group	
	2019 RM	2018 RM
Deferred tax assets	1,176,798	375,097
Deferred tax liabilities	(1,019)	(321,068)
	1,175,779	54,029

The components of deferred tax assets and liabilities prior to offsetting are as follows:

	At 1 January RM	Recognised in profit or loss RM	Exchange differences RM	At 31 December RM
Group				
2019				
Deferred tax assets:				
Provisions	375,097	2,844,037	(6,014)	3,213,120
Deferred tax liabilities:				
Property, plant and equipment	(321,068)	(1,716,287)	14	(2,037,341)
	54,029	1,127,750	(6,000)	1,175,779
2018				
Deferred tax assets:				
Property, plant and equipment	106,000	(106,000)	-	-
Provisions	1,057,701	(673,914)	(8,690)	375,097
	1,163,701	(779,914)	(8,690)	375,097
Deferred tax liabilities:				
Property, plant and equipment	(14,630)	(306,441)	3	(321,068)
	1,149,071	(1,086,355)	(8,687)	54,029

11. DEFERRED TAX ASSETS/(LIABILITIES) (cont'd)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items (stated at gross):

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
Unused tax losses	8,064,211	5,178,998	1,163,609	1,163,609
Unabsorbed capital allowances	1,714,242	729,993	-	-
Deductible temporary differences	417,259	2,998,831	-	-
	10,195,712	8,907,822	1,163,609	1,163,609

Pursuant to Section 11 of the Act 812, special provision relating to Section 43 & 44 of Income Tax Act 1967 in Malaysia, a time limit has been imposed on the unutilised business losses, to be carried forward for a maximum of 7 consecutive years of assessment, this section has effect from the year of assessment 2019 and subsequent year of assessment.

12. INVENTORIES

	Group	
	2019	2018
	RM	RM
At cost:		
Raw materials	15,725,409	16,442,743
Work-in-progress	4,259,952	3,277,884
Finished goods	39,799,829	34,076,462
	59,785,190	53,797,089
Recognised as an expense in cost of sales:		
- Cost of inventories	(80,289,823)	(73,209,127)
- Inventories written down	(48,182)	(388,620)

13. TRADE AND OTHER RECEIVABLES

	Note	Group 2019 RM	Group 2018 RM	Company 2019 RM	Company 2018 RM
Current					
Trade					
Trade receivables		75,239,269	53,368,542	-	-
Less: Impairment losses for trade receivables		(713,903)	(665,925)	-	-
Total trade receivables	**(a)**	74,525,366	52,702,617	-	-
Non-trade					
- Amount owing by subsidiaries	**(b)**	-	-	-	21,478,408
- Other receivables	**(c)**	1,121,708	2,478,036	-	-
- GST refundable		847,469	1,313,826	-	-
- Dividend receivables		-	-	19,226,050	1,826,050
- Deposits		719,944	1,874,097	-	7,097
- Advance payment made to suppliers		6,354,605	616,019	-	-
		9,043,726	6,281,978	19,226,050	23,311,555
Less: Impairment losses:					
- Amount owing by subsidiaries	**(b)**	-	-	-	(8,282,366)
- Other receivables	**(c)**	(183,953)	(206,370)	-	-
		(183,953)	(206,370)	-	(8,282,366)
Total other receivables		8,859,773	6,075,608	19,226,050	15,029,189
Total trade and other receivables		83,385,139	58,778,225	19,226,050	15,029,189

(a) Trade receivables

Trade receivables are unsecured, non-interest bearing and the normal credit terms offered by the Group ranging from 30 days to 90 days (2018: 30 days to 90 days). Other credit terms are assessed and approved on a case by case basis.

Receivables that are impaired

The Group's trade receivables that are impaired at the reporting date and the reconciliation of movement in the impairment of trade receivables are as follows:

	Group 2019 RM	Group 2018 RM
At 1 January	665,925	2,226,917
Charge for the financial year	50,800	58,652
Reversal of impairment losses	(1,975)	(826,986)
Written off	-	(792,658)
Exchange differences	(847)	-
At 31 December	713,903	665,925

13. TRADE AND OTHER RECEIVABLES (cont'd)

(a) Trade receivables (cont'd)

Receivables that are impaired (cont'd)

Trade receivables that are individually determined to be credit impaired at the reporting date relate to receivables that have defaulted on payments.

The information about the credit exposures are disclosed in Note 32(b) to the financial statements.

Included in trade receivables of the Group are amounts totalling RM53,528,995 (2018: RM31,259,056) due from 3 (2018: 3) of its significant receivables.

(b) Amounts owing by subsidiaries are unsecured, non-interest bearing and are expected to be settled in cash.

(c) Other receivables

The movement in the impairment losses of other receivables is as follows:

	Group	
	2019	**2018**
	RM	**RM**
At 1 January	206,370	526,459
Reversal for the financial year	(22,417)	(229,842)
Written off	-	(90,247)
At 31 December	183,953	206,370

Other receivables that are individually determined to be impaired at the reporting date relate to receivables that have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

14. OTHER INVESTMENTS

	Group and Company	
	2019	**2018**
	RM	**RM**
Financial assets at fair value through profit or loss		
- Cash management fund investments with investment management company	180,146	175,574

The interest rate for the Group's and the Company's cash management fund investments with investment management company range from 2.40% to 2.79% (2018: 2.56% to 2.72%) per annum.

15. CASH, BANK BALANCES AND SHORT-TERM DEPOSITS

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
Short-term deposits	7,054,800	8,435,000	-	-
Cash on hand and at banks	36,445,665	32,902,928	3,401,883	1,146,847
Cash and cash equivalents	43,500,465	41,337,928	3,401,883	1,146,847

The deposits placed with banks of the Group earn interest at rates of 2.90% (2018: 3.00%) per annum. Deposits of the Group have maturity period of 90 days (2018: 90 days).

16. SHARE CAPITAL

	Group and Company			
	Number of shares		Amount	
	2019	2018	2019	2018
	Unit	Unit	RM	RM
Ordinary shares				
Issued and fully paid up:				
At 1 January	263,205,367	175,470,370	87,735,185	87,735,185
Issued during the financial year:				
- bonus issue	-	87,734,997	-	-
At 31 December	263,205,367	263,205,367	87,735,185	87,735,185

The holders of ordinary shares (except treasury shares) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

In the previous financial year, the Company issued 87,734,997 new ordinary shares by way of bonus issue on the basis of one (1) new ordinary share for every two (2) existing ordinary shares held in the Company.

The new ordinary shares issued in the previous financial year rank pari-passu in all respects with the existing ordinary shares of the Company.

17. TREASURY SHARES

Treasury shares relate to ordinary shares of the Company that are repurchased and held by the Company. The Company's share buyback scheme was first approved by the Company's shareholders in the Extraordinary General Meeting held on 24 February 2016 for the Company's plan to purchase its own shares. The directors of the Company believe that the repurchase plan are applied in the best interests of the Company and its shareholders. The mandate for share buybacks was renewed in each subsequent Annual General Meeting of shareholders. The share repurchases made to-date were financed by internally generated funds and are being held as treasury shares in accordance with the requirement of Section 127 of the Companies Act 2016 in Malaysia.

17. TREASURY SHARES (cont'd)

The details of the shares purchased from the open market using internally generated funds and held as treasury shares during the financial year as follows:

	Group and Company			
	Number of shares		Amount	
	2019	2018	2019	2018
	Unit	Unit	RM	RM
At 1 January	19,100,850	8,936,900	9,562,523	5,352,606
Bonus issue	-	6,366,950	-	-
Share purchased	-	3,797,000	-	4,209,917
Distribution as dividend	(12,204,606)	-	(6,110,033)	-
At 31 December	6,896,244	19,100,850	3,452,490	9,562,523

	2019	2018
	RM	RM
Average price paid for the shares repurchased	-	1.109
Average price paid for the dividend	0.501	-
Average unit cost for the year	0.501	0.501

During the financial year, the Company distributed a single tier final dividend for the financial year ended 31 December 2018 by way of share dividend on the basis of one treasury share for every twenty existing ordinary shares.

