

Annual Report 2018

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## Ever-flowing Breakthroughs

To demonstrate the Company's capabilities to produce excellence amongst its competitors, Elsoft offers great technological added value in its products to their clients. Through continuous improvements and breakthroughs to satisfy the ever-changing needs of the international market, Elsoft's position as a competitive corporation is ensured.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### **DATO' DR CHONG ENG KEAT @ TEOH ENG KEAT**

Chairman  
Independent Non-Executive Director

### **TAN CHEIK EAIK**

Executive Director/Chief Executive Officer

### **KOAY KIM CHIEW**

Executive Director

### **Ooi Toon Kit**

Independent Non-Executive Director

### **TAN AI JIEW**

Non-Independent Non-Executive Director

### **TAN AH LEK**

Non-Independent Non-Executive Director

### **DATO' AGATHA FOO TET SIN**

Independent Non-Executive Director



## AUDIT COMMITTEE

### **Ooi Toon Kit**

Chairman of Audit Committee  
Independent Non-Executive Director

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

Member of Audit Committee  
Independent Non-Executive Director

### **Tan Ai Jiew**

Member of Audit Committee  
Non-Independent Non-Executive Director

### **Dato' Agatha Foo Tet Sin**

Member of Audit Committee  
Independent Non-Executive Director

## REMUNERATION COMMITTEE

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

Chairman of Remuneration Committee  
Independent Non-Executive Director

### **Ooi Toon Kit**

Member of Remuneration Committee  
Independent Non-Executive Director

### **Dato' Agatha Foo Tet Sin**

Member of Remuneration Committee  
Independent Non-Executive Director

## NOMINATION COMMITTEE

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

Chairman of Nomination Committee  
Independent Non-Executive Director

### **Ooi Toon Kit**

Member of Nomination Committee  
Independent Non-Executive Director

### **Tan Ah Lek**

Member of Nomination Committee  
Non-Independent Non-Executive Director

## ESOS COMMITTEE

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

Chairman of ESOS Committee  
Independent Non-Executive Director

### **Ooi Toon Kit**

Member of ESOS Committee  
Independent Non-Executive Director

### **Tan Cheik Eaik**

Member of ESOS Committee  
Executive Director/Chief Executive Officer

### **Koay Kim Chiew**

Member of ESOS Committee  
Executive Director

Other members of ESOS Committee:

### **Chan Hong Heng**

### **Tan Cheik Kooi**

### **Lau Kheng Teong**

### **Ng Tzeh Chyuan**

## COMPANY SECRETARIES

Datuk Tan Leh Kiah  
(MAICSA 0719692)

Ooi Yoong Yoong  
(MAICSA 7020753)

## REGISTERED OFFICE

39 Salween Road  
10050 Penang  
Tel: 04-210 9828  
Fax: 04-210 9827

## HEAD/MANAGEMENT OFFICE

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

## REGISTRARS AND TRANSFER OFFICE

AGRITEUM Share Registration  
Services Sdn Bhd (578473-T)  
2<sup>nd</sup> Floor, Wisma Penang Garden  
42, Jalan Sultan Ahmad Shah  
10050 Penang  
Tel: 04-228 2321  
Fax: 04-227 2391

## AUDITORS

BDO PLT  
(LLP0018825-LCA & AF 0206)  
Chartered Accountants

## PRINCIPAL BANKERS

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

## STOCK EXCHANGE LISTING

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

## CORPORATE STRUCTURE

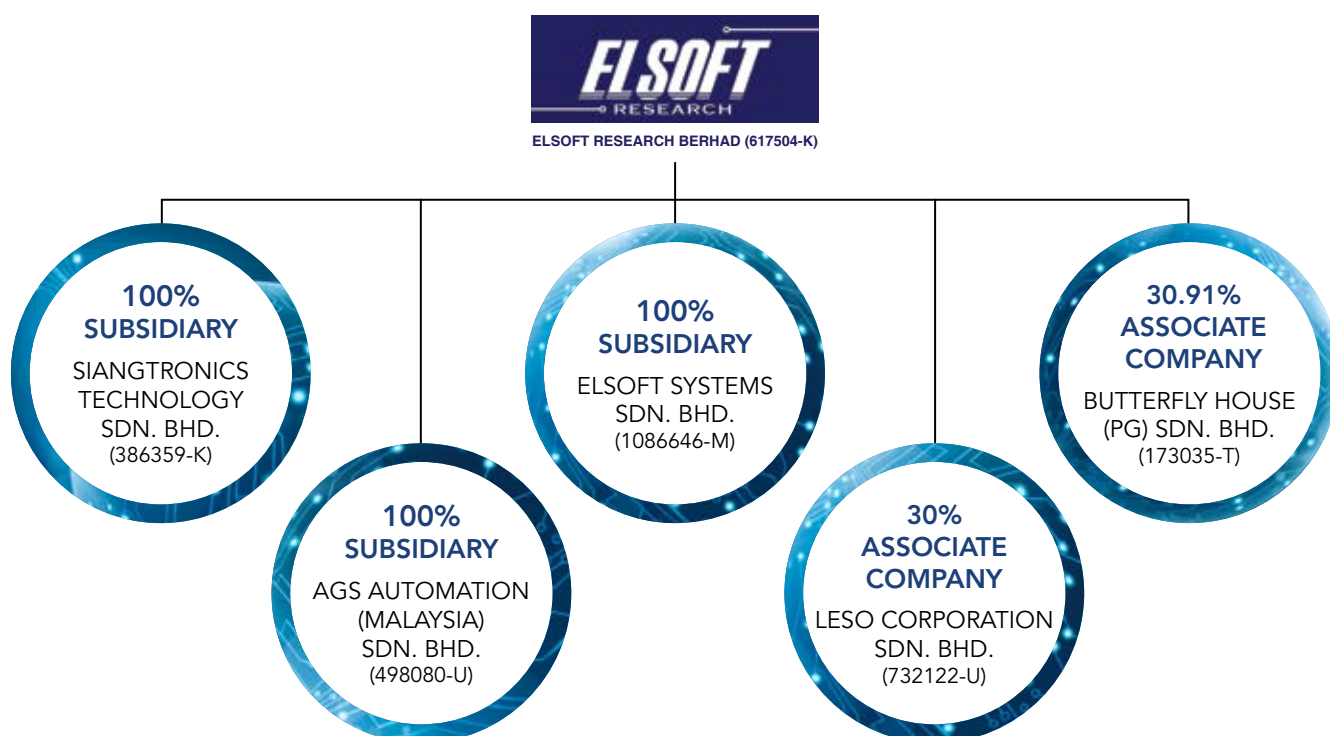


Elsoft was incorporated in Malaysia on 4 June 2003 as a private limited company under the name of Elsoft Research Sdn. Bhd.. Subsequently, it was converted to a public limited company on 10 August 2004 and since then assumed its present name.

The details of the Elsoft Group are as follows:

Corporation	Date/Place of Incorporation	Effective Equity Interest %	Principal Activities
Elsoft Research Berhad ("Elsoft")	04.06.2003/ Malaysia	-	Research, design and development of test and burn-in systems and application specific embedded systems.
<b>Subsidiaries/Associated Company of Elsoft</b>			
Siangtronics Technology Sdn. Bhd. ("STSB")	07.05.1996/ Malaysia	100.00	Generate rental income.
AGS Automation (Malaysia) Sdn. Bhd. ("AGS")	03.11.1999/ Malaysia	100.00	Dormant Company.
Elsoft Systems Sdn. Bhd. ("ESSB")	28.03.2014/ Malaysia	100.00	Design and production of test, burn-in and embedded test equipment and its related modules for electronic industry.
Leso Corporation Sdn. Bhd. ("LESO")	02.05.2006/ Malaysia	30.00	Leso's Group is principally involved in the sale of test and measurement equipment through the provision of supply chain management solutions for the Company's suppliers and customers.
Butterfly House (PG) Sdn. Bhd. ("BHSB")	18.08.1988/ Malaysia	30.91	Operating a butterfly farm.

The structure of the Group is as set out below:



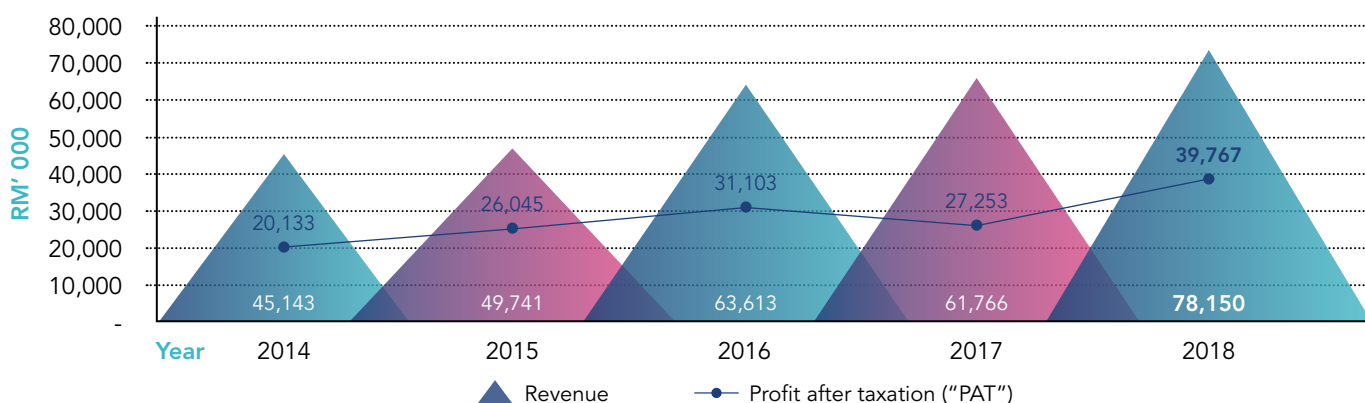


# FINANCIAL HIGHLIGHTS

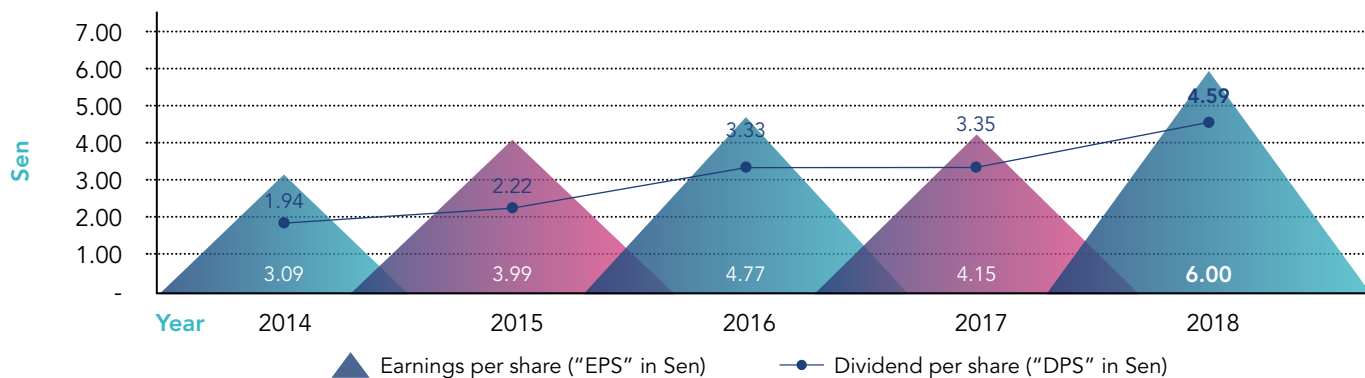
	Group				
	2014 RM' 000	2015 RM' 000	2016 RM' 000	2017 RM' 000 Restate	2018 RM' 000
Revenue	45,143	49,741	63,613	61,766	78,150
Profit before taxation	20,792	26,387	31,409	27,707	40,295
Profit after taxation ("PAT")	20,133	26,045	31,103	27,253	39,767
No. of shares assumed in issue (in Thousand) *	652,075	652,075	652,075	657,067	663,171
Earnings per share ("EPS" in Sen)	3.09	3.99	4.77	4.15	6.00
Dividend per share ("DPS" in Sen)	1.94	2.22	3.33	3.35	4.59
Dividend payout (in percentage)	63%	56%	70%	81%	77%
Return on equity ("ROE" in percentage)	27%	31%	32%	27%	35%

\* The number of shares for FY2014 to FY2017 has been adjusted for bonus issue and share split retrospectively.

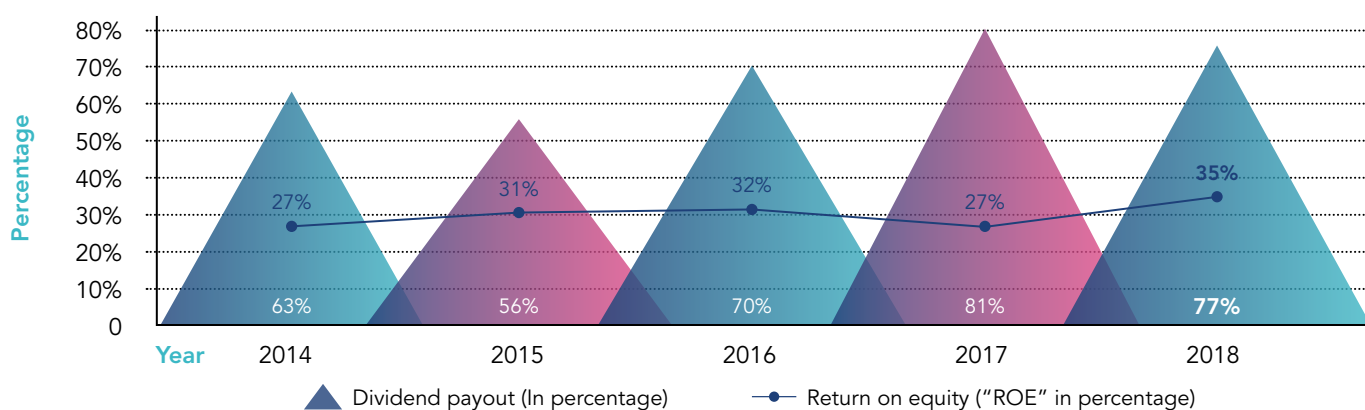
## REVENUE & PAT



## EPS & DPS



## ROE & DIVIDEND PAYOUT

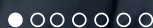


## PROFILE OF DIRECTORS



**DATO'  
DR CHONG  
ENG KEAT  
@ TEOH  
ENG KEAT**

Independent Non-Executive  
Director and Chairman



**DATO' DR CHONG ENG KEAT @ TEOH ENG KEAT** aged 73, male, Malaysian, is an Independent Non-Executive Director of Elsoft. He was appointed to the Board on 3 June 2005. He is the Chairman of the remuneration committee, nomination committee and ESOS committee. He is also a member of the audit committee. He was then elected and currently serves as the Non-Executive Chairman of Elsoft.

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

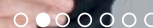
In 1980, he left USM to join Intel Technology Sdn Bhd as a Senior Process Engineer. During his 22 years in Intel, he held various general management positions in manufacturing as well as in technology development. He started up the Intel Kulim site as the pioneer Managing Director in 1995 and at the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

He attended all five Board of Directors Meetings held in the financial year 2018. He does not have any family relationship with any director and/or major shareholders of the Company. He has no conflict of interest with the Company and had no convictions for offences within the past 5 years other than traffic offences, if any.



**TAN  
CHEIK EAIK**

Executive Director and  
Chief Executive Officer



**TAN CHEIK EAIK** aged 54, male, Malaysian, is the Executive Director and Chief Executive Officer of Elsoft. He is also a member of the ESOS committee. He was appointed to the Board on 4 June 2003. He graduated with a Bachelor (Hons) Degree in Electrical Engineering from University Malaya in 1990. Upon graduation, he joined Hewlett Packard (M) Sdn Bhd as a Design Engineer and was soon promoted to Senior Design Engineer.

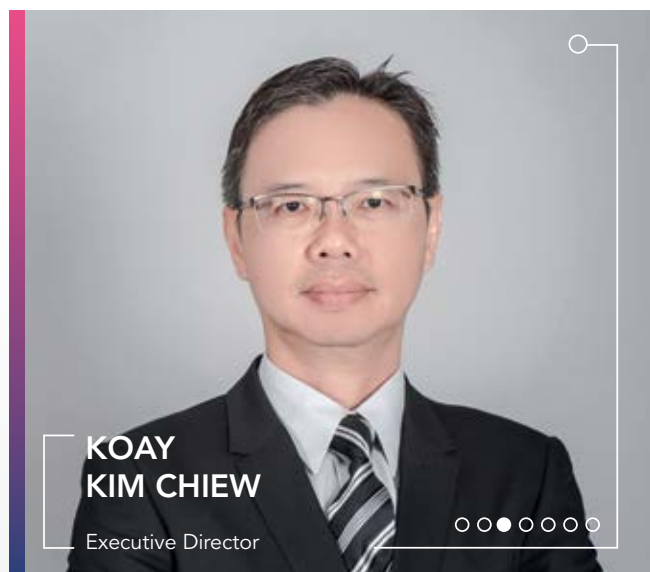
In 1992, due to the sudden death of his brother-in-law, he left his promising career with Hewlett Packard to start his entrepreneurial career, succeeding his late brother-in-law's electrical wiring business Siang Electronics Technology, a partnership company. Subsequently, Siang Electronics Technology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

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

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

He attended all five Board of Directors Meetings held in the financial year 2018. He, Tan Ah Lek and Tan Ai Jiew who are the major shareholders and directors of the Company are siblings. He has no conflict of interest with the Company and had no convictions for offences within the past 5 years other than traffic offences, if any.