There were no repurchase of the Company's issued ordinary shares nor any resale of treasury shares during the financial year.

18. OTHER RESERVES

		Group		Company	
		2019	2018	2019	2018
	Note	RM	RM	RM	RM
Share option reserve	(a)	2,426,824	-	2,426,824	-
Exchange reserve	(b)	1,902,838	2,992,695	-	-
Reserve acquisition reserve		(24,110,002)	(24,110,002)	-	-
Statutory reserve	(c)	1,905,301	1,323,940	-	-
Retained earnings		147,959,802	115,255,514	27,241,230	17,497,138
		130,084,763	95,462,147	29,668,054	17,497,138

(a) Share option reserve

The share option reserve comprises the cumulative value of executive directors and employees' services received for the issue of share options. The reserve is recorded over the vesting period commencing from the grant date and is reduced by the expiry or exercise of the share options.

18. OTHER RESERVES (cont'd)

(a) Share option reserve (cont'd)

Exercise period of the options or shares offered:

(i) 4,413,000 options are allowed to be exercised from 1 July 2020 until 16 June 2024; and
(ii) 4,619,000 options are allowed to be exercised from 1 July 2021 until 16 June 2024.

When the option is exercised, the amount from the share option reserve is transferred to share capital. When the share options expire, the amount from the share option reserve is transferred to retained earnings.

Share options are granted to eligible executive directors and employees who have rendered services of two years and above. The options granted are vesting immediately and settlement is by issuance of fully paid ordinary shares. The exercise price in each grant is set 10% below the weighted average of the market prices of the Company's ordinary shares in the last five trading days before the grant date. The contractual term of each option granted is five years. There are no cash settlement alternatives. The options carry neither right to dividends nor voting rights. Options may be exercised any time from the date of vesting to the date of expiry.

Movement of share options during the financial year

The following table illustrates the number and weighted average exercise prices ("WAEP") of and movement in, share options:

	Number 2019	WAEP 2019
At 1 January	-	-
Granted on 1 July 2019	9,032,000	RM1.39
Forfeited	(9,000)	-
At 31 December	9,023,000	RM1.39
Exercisable at 31 December	9,023,000	RM1.39

The options outstanding at 31 December 2019 have exercise prices of RM1.39 (31.12.2018: Nil) and the weighted average remaining contractual life for the share options outstanding as at 31 December 2019 was 4.5 years (31.12.2018: Nil).

The fair values of the share options granted were determined using a trinomial option pricing model and the inputs were:

	2019
Fair value of share options and assumptions	
Weighted average fair value of share option at grant date (RM)	0.7864
Weighted average share price (RM)	1.5374
Option life (years)	5
Risk-free rate (%)	3.43%
Expected dividends (%)	1.02%
Expected volatility (%)	57.348%

18. OTHER RESERVES (cont'd)

(a) Share option reserve (cont'd)

The expected volatility is based on the historical share price volatility over the last 5 years. When determine the fair value, the management has also taken into consideration of the exercise restrictions and exercise behaviour. It was assumed that the eligible executive directors and employees would exercise the options after the vesting date when the share price is higher than the exercise price.

(b) Exchange reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency as well as the foreign currency differences arising from monetary items which form part of the Group's net investment in foreign operations, where the monetary item is denominated in either the functional currency of the reporting entity or the foreign operation or another currency.

(c) Statutory reserve

Pursuant to applicable People's Republic of China ("PRC") regulations, the subsidiaries of the Company incorporated in PRC are required to allocate 10% of their net profit for the financial year (after offsetting prior financial year losses, if any) to the statutory reserve until it reaches 50% of their registered capital respectively. The transfer to the reserve must be made before distribution of the dividend to the equity holders. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the respective subsidiaries, provided that the balance after such issue is not less than 25% of its registered capital.

19. LOANS AND BORROWINGS

	Group	
	2019	2018
	RM	RM
Non-current:		
Secured		
Term loans	10,853,599	6,508,814
Lease liabilities	1,047,689	197,971
Total non-current	11,901,288	6,706,785
Current:		
Secured		
Term loans	1,295,686	1,484,240
Lease liabilities	435,375	756,565
	1,731,061	2,240,805
Unsecured		
Bankers' acceptances	2,632,851	1,733,945
Revolving term loan	1,255,500	-
	3,888,351	1,733,945
Total current	5,619,412	3,974,750
Total loans and borrowings		
Term loans	12,149,285	7,993,054
Lease liabilities	1,483,064	954,536
Revolving term loan	1,255,500	-
Bankers' acceptances	2,632,851	1,733,945
	17,520,700	10,681,535

19. LOANS AND BORROWINGS (cont'd)

Interest rate per annum:

	Group	
	2019	**2018**
	%	%
Term loans (floating rate)	4.92 - 5.40	4.97 - 6.85
Lease liabilities (fixed rate)	4.84 - 6.03	4.81 - 6.03
Revolving term loan (floating rate)	3.05	-
Bankers' acceptances (floating rate)	3.17 - 3.30	4.10

(a) Term loans

The repayment analysis is as follows:

	Group	
	2019	**2018**
	RM	**RM**
Gross loan installments:		
Not later than one year	1,870,296	1,861,477
Later than one year and not later than five years	5,979,624	3,995,812
Later than five years	7,109,969	3,887,617
	14,959,889	9,744,906
Less: Future interest charges	(2,810,604)	(1,751,852)
Present value of term loans	12,149,285	7,993,054
Present value of term loans:		
Not later than one year	1,295,686	1,484,240
Later than one year and not later than five years	5,293,100	2,980,054
Later than five years	5,560,499	3,528,760
	12,149,285	7,993,054
Less: Amount due within 12 months	(1,295,686)	(1,484,240)
Amount due after 12 months	10,853,599	6,508,814

19. LOANS AND BORROWINGS (cont'd)

(a) Term loans (cont'd)

Details of the term loans are as follows:

		Group					
2019		**Term loan 1**	**Term loan 2**	**Term loan 3**	**Term loan 4**	**Term loan 5**	**Term loan 6**
Carrying amounts	**RM**	1,435,198	134,277	4,914,157	5,665,653	-	-
Monthly installments	**RM**	24,154	58,079	57,200	63,560	-	-
Tenure from the day of first drawdown	**Month**	180	180	120	120	-	-
Effective interest rates	%	5.40%	5.38%	4.92%	4.92%	-	-
Secured and supported by:							
- Right-of-use assets	**RM**	6,205,582					
2018							
Carrying amounts	**RM**	1,635,521	755,933	5,417,630	-	157,055	26,915
Monthly installments	**RM**	24,154	58,079	57,200	-	17,455	5,164
Tenure from the day of first drawdown	**Month**	180	180	120	-	120	180
Effective interest rates	%	5.50%	6.85%	4.97%	-	5.70%	5.70%
Secured and supported by:							
- Property, plant and equipment	**RM**	7,304,261					

19. LOANS AND BORROWINGS (cont'd)

(b) Lease liabilities

Future minimum lease payments under leases together with the present value of net minimum lease payments are as follows:

	Group	
	2019	2018
	RM	RM
Minimum lease payments:		
Within one year	507,643	788,272
Later than one year and not later than five years	1,140,576	227,457
	1,648,219	1,015,729
Less: Future interest charges	(165,155)	(61,193)
Present value of minimum lease payments	1,483,064	954,536
Present value of minimum lease payments:		
Within one year	435,375	756,565
Later than one year and not later than five years	1,047,689	197,971
	1,483,064	954,536
Less: Amount due within 12 months	(435,375)	(756,565)
Amount due after 12 months	1,047,689	197,971

The lease liabilities as effectively secured on the rights of the assets under lease arrangement.