## PROFILE OF DIRECTORS (Cont'd)

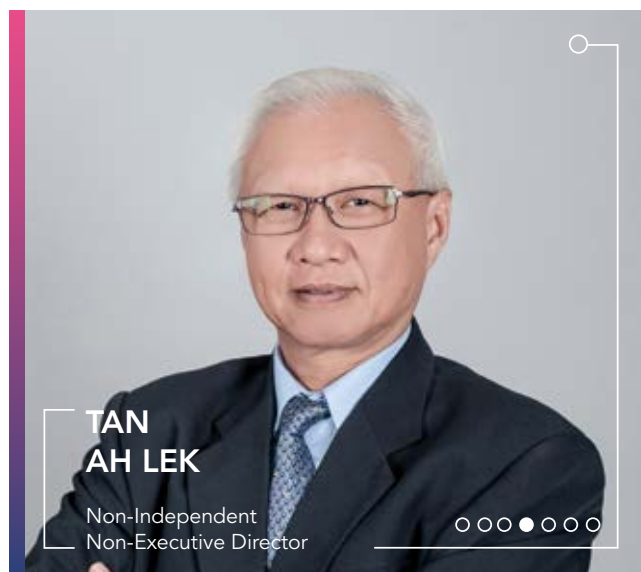


**KOAY KIM CHIEW** aged 52, male, Malaysian, is an Executive Director of Elsoft. He is also a member of the ESOS committee. He was appointed to the Board on 4 June 2003. He graduated with a Bachelor (Hons) Degree in Electrical Engineering from University Malaya in 1992.

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

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

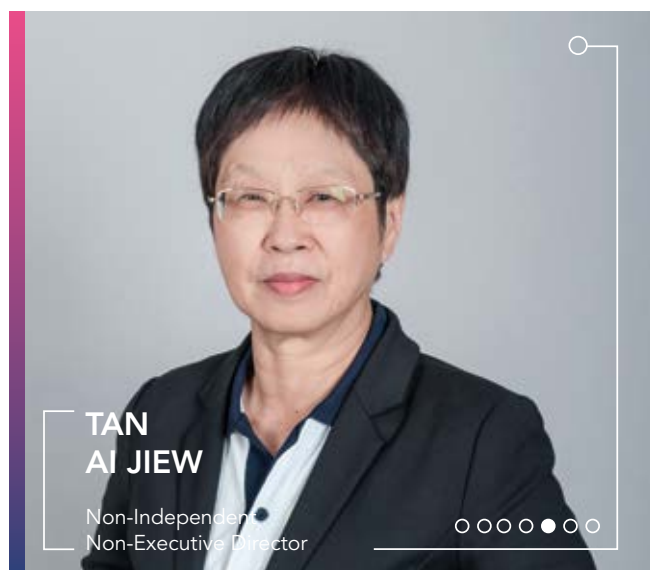
He attended all five Board of Directors Meetings held in the financial year 2018. He does not have any family relationship with any director and/or major shareholders of the Company. He has no conflict of interest with the Company and had no convictions for offences within the past 5 years other than traffic offences, if any.



**TAN AH LEK** aged 63, male, Malaysian, is a Non-Independent Non-Executive Director of Elsoft. He was appointed as Executive Director on 3 June 2005 and was re-designated as Non-Independent Non-Executive Director with effect from 15 January 2014. He is a member of the nomination committee.

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

He attended all five Board of Directors Meetings held in the financial year 2018. He, Tan Cheik Eaik and Tan Ai Jiew who are the major shareholders and Directors of the Company are siblings. He has no conflict of interest with the Company and had no convictions for offences within the past 5 years other than traffic offences, if any.



**TAN AI JIEW** aged 69, female, Malaysian, is a Non-Independent Non-Executive Director of Elsoft. She was appointed to the Board on 3 June 2005. She is a member of the audit committee. Together with Tan Cheik Eaik and Tan Ah Lek, she co-founded STSB. She is the wife of the late Lau Gaik Siang (also known as "Siang") who laid out the fundamental business network for the inception of STSB and supported the initial function of administration. She has currently withdrawn from the day-to-day operations and remains as a Non-Executive Director.

She attended all five Board of Directors Meetings held in the financial year 2018. She, Tan Cheik Eaik and Tan Ah Lek who are the major shareholders and directors of the Company are siblings. She has no conflict of interest with the Company and had no convictions for offences within the past 5 years other than traffic offences, if any.



## PROFILE OF DIRECTORS (Cont'd)



**OOI  
TOON KIT**

Independent  
Non-Executive Director



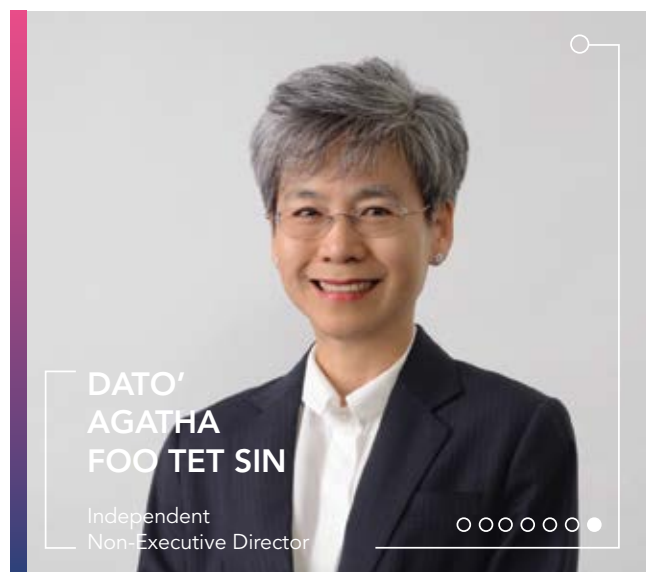
**OOI TOON KIT** aged 73, male, Malaysian, is an Independent Non-Executive Director of Elsoft. He was appointed to the Board on 22 June 2011. He is the chairman of the audit committee, a member of the nomination committee, remuneration committee and ESOS committee. He is a Chartered Accountant, a member of the Malaysian Institute of Accountants, qualified Company Secretary and holds a Master of Commerce degree from The University of Auckland, New Zealand. His working experience include a number of years in Fletcher Challenge group, a major New Zealand conglomerate, and in British Petroleum Company both in accountancy. He progressed to Inchape Malaysia Group as their Group Investment Manager and Director of Management Services. His last full time employment was with Unico Holdings Bhd as Group General Manager.

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

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

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

He attended all five Board of Directors Meetings held in the financial year 2018. He does not have any family relationship with any director and/or major shareholders of the Company. He has no conflict of interest with the Company and had no convictions for offences within the past 5 years other than traffic offences, if any.



**DATO'  
AGATHA  
FOO TET SIN**

Independent  
Non-Executive Director

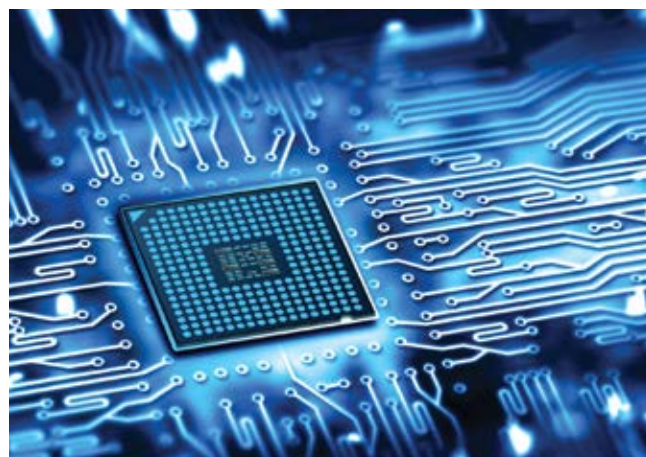


**DATO' AGATHA FOO TET SIN** aged 59, female, Malaysian, is an Independent Non-Executive Director of Elsoft. She was appointed to the Board on 29 December 2017. She is also a member of the audit committee and remuneration committee.

She obtained her degree in law from the Australian National University and commenced her legal career as an Advocate and Solicitor in Canberra in 1988. She was called to the Malaysian Bar in 1990 and has more than 20 years of legal experience. She has served in the Investigating Tribunal Disciplinary Committee Panel of the Advocates and Solicitors' Disciplinary Board, the Human Rights Committee of the Malaysian Bar Council, the Legal Aid Committee and several other committees of social interest groups and religious organisations.

Presently, she is the Senior Independent Non-Executive Director of PBA Holdings Bhd and also a member of the Board of Directors in Mount Miriam Cancer Hospital, Penang.

She attended all five Board of Directors Meetings held in the financial year 2018. She does not have any family relationship with any director and/or major shareholders of the Company. She has no conflict of interest with the Company and had no convictions for offences within the past 5 years other than traffic offences, if any.





## PROFILE OF KEY SENIOR MANAGEMENT

### ENG CHIN PENG

Chief Operating Officer

**Eng Chin Peng**, aged 54, male, Malaysian, is the Chief Operating Officer of Elsoft. He joined Elsoft as Senior Operating Manager in June 2016 and was subsequently promoted to Chief Operating Officer on 10 April 2017. He graduated with a Bachelor of Engineering with Honours in Computer and Communication Engineering from University Science Malaysia in 1990.

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

He does not hold any directorship in public listed companies.

### CHAN HONG HENG

Principal Engineer

**Chan Hong Heng**, aged 51, male, Malaysian, is the Principal Engineer of Elsoft. He graduated with a Bachelor (Hons) Degree in Computer and Communication Engineering from University Science Malaysia in 1993 and later with a Master of Science Degree in 1998.

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

He does not hold any directorship in public listed companies.

### TAN CHEIK KOOI

Finance and Administration Manager

**Tan Cheik Kooi**, aged 64, male, Malaysian, is the Finance and Administration Manager of Elsoft. He started his career back in 1974 as an account assistant and was promoted to chief clerk in Plantation Latex (M) Sdn Bhd. In 1994, he joined Topglass Sdn Bhd as the Accounts Executive. He has more than 35 years of accounting and administration experience in various industries.

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

He does not hold any directorship in public listed companies.

### JAMES CHOW KHIN HOONG

Senior Manager in Business Development

**James Chow Khin Hoong**, aged 53, male, Malaysian, is the Senior Manager in Business Development of Elsoft. He graduated with a Bachelor of Engineering in Electrical and Electronic Engineering from RMIT University Australia in 1990 and later with a MBA in Technology Management in 1997.

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

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

He does not hold any directorship in public listed companies.

# MANAGEMENT DISCUSSION AND ANALYSIS



## OVERVIEW OF THE GROUP'S BUSINESS AND OPERATIONS

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

FYE2018 was an excellent year for Elsoft as significant R&D efforts in FYE2017 successfully converted into revenue during the year. Elsoft finished the year with record breaking annual revenue of RM78.150 million, a 26.5% increase from FYE2017, driven by the high demand from smart devices industry.

With strong demand for new series of ATE from smart devices industry during FYE2018, the production activities were busy since the beginning of the year. In the fourth quarter of FYE2018, the production activities were slowed down and had given the opportunity for the Group to increase efforts on R&D activities in new test application for infrared/laser devices, automotive headlamp and next generation LED flash.

## REVIEW OF FINANCIAL RESULTS

	Financial Year Ended		Changes (%)
	31 Dec 2018 RM'000	31 Dec 2017 RM'000	
Revenue	78,150	61,766	26.5%
Cost of sales	(32,177)	(29,106)	10.6%
Gross profit	45,973	32,660	40.8%
Other income & other expenses	1,759	2,534	-30.6%
Administrative expenses	(6,457)	(6,550)	-1.4%
Share of loss in associates	(980)	(937)	4.6%
Profit before tax	40,295	27,707	45.4%
Taxation	(528)	(454)	16.3%
Net profit	39,767	27,253	45.9%
Shareholders' equity	112,930	101,026	
Basic earnings per share (Sen)	6.00	4.15	
Net assets per share (Sen)	17.03	15.38	
Dividend payout (%)	77%	81%	

### Revenue and Gross Profit

In FYE2018, the Group recorded a revenue of RM78.150 million, an increase of 26.5% and a gross profit of RM45.973 million, an increase of 40.8% as compared to previous financial year. High demand from smart devices industry was key contributor to the increase in revenue and gross profit. Economies of scale with large scale production during the year had improved the overall product margin.

### Other Income and Other Expenses

Other income and expenses comprise rental income, interest income, dividend income, fluctuations in fair value of quoted and non-quoted investments and fluctuations in foreign currencies.

The Group's other income and expenses in aggregate decreased by 30.6% from RM2.534 million in FYE2017 to RM1.759 million in FYE2018. Despite positive returns on investments such as dividend from money market funds, rental income, interest income and minor favorable foreign exchange differences, the Group saw loss on fair value adjustment of other investments which resulted in a lower other income and expense for FYE2018.

## REVIEW OF FINANCIAL RESULT (Cont'd)

### Administrative expenses

The Group's administrative expenses decreased by 1.4% from RM6.550 million in FYE2017 to RM6.457 million in FYE2018. Despite higher administrative expenses in area such as staff costs and corporate exercise expenses in FYE2018, the overall administrative expenses reduced as there were no one-off expenses such as impairment of other receivables and additional factory assessment raised which happened in FYE2017.

### Share of profit/loss in associates

The Group shared the losses of associate companies for FYE2018 and FYE2017 of RM0.980 million and RM0.937 million respectively.

#### (a) Leso Corporation Sdn. Bhd. ("Leso")

Leso contributed RM0.248 million profit for FYE2018, slightly improved as compared to RM0.052 million in previous year. Leso's performance improved mainly due to export sales contribution from Philippines and costs saving through efficient management of distribution network within Malaysia.

#### (b) Butterfly House (PG) Sdn. Bhd. ("Entopia")

Share of losses in Entopia was RM1.228 million and RM0.989 million for FYE2018 and FYE2017 respectively. Entopia undertook costs rationalisation program in June 2018 which significantly reduced its operational costs and improved its overall performance. The increased loss in FYE2018 was due to one off amortisation of goodwill of approximately RM0.839 million upon conversion of RCPS which increased our ordinary shareholding from 21.16% to 30.91%.

### Taxation

As with previous years, the effective tax rate for the Group is lower than the statutory tax rate due to 100% tax exemption from Pioneer Status of Section 4D, Promotion of Investment Act, 1986 for Elsoft Systems Sdn. Bhd..

### Financial Position and Liquidity

The Group's inventories increased by 71.1% from RM3.365 million as at FYE2017 to RM5.758 million as at FYE2018. The increase was mainly due to work-in-progress (WIP) for projects to be delivered in first half of 2019.

The Group's trade and other receivables decreased by 40.2% from RM23.734 million as at FYE2017 to RM14.191 million as at FYE2018. The decrease was mainly due to significant improvement in collection throughout the FYE2018.

As at FYE2018, the Group's cash and cash equivalents stood at RM10.187 million, registering a decrease of 18.5% compared to RM12.501 million as at FYE2017. Efficient cash management by placing additional cash into money market fund for better yield had resulted lower cash and cash equivalents as at FYE2018.

Other investments comprise investments in Money Market Fund, Fixed Income Fund and Quoted Investment. As at FYE2018, the Group's other investments stood at RM62.292 million, registering an increase of 49.9% from RM41.553 million as at FYE2017. It is the Group's strategy to place excess cash into Money Market Fund and Fixed Income Fund for greater after tax return.

The Group's trade and other payables decreased by 10.4% from RM9.438 million as at FYE2017 to RM8.452 million as at FYE2018. The decrease was due to the lower trade payables as a result of lesser purchases towards the end of the year.

Given its strong financial position, the Group is firmly committed to continue its investment in R&D activities to adapt to the needs and demands of rapidly changing technology environment.