(c) Bankers' acceptances

The bankers' acceptances of the Group are supported by the corporate guarantee given by the Company.

(d) Revolving term loan

The revolving term loan of the Group is secured and supported by the corporate guarantee given by the Company.

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
Current				
Trade				
Trade payables	15,805,726	14,185,199	-	-
Related party *	-	36,560	-	-
	15,805,726	14,221,759	-	-
Non-trade				
Other payables	3,461,670	4,837,942	-	-
Refundable deposits	419,200	399,200	-	-
Accruals	12,896,645	10,094,345	73,700	71,700
	16,777,515	15,331,487	73,700	71,700
	32,583,241	29,553,246	73,700	71,700

* *Being companies connected with a director.*

Trade payables are non-interest bearing and the normal credit terms available to the Group range from 30 to 90 days (2018: 30 to 90 days).

For explanations on the Group's and the Company's liquidity risk management processes, refer to Note 32(b)(ii) to the financial statements.

21. CONTRACT LIABILITIES

	Group	
	2019	2018
	RM	RM
Refund liability	546,701	770,679

22. REVENUE

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
Revenue from contract customers:				
Sale of goods	249,068,843	241,262,555	-	-
Revenue from other sources:				
Dividend income	-	-	24,400,000	12,586,050
Interest income	53,736	188,750	53,736	188,750
	249,122,579	241,451,305	24,453,736	12,774,800

22. REVENUE (cont'd)

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
Timing of revenue recognition:				
At a point in time	249,068,843	241,262,555	-	-

(a) Disaggregation of revenue

The Group and the Company report the following major segments: manufacturing and trading and investment in accordance with MFRS 8 *Operating Segments*. For the purpose of disclosure for disaggregation of revenue, it disaggregates revenue into primary geographical markets, major goods or services, timing of revenue recognition (i.e. goods transferred at a point in time or services transferred over time).

The information on disaggregation of revenue into primary geographical markets is disclosed in Note 35 to the financial statements.

(b) Transaction price allocated to the remaining performance obligations

The Group and the Company apply the practical expedient in paragraph 121(a) of MFRS 15 and do not disclose information about remaining performance obligations that have original expected durations of one year or less.

23. OTHER INCOME

	Group	
	2019	2018
	RM	RM
Interest income	678,416	441,518
Subsidy from government	282,618	121,737
Rental income from investment properties	1,403,200	1,387,200
Gain on disposal of property, plant and equipment	64,036	93,639
Gain on foreign exchange:		
- Realised	1,248,049	2,113,736
- Unrealised	74,293	235,166
Sales of scrap	2,364,520	2,462,337
Miscellaneous	107,665	51,355
	6,222,797	6,906,688

24. EMPLOYEES BENEFITS EXPENSE

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
Wages and salaries	56,054,438	55,839,536	274,201	264,686
Defined contribution plans	2,348,907	2,211,626	-	-
Share-based payments	2,426,824	-	-	-
	60,830,169	58,051,162	274,201	264,686
Included in employee benefits expenses are:				
Directors of the Company				
- Fees	230,000	216,000	230,000	216,000
- Other emolument	3,188,848	3,108,276	44,201	48,686
- Share-based payments	234,650	-	-	-
	3,653,498	3,324,276	274,201	264,686
Directors of subsidiaries				
Directors' other emolument	2,779,163	2,716,311	-	-
Share-based payments	327,609	-	-	-
	3,106,772	2,716,311	-	-
	6,760,270	6,040,587	274,201	264,686

25. FINANCE COSTS

	Group	
	2019	2018
	RM	RM
Interest expenses on:		
- Bank overdrafts	8,797	57,172
- Bankers' acceptances	163,333	55,629
- Lease liabilities	112,847	80,403
- Term loans	621,466	148,898
- Others	49,059	79,291
	955,502	421,393

26. PROFIT BEFORE TAX

Other than disclosed elsewhere in the financial statements, the following items have been charged/(credited) in arriving at profit before tax:

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
Auditors' remuneration:				
- Current year	345,601	311,596	113,500	110,500
- Prior year	7,921	61,533	-	43,732
Non-statutory audit fees	2,000	2,000	2,000	2,000
Amortisation for investment in club memberships	11,756	11,930	-	-
Depreciation for:				
- Investment properties	549,406	549,525	-	-
- Property, plant and equipment	7,644,542	7,247,478	-	-
- Right-of-use assets	2,138,310	-	-	-
Loss on disposal of property, plant and equipment	66,494	-	-	-
Impairment loss on:				
- Trade receivables	50,800	58,652	-	-
Impairment loss on investments in:				
- Associate	-	-	2,544,466	-
- Subsidiaries	-	-	8,282,366	-
Reversal of impairment losses on:				
- Amount owing by subsidiaries	-	-	(8,282,366)	-
- Trade receivables	(1,975)	(826,986)	-	-
- Other receivables	(22,417)	(229,842)	-	-
Inventories written down	48,182	388,620	-	-
Loss on foreign exchange:				
- Realised	194,422	65,835	-	-
- Unrealised	784,081	-	-	-
Property, plant and equipment written off	18,927	151,011	-	-
Rental of premises	-	162,003	-	-
Expenses relating to short-term leases	590,426	-	-	-

27. INCOME TAX EXPENSE

The major components of income tax expense for the financial years ended 31 December 2019 and 31 December 2018 are as follows:

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
Statements of comprehensive income				
Current income tax:				
- Current income tax charge	(11,978,281)	(12,693,307)	-	(25,500)
- Over/(under) provision	1,188,060	540,495	(16,511)	(72,069)
	(10,790,221)	(12,152,812)	(16,511)	(97,569)
Deferred tax:				
- Current income tax charge	856,484	(341,902)	-	-
- Over/(under) provision	271,266	(744,453)	-	-
	1,127,750	(1,086,355)	-	-
	(9,662,471)	(13,239,167)	(16,511)	(97,569)

The income tax is calculated at the Malaysian statutory tax rate of 24% (2018: 24%) of the estimated taxable profit for the financial year.

The reconciliations from the tax amount at the statutory income tax rate to the Group's and the Company's tax expense are as follows:

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
Profit before tax	53,767,094	65,064,932	20,996,819	11,967,709
Tax at Malaysian statutory income tax rate of 24% (2018: 24%)	(12,904,103)	(15,615,584)	(5,039,237)	(2,872,250)
Different tax rates in other countries	1,496,385	1,930,626	-	-
Share of results of an associate	210,539	498,822	-	-
Adjustments:				
Income not subject to tax	2,213,344	162,142	7,855,567	3,029,578
Non-deductible expenses	(1,828,868)	(816,019)	(2,816,330)	(101,868)
Over/(under) provision	1,459,326	(203,958)	(16,511)	(72,069)
Deferred tax not recognised on tax losses and temporary differences	(309,094)	804,804	-	(80,960)
	(9,662,471)	(13,239,167)	(16,511)	(97,569)

28. EARNINGS PER SHARE

(a) Basic earnings per ordinary share

Basic earnings per share are based on the profit for the financial year attributable to owners of the Company and the weighted average number of ordinary shares outstanding during the financial year, calculated as follows:

	Group	
	2019	**2018**
	RM	**RM**
Profit attributable to owners of the Company	44,521,865	51,854,696
Weighted average number of ordinary shares for basic earnings per share	244,104,517	254,268,467
Movement during the financial year:		
- Shares purchased	-	(3,088,957)
- Treasury shares distributed as dividend	6,787,767	-
Weighted average number of ordinary shares for basic earnings per share	250,892,284	251,179,510
Basic earnings per ordinary share (sen)	17.75	20.64

(b) Diluted earnings per ordinary share

Diluted earnings per share are based on the profit for the financial year attributable to owners of the Company and the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares, calculated as follows:

	Group	
	2019	**2018**
	RM	**RM**
Profit attributable to owners of the Company	44,521,865	51,854,696
Weighted average number of ordinary shares for basic earnings per share	244,104,517	254,268,467
Movement during the financial year:		
- Shares purchased	-	(3,088,957)
- Treasury shares distributed as dividend	6,787,767	-
Effect of dilution from:		
- Share options	1,079,801	-
Weighted average number of ordinary shares for diluted earnings per share	251,972,085	251,179,510
Diluted earnings per ordinary share (sen)	17.67	20.64

29. DIVIDENDS

	Group 2019 RM	Group 2018 RM
Recognised during the financial year:		
Dividends on ordinary shares:		
- Single tier final dividend for the financial year ended 31 December 2018, 2.5 sen per ordinary share by way of share dividend on the basis of one treasury share for every twenty existing ordinary shares, paid on 12 June 2019	6,110,033	-
- Single tier final dividend for the financial year ended 31 December 2017, 4.5 sen per ordinary share, paid on 13 June 2018	-	7,345,639
- Single tier interim dividend for the financial year ended 31 December 2019, 2 sen per ordinary share, paid on 25 September 2019	5,126,183	-
- Single tier interim dividend for the financial year ended 31 December 2018, 2.5 sen per ordinary share, paid on 12 October 2018	-	4,068,410
	11,236,216	11,414,049

At the forthcoming Annual General Meeting, a single tier final dividend of 6.0 sen per ordinary share will be proposed for the shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2020.

30. RELATED PARTIES

(a) Identification 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 operational decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals or other entities.

Related parties of the Group include:

(i) Subsidiaries;
(ii) Associates;
(iii) Entities in which directors have substantial financial interests; and
(iv) Key management personnel of the Group and the Company, comprise of persons (including directors) having the authority and responsibility for planning, directing and controlling the activities directly or indirectly.

30. RELATED PARTIES (cont'd)

(b) Significant related party transactions

Significant related party transactions other than disclosed elsewhere in the financial statements are as follows:

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
Entities in which certain directors have substantial financial interests				
Rental of premises received	163,784	162,003	-	-
Purchase of goods	-	133,994	-	-
Transaction with subsidiaries				
Dividend income	-	-	(24,400,000)	(12,586,050)

Significant outstanding balances with related parties at the end of the reporting period are as disclosed in Note 13(b) and 20 to the financial statements.

The Company provides secured corporate guarantees to banks in respect of banking facilities granted to the subsidiaries as disclosed in Note 32(b)(i) to the financial statements.

(c) Compensation of key management personnel

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
Short-term employee benefits	7,761,562	7,300,915	87,000	85,500
Defined contribution plans	375,196	498,990	-	-
Share-based payments	993,083	-	-	-
	9,129,841	7,799,905	87,000	85,500

31. COMMITMENTS

(a) Capital commitments

The Group has made commitments for the following capital expenditures:

	Group	
	2019	2018
	RM	RM
- Leasehold land	-	11,400,000
- Plant and machineries	2,452,734	4,607,444

31. COMMITMENTS (cont'd)

(b) Lease commitments – as lessee

The Group leases number of premises and office equipment under leases for lease term of one year. The Group has applied the exemption for not to recognise right-of-use assets and lease liabilities for short-term leases.

Future minimum rental payable under the non-cancellable lease at the reporting date is as follows:

	Group	
	2019	**2018**
	RM	**RM**
Not later than one year	650,938	364,247
Later than one year and not later than five years	-	28,200
	650,938	392,447

(c) Lease commitments – as lessor

The Group leases its investment properties which have remaining lease term of three years.

The maturity analysis of the Group's lease payments, showing the undiscounted lease payments to be received after the reporting date are as follows:

	Group	
	2019	**2018**
	RM	**RM**
Not later than one year	1,483,200	1,156,000
One to two years	1,483,200	-
Two to three years	1,236,000	-
	4,202,400	1,156,000

32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The following table analyses the financial instruments in the statements of financial position by the classes of financial instruments to which they are assigned:

(i) Fair value through profit or loss ("FVPL")
(ii) Amortised cost ("AC")

	Carrying amount RM	AC RM	FVPL RM
At 31 December 2019			
Financial assets			
Group			
Investment in club membership	66,966	66,966	-
Trade and other receivables*	76,183,065	76,183,065	-
Other investments	180,146	-	180,146
Cash, bank balances and short term deposits	43,500,465	43,500,465	-
	119,930,642	119,750,496	180,146
Company			
Trade and other receivables	19,226,050	19,226,050	-
Other investments	180,146	-	180,146
Cash, bank balances and short term deposits	3,401,883	3,401,883	-
	22,808,079	22,627,933	180,146
Financial liabilities			
Group			
Loans and borrowings	(17,520,700)	(17,520,700)	-
Trade and other payables	(32,583,241)	(32,583,241)	-
	(50,103,941)	(50,103,941)	-
Company			
Trade and other payables	(73,700)	(73,700)	-

* Excluded GST refundable and advance payment made to suppliers.

32. FINANCIAL INSTRUMENTS (cont'd)

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

	Carrying amount RM	AC RM	FVPL RM
At 31 December 2018			
Financial assets			
Group			
Investment in club membership	79,395	79,395	-
Trade and other receivables*	56,848,380	56,848,380	-
Other investments	175,574	-	175,574
Cash, bank balances and short term deposits	41,337,928	41,337,928	-
	98,441,277	98,265,703	175,574
Company			
Trade and other receivables	15,029,189	15,029,189	-
Other investments	175,574	-	175,574
Cash, bank balances and short term deposits	1,146,847	1,146,847	-
	16,351,610	16,176,036	175,574
Financial liabilities			
Group			
Loans and borrowings	(10,681,535)	(10,681,535)	-
Trade and other payables	(29,553,246)	(29,553,246)	-
	(40,234,781)	(40,234,781)	-
Company			
Trade and other payables	(71,700)	(71,700)	-

* Excluded GST refundable and advance payment made to suppliers.

(b) Financial risk management

The Group's and the Company's activities are exposed to a variety of financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, foreign currency risk and interest rate risk. The Group's and the Company's overall financial risk management objective is to optimise value for their shareholders. The Group and Company do no use derivative financial instruments, such as foreign exchange contracts to hedge certain expenses. The Group and the Company do not trade in financial instruments.

The Board of Directors reviews and agrees to policies and procedures for the management of these risks, which are executed by the Group's senior management. The Audit Committee provides independent oversight to the effectiveness of the risk management process.

32. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management (cont'd)

(i) Credit risk

Credit risk is the risk of financial loss to the Group and the Company that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group and the Company are exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and other financial instruments. The Group and the Company have a credit policy in place and the exposure to credit risk is managed through the application of credit approvals, credit limits and monitoring procedures.

Trade receivables

As at the end of the reporting period, the maximum exposure to credit risk arising from trade receivables is represented by the carrying amounts in the statements of financial position.

The carrying amount of trade receivables are not secured by any collateral or supported by any other credit enhancements. In determining the recoverability of these receivables, the Group and the Company consider any change in the credit quality of the receivables from the date the credit was initially granted up to the reporting date. The Group and the Company have adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

Credit risk concentration profile

The information on credit risk concentration is disclosed in Note 13(a) to the financial statements.

The Group applies the simplified approach to provide for impairment losses prescribed by MFRS 9, which permits the use of the lifetime expected losses provision for all trade receivables. To measure the impairment losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The impairment losses also incorporate forward-looking information.