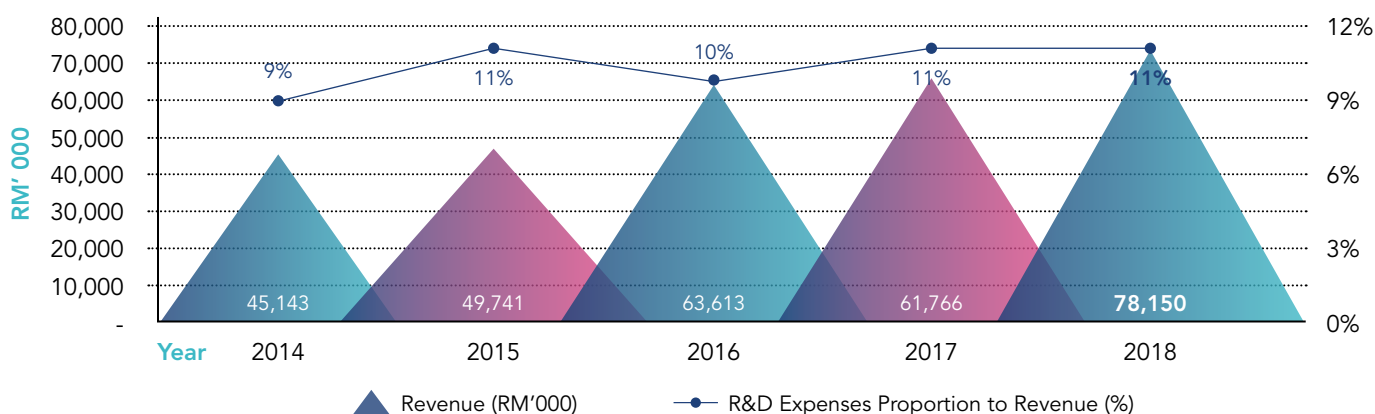


## OPERATING ACTIVITIES

FYE2018 was an excellent year for Elsoft in term of the Group's achievements. Elsoft ended the year with complimentary record of revenue of RM78.150 million, profit after tax of RM39.767 million and total dividend payout of RM30.455 million. R&D efforts in FYE2017 was key success factor as majority of R&D activities successfully converted into revenue to the Group in FYE2018, specifically in smart devices industry.

R&D plays a vital role in business sustainability, ensuring Elsoft remains competitive and stays ahead of the technology curve. Our consistent investment in R&D activities is evidenced by annual R&D expenditure of average 10% of revenue in the past five (5) financial years.

### PROPORTION OF R&D EXPENSES TO REVENUE



During FYE2018, Elsoft Systems Sdn Bhd ("ESSB"), a 100% owned subsidiary of Elsoft, successfully obtained ISO 9001: 2015 certification. Achieving the ISO 9001: 2015 certification demonstrated Elsoft's commitment in providing quality products and services, strengthening commitment to customers and meeting their expectation. It took a huge effort during the process of obtaining certification and credit should be given to every member of Elsoft for their involvement and support.

Human capital development is also crucial to the success of the Group. As of 2018, the Group's total workforce was as follows:-

Category	No. of Employee
R&D engineer	30
Services engineer	21
Skilled labour	13
Administrative staff	15
<b>Total</b>	<b>79</b>

The Group continues to identify proficient individuals internally to be further trained in specialized areas.

## PROSPECTS AND OUTLOOK

The Worldwide Semiconductor Market was up 13.7% in 2018 to US\$468.8 billion according to the publication released by World Semiconductor Trade Statistics. The year 2019 is forecasted to be down 3.0% to US\$454.5 billion and modest growth is expected to return in 2020.

The Group experienced weaken demand for ATE in smart devices, automotive and general lighting industries for the beginning of 2019 and expected to slowly recover in second half of 2019. Orders from medical device industry are expected to be materialised in 2019. It may not be significant but it serves as an important measure for our diversification strategy.



## PROSPECTS AND OUTLOOK (Cont'd)

R&D activities will play important role in 2019 for both smart devices and automotive industries. Ongoing R&D activities focus on improvement on existing products and also development of new products for new application from our customer. Presently, R&D activities of the Group are mainly in the following areas:

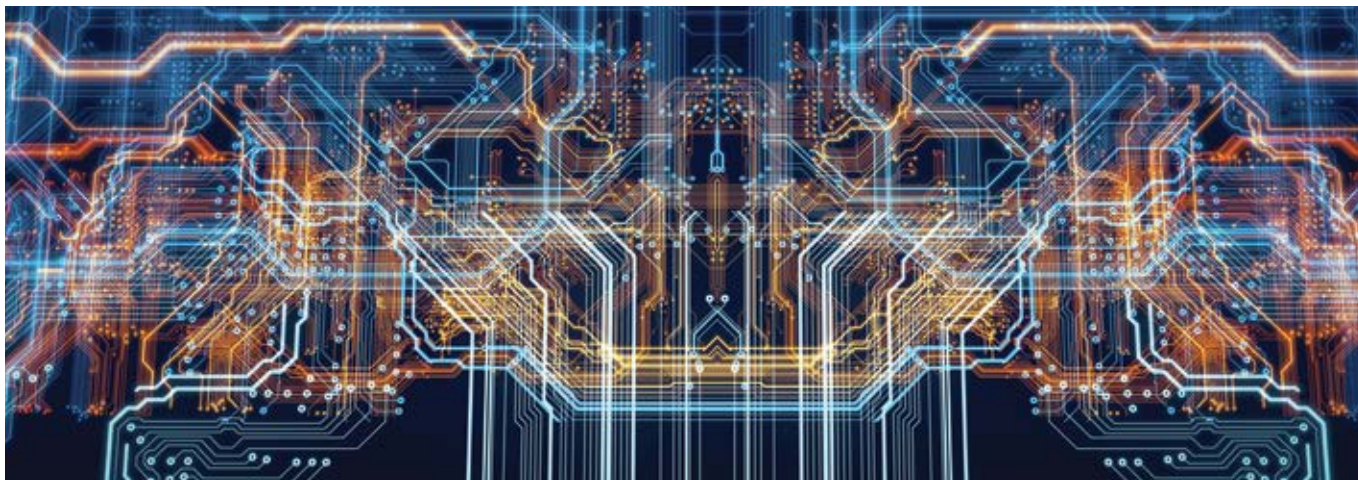
- (a) ATE for infrared/laser devices testing
- (b) Next generation ATE for smart devices industry
- (c) New ATE for automotive industry

Despite global economic uncertainties, Elsoft is well prepared for a challenging 2019 and beyond. With solid fundamentals and a healthy financial standing, the Group is confident it will be able to take up new opportunities to broaden customer base and also product range.

### Associate Companies

Leso Corporation Sdn. Bhd. ("Leso"), a 30% owned associate company of Elsoft, will continue to focus its business expansion in ASEAN countries. Presently, Leso has branches in Philippines and Indonesia, and a joint venture with domestic business partner in Thailand. The management of Leso is optimistic in meeting the challenges in year 2019 for both domestic and overseas market.

Butterfly House (PG) Sdn. Bhd. ("Entopia"), a 30.91% owned associate company of Elsoft, will continue to maintain its lean operations while exploring opportunities in consultancy services in other countries. Entopia is working on Nature Camps to attract local and particularly overseas students. The management of Entopia is committed to further improve its financial performance in year 2019.



## RISK EXPOSURES

### Foreign Currency Risk

Our Group is exposed to the risks associated with currency fluctuations as significant amount of our sales to overseas customers and purchases from overseas suppliers are denominated in USD. Exchange rate fluctuations of USD against Ringgit Malaysia may influence the group's financial results. However, foreign currency exchange risk is partially mitigated through natural hedge between revenue and purchases in the same currency.

### Dependence on Major Customer

Our Group's customer base is made up of leading corporations and multinational companies ("MNCs") in the optoelectronic industries. Our top customer, a lighting solutions MNC and its group of suppliers accounted for approximately 75% of the Group's total turnover for the financial year ended 31 December 2018. However, this customer has been with the Group continuously for more than fifteen (15) years and this indicates a long-term and stable customer relationship.

To reduce over-dependency on any single customer, the Group undertakes diversification strategy through expanding our customer base and product range. It is evidenced by our effort to enter the medical devices and solar cell industries in the past few years.



## CORPORATE EXERCISE

In November 2018, Elsoft completed bonus issue on the basis of one (1) bonus share for every five (5) existing shares held and share split on the basis of every one (1) share held after the bonus issue into two (2) shares. The corporate exercises were intended to reward shareholders for their loyalty and to improve the trading liquidity of shares.

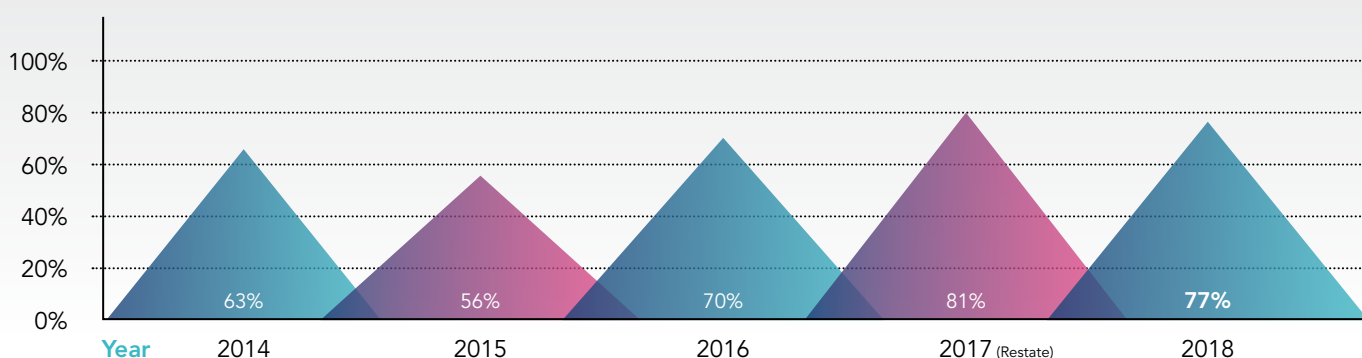
## DIVIDEND

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

Accordingly, the Company declared four tax exempt interim dividend for FYE2018 totalling to RM0.0459 per ordinary share based on the enlarged share capital after the issuance of new ordinary shares pursuant to the bonus issue and share split of which representing a payout of 77%.