The information about the credit risk exposure on the Group's trade receivables using provision matrix are as follows:

	Trade receivables					
	Current	**1-30 days past due**	**31-60 days past due**	**61-90 days past due**	**> 91 days past due**	**Total**
Group						
At 31 December 2019						
Expected credit loss rate	0.11%	9.13%	0.05%	1.27%	21.14%	0.95%
Gross carrying amount	69,596,310	2,923,360	321,868	676,728	1,721,003	75,239,269
Impairment losses	74,359	266,965	161	8,586	363,832	713,903
At 31 December 2018						
Expected credit loss rate	0.04%	29%	88%	94%	100%	1.66%
Gross carrying amount	51,577,447	1,222,902	407,782	84,737	75,674	53,368,542
Impairment losses	19,301	354,642	358,848	79,653	75,674	888,118
Forward-looking information	-	135,825	(270,471)	(79,653)	(7,894)	(222,193)
Impairment losses	19,301	490,467	88,377	-	67,780	665,925

32. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management (cont'd)

(i) Credit risk (cont'd)

Other receivables and other financial assets

For other receivables and other financial assets (including other investment and cash and cash equivalents), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties. At the reporting date, the Group's and the Company's maximum exposure to credit risk arising from other receivables and other financial assets is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

The Group and the Company consider the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group and the Company compare the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information.

Some intercompany loans between entities within the Group are repayable on demand. For loans that are repayable on demand, impairment losses are assessed based on the assumption that repayment of the loan is demanded at the reporting date. If the borrower does not have sufficient highly liquid resources when the loan is demanded, the Group and the Company will consider the expected manner of recovery and recovery period of the intercompany loan.

Other than the credit impaired other receivables, the Group and the Company consider those financial assets to have low credit risk.

Refer to Note 3.12(a) for the Group's and the Company's other accounting policies for impairment of financial assets.

Financial guarantee contracts

The Company is exposed to credit risk in relation the financial guarantees given to banks in respect of credit facilities granted to certain subsidiaries. The Company monitors the results of the subsidiaries and their repayment on an on-going basis. The maximum exposure to credit risks amounts to RM17,520,700 (2018: RM10,681,535) representing the maximum amount the Company could pay if the guarantee is called on as disclosed in Note 32(b)(ii) to the financial statements. As at the reporting date, there was no indication that the subsidiary would default on repayment and hence no loss allowance for impairment as determined by the Company for the financial guarantee.

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

(ii) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations when they fall due. The Group's and the Company's exposure to liquidity risk arise primarily from mismatches of the maturities between financial assets and liabilities. The Group's and the Company's exposure to liquidity risk arise principally from trade and other payables, loans and borrowings.

The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by facilities. The Group and the Company maintain sufficient liquidity and available funds to meet daily cash needs, while maintaining controls and security over cash movements. The Group and the Company use a series of processes to obtain maximum benefits from its flow of funds, such that they are efficiently managed to maximise income from investment and minimise cost on borrowed funds. The Group's and the Company's finance department also ensure that there are sufficient unutilised stand-by facilities, funding and liquid assets available to meet both short-term and long-term funding requirements.

32. **FINANCIAL INSTRUMENTS (cont'd)**

(b) **Financial risk management (cont'd)**

(ii) **Liquidity risk (cont'd)**

Maturity analysis

The maturity analysis of the Group's and the Company's financial liabilities by their relevant maturity at the reporting date based on contractual undiscounted repayment obligations are as follows:

		Contractual cash flows			
	Carrying amount RM	On demand or within 1 year RM	Between 1 and 5 years RM	More than 5 years RM	Total RM
Group					
At 31 December 2019					
Financial liabilities					
Loans and borrowings:					
- Term loan	(12,149,285)	(1,870,296)	(5,979,624)	(7,109,969)	(14,959,889)
- Lease liabilities	(1,483,064)	(507,643)	(1,140,576)	-	(1,648,219)
- Revolving term loan	(1,255,500)	(1,293,793)	-	-	(1,293,793)
- Bankers' acceptances	(2,632,851)	(2,740,798)	-	-	(2,740,798)
Trade and other payables	(32,583,241)	(32,583,241)	-	-	(32,583,241)
	(50,103,941)	(38,995,771)	(7,120,200)	(7,109,969)	(53,225,940)
At 31 December 2018					
Financial liabilities					
Loans and borrowings:					
- Term loan	(7,993,054)	(1,861,477)	(3,995,812)	(3,887,617)	(9,744,906)
- Finance lease liabilities	(954,536)	(788,272)	(227,457)	-	(1,015,729)
- Bankers' acceptances	(1,733,945)	(1,805,037)	-	-	(1,805,037)
Trade and other payables	(29,553,246)	(29,553,246)	-	-	(29,553,246)
	(40,234,781)	(34,008,032)	(4,223,269)	(3,887,617)	(42,118,918)
Company					
At 31 December 2019					
Financial liabilities					
Trade and other payables	(73,700)	(73,700)	-	-	(73,700)
Financial guarantee contracts #	-	(17,520,700)	-	-	(17,520,700)
	(73,700)	(17,594,400)	-	-	(17,594,400)
At 31 December 2018					
Financial liabilities					
Trade and other payables	(71,700)	(71,700)	-	-	(71,700)
Financial guarantee contracts #	-	(10,681,535)	-	-	(10,681,535)
	(71,700)	(10,753,235)	-	-	(10,753,235)

The Company has given corporate guarantees to financial institutions on credit facilities granted to certain subsidiaries. The potential exposure of the financial guarantee contracts is equivalent to the amount of the banking facilities of the said subsidiary.

32. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management (cont'd)

(iii) Foreign currency risk

Foreign currency risk is the risk of fluctuation in fair value or future cash flows of a financial instrument as a result of changes in foreign exchange rates. The Group's and the Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's and the Company's operating activities (when sales, purchases and borrowings that are denominated in a foreign currency) and the Group's net investments in foreign subsidiaries.

Management has set up a policy that requires all companies within the Group and the Company to manage their treasury activities and exposures. The Group and the Company do not hedge their foreign currency exposures. In addition, the Group and the Company also take advantage of any natural effects of its foreign currencies revenues and expenses by maintaining current accounts in foreign currencies.

The Group's unhedged financial assets and liabilities that are not denominated in their functional currencies are as follows:

	Singapore Dollar RM	United States Dollar RM	Other RM	Total RM
Group				
At 31 December 2019				
Financial assets and liabilities not held in functional currencies:				
Trade and other receivables	559,571	13,542,196	1,009,642	15,111,409
Cash, bank balances and short-term deposits	2,414,514	7,806,961	-	10,221,475
Loans and borrowings	-	(2,632,851)	-	(2,632,851)
Trade and other payables	(7,223,519)	(643,104)	(566)	(7,867,189)
	(4,249,434)	18,073,202	1,009,076	14,832,844
At 31 December 2018				
Financial assets and liabilities not held in functional currencies:				
Trade and other receivables	441,063	9,552,864	419,275	10,413,202
Cash, bank balances and short-term deposits	1,351,944	19,230,420	-	20,582,364
Loans and borrowings	-	(1,733,945)	-	(1,733,945)
Trade and other payables	(5,234,618)	(3,730,987)	(92,054)	(9,057,659)
	(3,441,611)	23,318,352	327,221	20,203,962

32. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management (cont'd)

(iii) Foreign currency risk (cont'd)

Sensitivity analysis for foreign currency risk

The Group's principal foreign currency exposure relates mainly to United States Dollar ("USD") and Singapore Dollar ("SGD").

The following table demonstrates the sensitivity to a reasonably possible change in the USD and SGD, with all other variables held constant on the Group's total equity and profit for the financial year.

	Change in rate %	Effect on profit for the financial year RM	Effect on equity RM
Group			
31 December 2019			
- USD	+ 10%	1,807,320	1,807,320
	- 10%	(1,807,320)	(1,807,320)
- SGD	+ 10%	(424,943)	(424,943)
	- 10%	424,943	424,943
31 December 2018			
- USD	+ 10%	2,331,835	2,331,835
	- 10%	(2,331,835)	(2,331,835)
- SGD	+ 10%	(344,161)	(344,161)
	- 10%	344,161	344,161

(iv) Interest rate risk

Interest rate risk is the risk of fluctuation in fair value or future cash flows of the Group's financial instruments as a result of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from their long-term loans and borrowings with floating interest rates. The Group and the Company do not hedge their interest rate risk.

Sensitivity analysis for interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant on the Group's total equity and profit for the financial year.

	Change in basis point %	Effect on profit for the financial year RM	Effect on equity RM
Group			
31 December 2019	+ 50	(60,746)	(60,746)
	- 50	60,746	60,746
31 December 2018	+ 50	(79,930)	(79,930)
	- 50	79,930	79,930

32. FINANCIAL INSTRUMENTS (cont'd)

(c) Fair value measurement

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

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

The following table provides the fair value measurement hierarchy of the financial instruments:

	Carrying amount	Fair value of financial instruments not carried at fair value		
		Fair value		
	Total	Level 1	Level 2	Level 3
	RM	RM	RM	RM
Group				
At 31 December 2018				
Financial liabilities				
Finance lease liabilities (fixed rate)*	954,536	-	-	1,041,390

** Comparative information under MFRS 117 Leases.*

Level 3 fair value

Fair value of financial instruments not carried at fair value

The fair value of finance lease liabilities is determined by using the discounted cash flows method based on discount rate that reflects the issuers' borrowing rate as at the end of the reporting date.

33. CAPITAL MANAGEMENT

The primary objective of the Group's and the Company's capital management is to ensure that they maintain a strong credit rating and healthy capital ratio in order to support their business and maximise shareholder value. The Group and the Company manage their capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group and the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies and processes during the financial years ended 31 December 2019 and 31 December 2018.

The Group and the Company monitor capital using gearing ratio. The gearing ratio is calculated as total debts divided by total equity. The gearing ratio at 31 December 2019 and 31 December 2018 are as follows:

		Group		Company	
		2019	2018	2019	2018
	Note	RM	RM	RM	RM
Total loans and borrowings	**19**	17,520,700	10,681,535	-	-
Total equity		214,796,285	174,480,878	113,950,749	95,669,800
Gearing ratio		8%	6%	0%	0%

Gearing ratios are not governed by the MFRS and their definitions and calculations may vary between reporting entities.

34. SIGNIFICANT EVENT SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 20 January 2020, the Company proposed to undertake a bonus issue of up to 267,618,367 new ordinary shares in Dufu ("Dufu Share(s)") ("Bonus Share(s)") on the basis of 1 Bonus Share for every 1 existing Dufu Share held on an entitlement date to be determined and announced later.

35. SEGMENTAL INFORMATION

The Group prepared the following segment information in accordance with MFRS 8 *Operating Segments* based on the internal reports of the Group's strategic business units which are regularly reviewed by the Group's Chief Executive Officer ("CEO") for the purpose of making decisions about resource allocation and performance assessment.

The two reportable operating segments are as follows:

Segments	Products and services
Manufacturing and trading	Manufacturing and trading of die components, precision machining, computer peripherals and parts for hard disk driveoptics, magnetism driver and parts and medical components, high quality computer disk-drive related components.
Investment	Investment holding

Inter-segment pricing is determined on negotiated basis.

Segment profit

Segment performance is used to measure performance as the Group's Chief Executive Officer believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Performance is evaluated based on operating profit or loss which is measured differently from operating profit or loss in the consolidated financial statements.

Segment assets

The total segment assets is measured based on all assets (excluding investment in an associate) of a segment, as included in the internal reports that are reviewed by the Group's Chief Executive Officer.

Segment liabilities

Segment liabilities are not included in the internal reports that are reviewed by the Group's Chief Executive Officer. Hence, no disclosures are made on segment liabilities.

35. SEGMENTAL INFORMATION (cont'd)

	Manufacturing and Trading		Investment		Adjustments and eliminations		Note	Total	
	2019 RM	2018 RM	2019 RM	2018 RM	2019 RM	2018 RM		2019 RM	2018 RM
Revenue:									
External customers	249,068,843	241,262,555	53,736	188,750	-	-		249,122,579	241,451,305
Inter-segment	216,186,081	194,254,124	24,400,000	12,586,050	(240,586,081)	(206,840,174)	A	-	-
Total revenue	465,254,924	435,516,679	24,453,736	12,774,800	(240,586,081)	(206,840,174)		249,122,579	241,451,305
Results:									
Included in the measure of segment profit are:									
Interest income	678,416	441,518	-	-	-	-		678,416	441,518
Subsidy received from government	282,618	121,737	-	-	-	-		282,618	121,737
Rental income from investment properties	1,403,200	1,387,200	-	-	-	-		1,403,200	1,387,200
Reversal of impairment loss for trade receivables	1,975	826,986	-	-	-	-		1,975	826,986
Reversal of impairment loss for other receivables	22,417	229,842	-	-	-	-		22,417	229,842
Gain on disposal of property, plant and equipment	64,036	93,639	-	-	-	-		64,036	93,639
Gain on realised foreign exchange	1,248,049	2,113,736	-	-	-	-		1,248,049	2,113,736
Gain on unrealised foreign exchange	74,293	235,166	-	-	-	-		74,293	235,166
Depreciation and amortisation	(11,163,072)	(9,161,830)	-	-	819,058	1,352,897		(10,344,014)	(7,808,933)
Employee benefit expenses	(60,555,968)	(57,786,476)	(274,201)	(264,686)	-	-		(60,830,169)	(58,051,162)
Interest expenses	(955,502)	(421,393)	-	-	-	-		(955,502)	(421,393)
Impairment losses for trade receivables	(50,800)	(58,652)	-	-	-	-		(50,800)	(58,652)
Impairment losses on investment in an associate	-	-	2,544,466	-	(2,544,466)	-		-	-
Inventories written down	(48,182)	(388,620)	-	-	-	-		(48,182)	(388,620)
Property, plant and equipment written off	(18,927)	(151,011)	-	-	-	-		(18,927)	(151,011)
Loss on disposal of property, plant and equipment	(66,494)	-	-	-	-	-		(66,494)	-
Loss on unrealised foreign exchange	(784,081)	-	-	-	-	-		(784,081)	-
Loss on realised foreign exchange	(194,422)	(65,835)	-	-	-	-		(194,422)	(65,835)
Rental expenses on premises	(980,626)	(162,003)	-	-	390,200	-		(590,426)	(162,003)
Not included in the measure of segment profit but provided to Group's CEO are:									
Share of results of associate	(877,244)	(2,078,426)	-	-	-	-		(877,244)	(2,078,426)
Segment profit	60,300,750	66,248,208	20,996,819	11,967,709	(27,530,475)	(13,150,985)	B	53,767,094	65,064,932
Income tax expense	(10,262,607)	(13,253,833)	(16,511)	(97,569)	616,647	112,235		(9,662,471)	(13,239,167)
Profit for the financial year	50,038,143	52,994,375	20,980,308	11,870,140	(26,913,828)	(13,038,750)	B	44,104,623	51,825,765
Assets:									
Investment in associate	-	-	3,599,534	3,783,076	-	-		3,599,534	3,783,076
Additions to non-current assets	27,292,429	23,749,086	-	-	-	-		27,292,429	23,749,086
Segment assets	337,232,464	255,918,471	114,024,449	95,741,500	(182,577,262)	(131,466,874)	C	268,679,651	220,193,097

35. SEGMENTAL INFORMATION (cont'd)

Reconciliation of reportable segment revenue, profit or loss, assets and other material items are as follows:

A Inter-segment revenue

Inter-segment revenues are eliminated on consolidation.