For the past five years, Elsoft consistently distributed dividend more than 40% of its annual net profit and exceeding our dividend policy.

## DIVIDEND PAYOUT



## MESSAGE FROM BOARD & MANAGEMENT

Notwithstanding high dividend payout, Elsoft will build on its competitive advantage and remain focused on investing in R&D activities to drive the Group forward. Despite global economic uncertainties, the Management remain optimistic on the Group's prospects for the years ahead.

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

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

The Board remains fully committed towards adhering to the Principles and Recommendations of the Malaysian Code of Corporate Governance 2017 ("MCCG 2017"). Therefore, the Board will continue to review and enhance the corporate governance practice to ensure its ability in meeting future challenges and to establish long-term sustainable shareholders' value.

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

## PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS

### I BOARD RESPONSIBILITIES

**1.0 The Board is responsible for the Company's leadership and is collectively responsible for meeting the Company's objectives and goals. It strives to accomplish this through overseeing the proper conduct of the Group's business and affairs.**

#### **1.1 Setting Company's Strategic Directions, Values and Standards**

The Board has full control and is responsible for providing strategic direction, approving corporate plans and budgets, monitoring and reviewing corporate performance, ensuring adequate systems for good internal control and risk management are in place, overseeing succession planning and adopting sound financial and operational management practices.

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

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

The responsibilities and decision-making powers of the Board are included in Board Charter of the Group which made available at the Company's website.

#### **1.2 Appointment of Chairman**

Dato' Dr Chong Eng Keat @ Teoh Eng Keat was appointed as the Independent Non-Executive Chairman of the Company. He is responsible for the leadership of the Board, ensuring effective functioning of the Board by setting Board agenda and ensuring adequate time is available for discussion of all agenda items. He ensures that all directors receive complete, adequate and timely information. He facilitates the effective contribution of non-executive directors and ensures constructive relations between the executive and non-executive directors.

Dato' Dr Chong acts as a spokesperson for the Board during shareholders' meeting and ensures effective communication with shareholders and stakeholders. He leads the Board in practicing good corporate governance and ensure compliance of all relevant laws and regulations.

#### **1.3 The Position of Chairman and CEO are Held by Different Individual**

The board is chaired by Dato' Dr Chong Eng Keat @ Teoh Eng Keat, an Independent Non-Executive Director whereas Mr Tan Cheik Eaik is the Chief Executive Officer (CEO), and Executive Director. There is a clear division of duties and responsibilities between the Chairman and the CEO to ensure a balance of power and authority so that no one individual has unfettered powers over decision making. The Chairman is responsible for the leadership and governance of the Board in ensuring its effectiveness. The CEO is responsible for the day-to-day management of the Company's business and its operations as well as the implementation of the Board's policies and decisions.

# CORPORATE GOVERNANCE OVERVIEW STATEMENT (Cont'd)



## PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

### I BOARD RESPONSIBILITIES (Cont'd)

#### 1.4 Qualified and Competent Company Secretary

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

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

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

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

#### 1.5 Supply of Information

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

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

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

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

#### 2.0 The Board acknowledges the important of demarcation of responsibilities between the Board, Board Committees and management.

##### 2.1 Board Charter

The Board has formalised and adopted the Board Charter which clearly sets out the respective roles and responsibilities of the Board and also the functions and responsibilities delegated to the Board Committees as well as to the management.

The objectives of the Board Charter are to ensure that the members of the Board are aware of their roles, duties and responsibilities and the application of principles and practices of good corporate governance in their business conduct and dealings in respect of, and on behalf of the Company and the various laws and legislations governing them and the Company.

The Board will review the Board Charter at least once in every financial year and to make any necessary amendments as and when the Board deems necessary to ensure that it continues to remain relevant and appropriate.

The Board Charter is made available at the Company's website.



# CORPORATE GOVERNANCE OVERVIEW STATEMENT (Cont'd)

## PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

### I BOARD RESPONSIBILITIES (Cont'd)

- 3.0 The Board is committed to promote good business practices and ethical corporate conduct. With this commitment, the Board believes that it will make sound business decisions, enhance its operational performance and deliver values to all stakeholders.**

#### 3.1 Codes of Conduct and Ethics

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

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

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

#### 3.2 Whistle-Blowing Policy

The Board has adopted a whistle-blowing policy and will review the policy from time to time.

The Policy is established to facilitate employees and members of the public to report/raise concerns of any possible improper conduct and protect the individual from reprisal and safeguard such person's confidentiality as a consequence of making a disclosure.

The whistle-blowing policy is available at the Company's website.

### II BOARD COMPOSITION

- 4.0 The Board acknowledges the importance of boardroom diversity and recognises the importance and benefits that they can bring and will work towards achieving this objective through good practices recommended by MCGG 2017 as outlined below:-**

#### 4.1 Board Balance

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

Presently, the Board comprises a wide range of expertise and experience in various fields, encompassing operation management, engineering, legal, accounting and finance.

The Board continues its effort to identify and attract suitable candidates for Independent Non-Executive Directors in area of expertise such as corporate finance and business development. With the successful selection of the candidate, the Board composition would comply with the MCGG recommended practice of at least half of the Board comprises independent directors.

#### 4.2 Tenure of Independent Directors

One of the recommendations of the Code provides that the tenure of Independent Director should not exceed a cumulative term of nine (9) years of service. Upon completion of the nine (9) years, the Independent Director may continue to serve on the Board subject to the Director's re-designation as a Non-Independent Director.

In the event the Board intends to retain the Director as Independent after the latter has served a cumulative term of nine (9) years, the Board must justify the decision and seek shareholders' approval. If the Board continues to retain the Independent Director after the twelfth year, the board should seek annual shareholders' approval through a two-tier voting process at the Annual General Meeting of the Company.

# CORPORATE GOVERNANCE OVERVIEW STATEMENT (Cont'd)



## PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

### II BOARD COMPOSITION (Cont'd)

#### 4.2 Tenure of Independent Directors (Cont'd)

Dato' Dr Chong Eng Keat @ Teoh Eng Keat was appointed as an Independent Non-Executive Director of the Company on 3 June 2005 and he has served for more than twelve (12) years.

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

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

Dato' Dr Chong Eng Keat @ Teoh Eng Keat has met the independence guidelines as set out in Chapter 1 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements and hence will seek shareholders' approval at the forthcoming Annual General Meeting to retain him as Independent Director.

Two-tier voting has been adopted by the Company in its Board Charter. Two tier shareholders' approval will be sought at the forthcoming Annual General Meeting (AGM) for Dato' Dr Chong Eng Keat @ Teoh Eng Keat to continue to act as Independent Non-Executive Director.

#### 4.3 Nine-Year Policy for Independent Directors

The Board has chosen not to adopt a rigid policy of limiting the tenure of our Independent Directors to nine (9) years at this stage of the Company's growth. The Board overall assessment is that the long serving Independent Directors have the right mix of skills, expertise, insight and experience to offer to the Company and this helps to enhance and improve the decision-making process to the best interest of the Elsoft Group.

#### 4.4 Appointment of the Board and Senior Management

The Board delegates to the Nomination Committee the responsibility of reviewing any new candidate for Board appointment or filling of key management positions.

The Nomination Committee is responsible to ensure that the procedures for appointing new Directors are transparent and appointments are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender.

In evaluating the suitability of candidates to fill any vacancies in the Board, the Nomination Committee shall ensure that the candidates selected possess the necessary skills, knowledge, expertise and experience and their personal characteristics befitting the positions. The Committee also actively engaged with senior management in identifying skill gaps and review succession planning and other human resource contingencies.

#### 4.5 Gender Diversity

The Board currently does not have a policy on gender diversity and has not set gender diversity targets presently. However, the Board had taken steps to ensure that gender diversity is a key consideration in all future recruitment exercises.

Presently, the Board has two (2) female directors out of a total of seven (7). Our eventual goal is to meet the recommended 30% women directors of our Board.