B Reconciliation of profit or loss

	Group 2019 RM	Group 2018 RM
Share of results of associate	(877,244)	(2,078,426)
Elimination of inter-segment unrealised profits	(3,145,559)	(866,684)
Unallocated amounts:		
- Other corporate expenses	(23,507,672)	(10,205,875)
	(27,530,475)	(13,150,985)
Less: Income tax expense	616,647	112,235
	(26,913,828)	(13,038,750)

C Reconciliation of assets

	Group 2019 RM	Group 2018 RM
Investment in subsidiaries	(87,590,348)	(73,245,890)
Investment in an associate	-	(2,360,924)
Inter-segment assets	(94,986,914)	(55,860,060)
	(182,577,262)	(131,466,874)

Geographical information

Revenue and non-current assets information based on the geographical location are as follows:

	External revenue 2019 RM	External revenue 2018 RM	Non-current assets* 2019 RM	Non-current assets* 2018 RM
Malaysia	18,187,477	22,967,833	60,916,549	46,135,771
China	41,050,764	39,498,571	19,083,155	18,908,715
Singapore	19,022,641	19,470,894	409,971	502,819
Thailand	142,599,974	127,535,840	-	-
Other countries	28,261,723	31,978,167	-	-
	249,122,579	241,451,305	80,409,675	65,547,305

* Excluding financial instruments and deferred tax.

35. SEGMENTAL INFORMATION (cont'd)

C Reconciliation of assets (cont'd)

Information about major customers

The following are major customers with revenue equal to or more than 10% of Group revenue:

	Group	
	2019	**2018**
	RM	**RM**
Customer I	122,621,649	114,207,846
Customer II	45,393,505	34,323,740
	168,015,154	148,531,586

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251 (2) OF THE COMPANIES ACT 2016

We, **LEE, HUI-TA also known as LI HUI TA** and **WU, MAO-YUAN**, being two of the directors of Dufu Technology Corp. Berhad, do hereby state that in the opinion of the directors, the accompanying financial statements set out on pages 74 to 150 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and of their financial performance and cash flows for the financial year then ended.

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

……………………………………………………………..

LEE, HUI-TA also known as LI HUI TA

Director

……………………………………………………………..

WU, MAO-YUAN

Director

Date: 3 March 2020

STATUTORY DECLARATION

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

I, **DAVID KHOO CHONG BENG**, being the officer primarily responsible for the financial management of Dufu Technology Corp. Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the accompanying financial statements set out on page 74 to 150 are 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.

…………………………………………………………..

DAVID KHOO CHONG BENG
MIA membership number: 20159

Subscribed and solemnly declared by the abovenamed at Georgetown in the state of Penang on 3 March 2020.

Before me,

…………………………………………………………..

GOH SUAN BEE
License number : P125
Commissioner for Oaths

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Dufu Technology Corp. Berhad, which comprise the statements of financial position as at 31 December 2019 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 74 to 150.

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

Basis for Opinion

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

Key Audit Matters

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

Group

Trade receivables (Notes 4(a) and 13 to the financial statements)

The Group has significant trade receivables as at 31 December 2019 which include certain amounts which are more than credit terms. We focused on this area because the Group made significant judgements over assumptions about risk of default and expected loss rate. In making the assumptions, the Group selected inputs to the impairment calculation, based on the Group's past history as well as forward-looking estimates at the end of the reporting period.

Our audit response:

Our audit procedures included, among others,
- understanding of significant credit exposures which were significantly overdue or deemed to be in default through analysis of ageing reports and other collection reports prepared by the management;
- obtaining confirmation of balances from selected receivables;
- reviewing subsequent receipts and considering level of activity with the customer and management explanation on recoverability with significantly past due balances; and
- understanding the calculation of expected credit losses as at the end of the reporting period.

Key Audit Matters (cont'd)

Group (cont'd)

Inventories (Notes 4(b) and 12 to the financial statements)

We focused on this area because the computation and cost allocation process involves multiple inputs and significant judgement is required to estimate the cost of finished goods and work-in-progress which comprise the cost of raw materials, direct labour, other direct costs, and the appropriate allocation of overheads based on normal operating capacity. The review of valuation of these inventories at lower of cost and net realisable value by the Group are major source of estimation uncertainty.

Our audit response:

Our audit procedures included, among others:

- obtaining an understanding of the inventories valuation policy and its related processes in allocating, recording and computing the cost of inventories;
- reviewing the computation of inventory costing which includes costs of raw materials, direct labour, other direct costs and other incidental costs incurred in bringing the inventories to their present location and condition;
- observing year end physical inventory count to examine physical existence and condition of the work-in-progress and finished goods and obtaining confirmation for inventories held by third parties; and
- reviewing the Group's assessment on the estimated net realisable value of selected work-in-progress and finished goods.

Company

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

Information Other than the Financial Statements and Auditors' Report Thereon

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

Our opinion on the financial statements of the Group and of the Company does not cover the 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 the Directors for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

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

The directors of the Company are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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

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

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

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 8 to the financial statements.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the contents of this report.

Baker Tilly Monteiro Heng PLT	Ong Teng Yan
LLP0019411-LCA & AF 0117	No. 03076/07/2021 J
Chartered Accountants	Chartered Accountant

Kuala Lumpur

Date: 3 March 2020

Title/ Location	Tenure/ Date of expiry of lease	Description/ Existing use (approximate age of building)	Land area/ Built-up area	Net book value as at 31.12.2019 (RM)	Date of last revaluation	Date of acquisition
Registered Owner: Dufu Industries Sdn. Bhd						
Land						
P.T. No. 1886 (Resurveyed Lot 12354) held under Title No. H.S. (D) 11985, Mukim 12, Daerah Barat Daya, Penang	60 years leasehold expiring 26.12.2051	Industrial land	177,691 sq. feet	2,926,334	1997	-
No. H.S.(D) 42631, Lot No. 320, Mukim 13, Daerah Seberang Perai Tengah, Pulau Pinang	60 years leasehold expiring 01.3.2059	Industrial Land	87,123 sq. feet	3,777,382	-	Year 2019
Building						
Plot 19 Free Industrial Zone, Phase IV, Bayan Lepas 11900 Penang		Industrial complex				
		- 1 Single-Storey office-cum-production building (22 years)	18,209 sq. feet	3,279,248	-	Year 1997 – 2007
		- 1 double-storey office-cum-production building (15 years)	33,793 sq. feet			
		- 1 three-storey production building (13 years)	65,811 sq. feet			
		- 1 three-storey office cum production building (12 years)	32,816 sq. feet			

LIST OF PROPERTIES HELD (CONT'D)

Title/ Location	Tenure/ Date of expiry of lease	Description/ Existing use (approximate age of building)	Land area/ Built-up area	Net book value as at 31.12.2019 (RM)	Date of last revaluation	Date of acquisition
Building (cont'd)						
Block 1-5-7, Block 3-3-1, Block 3-13-3, Block 5-7-1, Block 5-14-2, Block 5-16-5, Block 11-2-2, Block 11-6-2, Block 15-5-6, Block 15-8-3, Block 15-9-6, Block 15-21-3, Block 17-10-1, Block 17-17-5, Block 19-8-4, Block 19-10-2 Taman Terubong Indah, Tingkat Paya Terubong 5, 11060 Penang		16 units of hostel (freehold)	11,200 sq. feet	1,180,213	-	Year 2015
No 691, Lorong Perindustrian Bukit Minyak 11, Taman Perindustrian Bukit Minyak, 14100 Simpang Ampat, Pulau Pinang		A unit of single storey factory and a double storey office building (1 year)	70,684 sq. feet	9,418,854	-	Year 2019
Registered Owner: Guangzhou Futron Technology Co. Ltd.						
Building						
No. 1, Gao Tian Industrial Zone, Tai Ping Town, Cong Hua City.		- 1 three-storey production building (16 years)	41,383 sq. feet	1,253,252	-	Year 2003 – 2018
		- 1 steel production workshop (6 years)	8,092 sq. feet			
		- 1 warehouse (2 years)	7,089 sq. feet			
		- 1 five-storey hostel (16 years)	21,348 sq. feet	112,956	-	Year 2003