# CORPORATE GOVERNANCE OVERVIEW STATEMENT (Cont'd)

## PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

### II BOARD COMPOSITION (Cont'd)

#### 4.6 Identification of Candidates

The Nomination Committee will consider candidates for directorships proposed by the Chief Executive Officer and, within the bounds of practicability, by any other senior executive or any director or shareholder.

The Nomination Committee is also given the right to obtain advice from independent parties and other professionals where they consider it necessary to carry out their duties.

#### 4.7 Nomination Committee

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

The composition of the Nomination Committee is as follows:

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

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

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

#### 5.0 The board undertakes a formal and objective annual evaluation to determine the effectiveness of the Board, its committees and each individual Director.

##### 5.1 Annual Evaluation

The Nomination Committee carried out annual assessment in November 2018. The annual assessment involves members of the Board completing evaluation questionnaires to appraise the performance of the Board. The assessment also involved individual Director undertaking self evaluation. Summary of the evaluation results by element will be reported to the Board by the Chairman of the Nomination Committee. Board Committees were assessed on their composition, expertise, and whether their functions and responsibilities were effectively discharged in accordance with their respective terms of reference annually.

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

# CORPORATE GOVERNANCE OVERVIEW STATEMENT (Cont'd)



## PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

### II BOARD COMPOSITION (Cont'd)

#### 5.1 Annual Evaluation (Cont'd)

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

Name	Attendance
<b>Dato' Dr Chong Eng Keat @ Teoh Eng Keat</b> Chairman/Independent Non-Executive Director	5/5
<b>Mr Tan Cheik Eaik</b> Executive Director	5/5
<b>Mr Koay Kim Chiew</b> Executive Director	5/5
<b>Mr Tan Ah Lek</b> Non-Independent Non-Executive Director	5/5
<b>Madam Tan Ai Jiew</b> Non-Independent Non-Executive Director	5/5
<b>Mr Ooi Toon Kit</b> Independent Non-Executive Director	5/5
<b>Dato' Agatha Foo Tet Sin</b> Independent Non-Executive Director	5/5

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

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

The current Independent Directors of the Company namely, Dato' Dr Chong Eng Keat @ Teoh Eng Keat, Mr Ooi Toon Kit and Dato' Agatha Foo Tet Sin have fulfilled the criteria of "independence" as prescribed under Chapter 1 of the Listing Requirements of Bursa Securities. The Company also fulfills the Chapter 15.02 of the Listing Requirements of Bursa Malaysia Securities Berhad to have at least one-third (1/3) of its Board members being Independent Non-Executive Directors.

#### Directors' Training

All the Directors have attended and completed the Mandatory Accreditation Program prescribed by Bursa Malaysia Securities Berhad. In addition, the Directors will continue to participate in other relevant training programs to further enhance their skills and knowledge in discharging their duties as Directors in an effective manner. Throughout the year, the Directors have received updates from time to time on relevant new laws and regulations.

The training programs and seminars attended by the Directors during the financial year ended 31 December 2018 include:

Name of Directors	Title of training programs and seminars	Mode of Training	No. of Days
Dato' Dr Chong Eng Keat @ Teoh Eng Keat	<ul style="list-style-type: none"> <li>Breakfast Series: Companies of the -Future – The Role for Boards</li> <li>ESG Seminar for FTSE4Good Bursa Malaysia Index</li> </ul>	Seminar	2
Mr Tan Cheik Eaik	<ul style="list-style-type: none"> <li>The Vistage Chief Executive Program</li> </ul>	Seminar	12
Mr Koay Kim Chiew	<ul style="list-style-type: none"> <li>IFRS Masterclass 2018</li> </ul>	Seminar	1
Mr Tan Ah Lek	<ul style="list-style-type: none"> <li>IFRS Masterclass 2018</li> </ul>	Seminar	1
Madam Tan Ai Jiew	<ul style="list-style-type: none"> <li>IFRS Masterclass 2018</li> </ul>	Seminar	1



# CORPORATE GOVERNANCE OVERVIEW STATEMENT (Cont'd)

## PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

### II BOARD COMPOSITION (Cont'd)

#### 5.1 Annual Evaluation (Cont'd)

##### Directors' Training (Cont'd)

Name of Directors	Title of training programs and seminars	Mode of Training	No. of Days
Mr Ooi Toon Kit	<ul style="list-style-type: none"> <li>Cryptocurrency – Block Chain and Bitcoin</li> <li>Significant changes to the Companies Act</li> <li>What is Big Data and its benefits?</li> <li>What is Industry 4.0 and how it will affect my business?</li> <li>How to be an effective leader?</li> </ul>	Seminar/Workshop	5
Dato' Agatha Foo Tek Sin	<ul style="list-style-type: none"> <li>Breakfast Series: Non-Financials – Does it matter?</li> <li>The Malaysian Code on Corporate Governance (MCCG) Reporting &amp; Corporate Governance Guide</li> </ul>	Seminar/Workshop	2

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

### III REMUNERATION

#### 6.0 The Board acknowledges the importance of appropriate remuneration of directors and senior management in order to attract and retain the right talent in the Board and the senior management to drive the company strategies in the long term.

##### 6.1 Remuneration Policy

The Board formalised remuneration policy to provide guideline to determine the remuneration package for Directors and senior management with the objective to attract, motivate and retain talent in the Board and senior management team.

Remuneration Committee is established to ensure remuneration policy and decision are made through transparent and independent process. The remuneration policy will be reviewed regularly.

During the process of determining remuneration package for Directors and senior management, the committee will take into account the level of duties and responsibilities as well as the skills and experiences and also to ensure competitiveness within the relevant market and industry.

##### 6.2 Remuneration Committee

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

The composition of the Remuneration Committee is as follows:

Name
<b>Dato' Dr Chong Eng Keat @ Teoh Eng Keat</b> Chairman/Independent Non-Executive Director
<b>Mr Ooi Toon Kit</b> Member/Independent Non-Executive Director
<b>Dato' Agatha Foo Tet Sin</b> Member/Independent Non-Executive Director

# CORPORATE GOVERNANCE OVERVIEW STATEMENT (Cont'd)



## PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

### III REMUNERATION (Cont'd)

#### 6.2 Remuneration Committee (Cont'd)

The responsibilities of the Remuneration Committee are:-

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

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

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

#### 7.0 The Board ensures that stakeholders are able to have access to the remuneration of Directors and senior management for greater transparency.

#### 7.1 Directors' Remuneration

Detailed disclosure on name basis for the remuneration of individual Directors are as follows:

Directors	Director Fee	Remuneration	ESOS	Total
Dato' Dr Chong Eng Keat @ Teoh Eng Keat	55,000	-	19,129	74,129
Mr Tan Ah Lek	45,000	-	15,304	60,304
Madam Tan Ai Jiew	45,000	-	15,304	60,304
Mr Ooi Toon Kit	45,000	-	15,304	60,304
Dato' Agatha Foo Tet Sin	40,000	-	-	40,000
Mr Tan Cheik Eaik	-	618,681	15,304	633,985
Mr Koay Kim Chiew	-	561,740	15,304	577,044

#### 7.2 Remuneration of Senior Management

Disclosure on name basis of senior management's remuneration would deem sensitive as at now and the Board will consider to disclose in future.

# CORPORATE GOVERNANCE OVERVIEW STATEMENT (Cont'd)

## PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

### III REMUNERATION (Cont'd)

#### 7.2 Remuneration of Senior Management (Cont'd)

Senior management's remuneration component including salary, bonus, benefits-in-kind and other emoluments in bands of RM50,000 are as follows:-

Remuneration Band	Senior Management
250,001 – 300,000	1
450,001 – 500,000	1
500,001 – 550,000	2

## PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT

### I AUDIT COMMITTEE

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

The composition of the Audit Committee, its terms of reference and attendance of meetings by the individual members are set out on pages 30 to 31.

#### 8.1 Chairman of Audit Committee

The Chairman of the Audit Committee is not the Chairman of the Board as to ensure robust and open deliberations by the Board on matters referred by the Audit Committee.

Presently, the Chairman of Audit Committee is Mr Ooi Toon Kit and he does not chair other board committee.

#### 8.2 Cooling-Off Period for Appointment of Former Key Audit Partner

The Board does not adopt policy to govern the appointment of former key audit partner to the Board and will consider adopting such recommendation in due course.

Presently, none of the Board members are former key audit partner.

#### 8.3 Assess the Suitability, Objectivity and Independence of the External Auditors

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

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

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

The Audit Committee had on 22 February 2019 assessed the independence of BDO PLT as external auditors and was satisfied with BDO PLT's competency and audit independence.

# CORPORATE GOVERNANCE OVERVIEW STATEMENT (Cont'd)



## PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT (Cont'd)

### I AUDIT COMMITTEE (Cont'd)

#### 8.4 Solely Independent Directors in Audit Committee

Presently, the Audit Committee consists of four (4) members, who are all Non-Executive Directors and majority of the members are Independent Directors.