Title/ Location	Tenure/ Date of expiry of lease	Description/ Existing use (approximate age of building)	Land area/ Built-up area	Net book value as at 31.12.2019 (RM)	Date of last revaluation	Date of acquisition
Registered Owner: Guangzhou Futron Precision Industries Co., Ltd.						
Land use rights						
Plot 18411320180005 at South Side of Longxing Siheng Road, Longxing District, Conghua Industrial Park, Conghua District, Guangzhou, People's Republic of China	50 years leasehold	Industrial land	216,385 sq. feet	7,047,389	-	Year 2018
Registered Owner: Dufusion Sdn Bhd						
Land						
Lot No. 8478 Mukim 12, District of Barat Daya, Penang	60 years leasehold expiring 22.5.2050	Industrial land	51,451 sq. feet	5,378,652	-	Year 2012
Lot No. 9232 Mukim 12, District of Barat Daya, Penang	60 years leasehold expiring 10.12.2050	Industrial land	66,349 sq. feet			
Building						
Plot No. 160 & 163, Jalan Sungai Keluang, Bayan Lepas Free Industrial Zone, Phase 1, 11900 Bayan Lepas Penang		Industrial complex - 1 Single-Storey office-cum-production building (8 years)	61,587 sq. feet	3,162,365	-	Year 2012
			TOTAL	37,536,645		

ANALYSIS OF SHAREHOLDINGS

SHARE CAPITAL AS AT 28 FEBRUARY 2020

Total Number of Issued Shares	:	256,309,123+
Class of Share	:	Ordinary Shares with equal voting rights
Number of Shareholders	:	4,406

+ *Excluding a total of 6,896,244 shares purchased and retained as treasury shares.*

DISTRIBUTION OF SHAREHOLDERS AS AT 28 FEBRUARY 2020

Holdings	No. of Holders	Total Holdings	%
1 – 99	1,013	43,388	0.02
100 – 1,000	895	448,205	0.17
1,001 – 10,000	1,569	6,384,249	2.49
10,001 – 100,000	720	22,212,687	8.67
100,001 – 12,205,224	205	132,608,152	51.74
12,205,225 and above	4	94,612,442	36.91
Total	4,406	256,309,123	100.00

THIRTY LARGEST SECURITIES ACCOUNT HOLDERS AS AT 28 FEBRUARY 2020

	Name	Shareholdings	%
1.	Perfect Full Yen Sdn Bhd	28,168,950	10.99
2.	Perfect Commerce Sdn Bhd	26,033,250	10.16
3.	Lee, Hui-Ta @ Li Hui Ta	24,817,849	9.68
4.	Wong Ser Yian	15,592,393	6.08
5.	Wu, Mao-Yuan	8,765,000	3.42
6.	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Qualifier: Deutsche Trustees Malaysia Berhad for Eastspring Investmentssmall-Cap Fund	5,831,000	2.27
7.	Wang, Kuei-Hua	5,056,065	1.97
8.	CIMSEC Nominees (Tempatan) Sdn Bhd Qualifier: CIMB for Lim Ka Kian (PB)	4,362,200	1.70
9.	Alliancegroup Nominees (Tempatan) Sdn Bhd Qualifier: Pledged Securities Account for Ting Siew Pin (8118995)	3,332,400	1.30
10.	Yeoh Yew Choo	3,077,200	1.20
11.	Perfect Hua Ta Sdn. Bhd.	2,945,000	1.15
12.	HSBC Nominees (Tempatan) Sdn. Bhd. Qualifier: HSBC (M) Trustee Bhd for Manulife Insurance Berhad (Equity Fund)	2,936,100	1.15
13.	Amanahraya Trustees Berhad Qualifier: PMB Shariah Aggressive Fund	2,922,800	1.14
14.	Lim Ka Kian	2,793,550	1.09
15.	Ronie Tan Choo Seng	2,509,500	0.98
16.	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Qualifier: Exempt An for Kumpulan Sentiasa Cemerlang Sdn Bhd (TSTAC/CLNT)	2,255,000	0.88
17.	CIMB Islamic Nominees (Tempatan) Sdn Bhd Qualifier: CIMB Islamic Trustee Berhad - Kenanga Syariah Growth Fund	1,942,000	0.76
18.	Maybank Nominees (Tempatan) Sdn Bhd Qualifier: Maybank Trustees Berhad for Areca Equitytrust Fund (211882)	1,909,900	0.75
19.	HSBC Nominees (Tempatan) Sdn Bhd Qualifier: HSBC (M) Trustee Bhd for Pertubuhan Keselamatan Sosial (UOB AMM6939-406)	1,880,000	0.73

THIRTY LARGEST SECURITIES ACCOUNT HOLDERS AS AT 28 FEBRUARY 2020 (cont'd)

	Name	Shareholdings	%
20.	Amanahraya Trustees Berhad Qualifier: PB Smallcap Growth Fund	1,778,400	0.69
21.	Citigroup Nominees (Asing) Sdn Bhd Qualifier: CBNY for Norges Bank (FI 17)	1,777,100	0.69
22.	Wu, Te-Kuei	1,713,250	0.67
23.	Tokio Marine Life Insurance Malaysia Bhd as Beneficial Owner (PF)	1,651,000	0.64
24.	Yu,Tsung-Te	1,607,050	0.63
25.	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Qualifier: Deutsche Trustees Malaysia Berhad for Eastspring Investments Islamic Small-Cap Fund	1,526,220	0.60
26.	HSBC Nominees (Tempatan) Sdn Bhd Qualifier: HSBC (M) Trustee Bhd for Manulife Insurance Berhad (Managed Fund)	1,510,700	0.59
27.	CIMB Group Nominees (Tempatan) Sdn Bhd Qualifier: CIMB Commerce Trustee Berhad for Kenanga Growth Opportunities Fund (50154 TR01)	1,499,680	0.59
28.	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Qualifier: Deutsche Trustees Malaysia Berhad for Hong Leong Balanced Fund	1,490,000	0.58
29.	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Qualifier: Deutsche Trustees Malaysia Berhad for Hong Leong Growth Fund	1,478,700	0.58
30.	UOBM Nominees (Tempatan) Sdn Bhd Qualifier: UOB Asset Management (Malaysia) Berhad for Gibraltar BSN Strategic Fund	1,458,115	0.57

SUBSTANTIAL SHAREHOLDERS AS AT 28 FEBRUARY 2020

	Name	Direct No. of shares held	%	Indirect No. of shares held	%
1.	Perfect Full Yen Sdn Bhd (PFYSB)	28,168,950	10.99	-	-
2.	Perfect Commerce Sdn Bhd (PCSB)	26,033,250	10.16	-	-
3.	Lee, Hui-Ta also known as Li Hui Ta	24,817,849	9.68	28,168,950#	10.99#
4.	Wang, Kuei-Hua	5,056,065	1.97	28,168,950#	10.99#
5.	Wong Ser Yian	15,592,393	6.08	-	-
6.	Lee, Su Hui-Fen	170,100	0.07	26,033,250^	10.16^
7.	Lee, Wen-Jung	147,000	0.06	26,033,250^	10.16^

Indirect Interest by virtue of his/her substantial interest in PFYSB.
^ Indirect Interest by virtue of his/her substantial interest in PCSB.

DIRECTORS'/CHIEF EXECUTIVE OFFICER'S SHAREHOLDINGS AS AT 28 FEBRUARY 2020

	Name	Direct No. of shares held	%	Indirect No. of shares held	%
1.	Lee, Hui-Ta also known as Li Hui Ta	24,817,849	9.68	28,168,950#	10.99#
2.	Wu, Mao-Yuan	8,765,000	3.42	-	-
3.	Sung, Cheng-Hsi	-	-	-	-
4.	Joyce Wong Ai May	-	-	-	-
5.	Yin, Chih-Chu also known as Laurence Yin	-	-	-	-
6.	Lee Yoke Khay	-	-	-	-
7.	Yeoh Beng Hooi*	50,010	0.02	-	-

Indirect Interest by virtue of his substantial interest in PFYSB.
* Chief Executive Officer of the Group.

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