The Board does not adopt the policy of having solely Independent Directors in Audit Committee.

#### 8.5 Skills of Audit Committee

The composition of our Audit Committee meet the requirement of Paragraph 15.09(1)(c) of Main Market Listing Requirement of Bursa Malaysia to have at least one member of the audit committee with accounting or financial acumen.

Mr Ooi Toon Kit, the Independent Non-Executive Director and also the Chairman of Audit Committee, is a member of the Malaysian Institute of Accountants. The other three members of Audit Committee, Dato' Dr Chong Eng Keat @ Teoh Eng Keat, Dato' Agatha and Madam Tan Ai Jiew, possess vast experiences in technology industry, legal and administration experiences respectively. All members of Audit Committee have the necessary experience, ability and knowledge to assess and understand financial statements to effectively discharge their duties.

All members of the Audit Committee are encouraged to undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, corporate governance and corporate reporting.

### II RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

#### 9.0 The Board acknowledges the importance of sound risk management and internal control being embedded into the culture, processes and structures of the Group.

The Statement on Risk Management and Internal Control set out on pages 32 to 34 of the Annual Report provides an overview on the state of internal controls within the Group.

#### 9.1 Risk Management and Internal Control Framework

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

The main components of the Group's risk governance and structure consist of the Board, the Senior Management and the key personnel of the Group. The structure allows for strategic risk discussions to take place between the Board and the Senior Management on a periodical basis.

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

#### 9.2 Adequacy and Effectiveness of Risk Management and Internal Control Framework

The summary of the accountabilities of the Board, the Senior Management and the key personnel under the risk governance structure are as follows:

##### Board of Directors

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

# CORPORATE GOVERNANCE OVERVIEW STATEMENT (Cont'd)

## PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT (Cont'd)

### II RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (Cont'd)

#### 9.2 Adequacy and Effectiveness of Risk Management and Internal Control Framework (Cont'd)

##### Senior Management and key personnel of the Group

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

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

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

##### 10.1 Internal Audit Function

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

##### 10.2 Objectivity and Independence of Internal Auditors

The Audit Committee is satisfied that JWC Consulting Sdn. Bhd. is having adequate resources and expertise to carry out internal audit function, and understand that the internal audit personnel are free from any relationships or conflict of interest with the Company.

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

## PRINCIPLE C – INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDER

### I COMMUNICATION WITH STAKEHOLDERS

#### 11.0 The Board acknowledges the importance of continuous communication between company and stakeholders to ensure mutual understanding of each other's objectives and expectations.

##### 11.1 Effective, Transparent and Regular Communication with Stakeholders

Presently, the Board and the Management of the Company communicate with its stakeholders through the following channels:-

###### (a) Company Website ([elsoftresearch.com](http://elsoftresearch.com))

Our company website incorporates all announcements made by the Company as well as corporate governance practice documents such as Board Charter, Code of Conduct and Term of Reference of Committees.

###### (b) Bursa Malaysia Securities Berhad ([www.bursamalaysia.com](http://www.bursamalaysia.com))

The Company releases all announcements through Bursa Malaysia Securities Berhad which is accessible by the Public.



# CORPORATE GOVERNANCE OVERVIEW

## STATEMENT (Cont'd)



### PRINCIPLE C – INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDER (Cont'd)

#### I COMMUNICATION WITH STAKEHOLDERS (Cont'd)

##### 11.1 Effective, Transparent and Regular Communication with Stakeholder (Cont'd)

###### (c) Analyst Briefings

Top Management conducts briefing/meeting with analyst and fund managers from time to time to provide updates on the Company's strategy and performance.

##### 11.2 Integrated Report

Integrated report may not be necessary in view of the size of our Company.

#### II CONDUCT OF GENERAL MEETINGS

##### 12.0 The Board will be present at General Meetings to engage directly with and be accountable to the shareholders for their stewardship of the Company.

##### 12.1 Notice of Annual General Meeting

The Company dispatches its Notice of Annual General Meeting at least 28 days before the meeting date to allow the shareholders to make the necessary arrangements to attend and participate in the meeting.

##### 12.2 Attendance of Directors

The Board is aware that participation of all Board members during general meeting will serve to distribute the responsibility of engaging with shareholders to all Directors and not just the Chairman of the meeting.

Barring any unforeseen circumstances, all Directors will be present at the forthcoming AGM of the Company.

##### 12.3 Shareholder Participation at AGM

The Company allows members to appoint proxy. A proxy needs not be an advocate, an approved company auditor or a person approved by the Registrar. There is no restriction as to the qualification of the proxy. A member shall be entitled to appoint two (2) or more proxies to attend and vote at the same meeting.

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

The Board adopts electronic voting to facilitate greater shareholders participation in the future.

### COMPLIANCE STATEMENT

The Board is satisfied that the Company has practiced majority Principles and Recommendations of the MCCG 2017, as is applicable and as described in this statement. This statement is issued in accordance with a Board Resolution dated 19 April 2019.

# SUSTAINABILITY STATEMENT

Elsoft recognises the importance of sustainability in business to create long-term value by taking into consideration its impacts on Economic, Environmental and Social responsibilities ("EES").

*"Elsoft is committed to achieve outstanding performance and deliver superior quality products that meet our customers' expectation as well as the needs of all applicable interested parties. We believe employees' commitment and teamwork are key towards achieving excellence in quality through continuous improvement"* This is the Quality Policy adopted by Elsoft during the FYE2018 in conjunction with the implementation of sustainability in business.

## Sustainability Governance

Our approach to sustainability governance is led by Board of Directors, supported by CEO and top management in providing direction and guidance to ensure sustainable business strategy and risk management within the Group.



## Stakeholder Engagement

A stakeholder is a party that has an interest in a company who can either affect or be affected by the business. Elsoft acknowledges the importance of stakeholder engagement in identifying and understanding their needs and expectations. Elsoft's key stakeholders include customers, employees, shareholders, supplier and government agencies.

Stakeholder Group	Type of Engagement
Customers	<ul style="list-style-type: none"><li>• Customer satisfaction survey</li><li>• Face to face meeting with customers</li></ul>
Employees	<ul style="list-style-type: none"><li>• Message to employee via internal communication channel and company functions</li><li>• Management's willingness to listen and respond to employee suggestion</li></ul>
Shareholders	<ul style="list-style-type: none"><li>• Quarterly analyst briefings</li><li>• Annual General Meeting</li><li>• Corporate Website</li><li>• Annual report and quarterly financial results</li></ul>
Suppliers	<ul style="list-style-type: none"><li>• Suppliers performance evaluation</li><li>• Regular feedback to suppliers on their quality and performance</li></ul>
Government agencies	<ul style="list-style-type: none"><li>• Participating in social program and exhibition</li><li>• Attend seminar related to new government Acts and regulations</li></ul>



## Materiality Assessment

Our materiality assessment involves identification of stakeholders and sustainability issues, followed by prioritizing them based on its impact to business and its influence to stakeholders. The following are material sustainability matters in Elsoft identified by top management after taking into consideration of stakeholders' concern.

Areas	Material sustainability matters
Economic	<ul style="list-style-type: none"> <li>commitment to provide quality products and services</li> <li>local procurement practices</li> </ul>
Environmental	<ul style="list-style-type: none"> <li>reduce energy consumption</li> <li>recycle packing materials</li> <li>compliance with Environmental Quality (Clean Air) Regulation 2014</li> </ul>
Social	<ul style="list-style-type: none"> <li>safe working environment and employee welfare</li> <li>human capital development</li> <li>budget allocation for contribution to the community</li> </ul>

## ECONOMIC

### Commitment to provide quality products and services

Elssoft's Quality Policy is to ensure we deliver quality product and services to customers. This is evidenced by our effort in effort in obtaining ISO 9001:2015 certification in early 2018. Additional headcount was added in production quality process control and activities to meet the compliance of ISO standard.

### Local procurement practice

Suppliers play an important role to support Elsoft with their quality products and services to meet our customers' expectation. Without compromising on pricing and product quality, the Group will source material locally as part of the effort to grow and support local supply chain.

FYE	Locally sourced materials over total purchases
2018	Approximately 73%
2017	Approximately 60%

## ENVIRONMENTAL

Elssoft is committed to conduct business in accordance with best environmental practices. We are committed to reduce the environmental impacts of our business operation by the following efforts:-

- Reduce energy consumption  
The Group has replaced more than 90% of fluorescent light with LED light in production area in view of long-term energy saving.
- Reduce paper consumption and recycle the use of packing material  
The Group has delivered message to employees to encourage the use of technology (email, electronic document and intranet) to reduce paper consumption and also to recycle the use of packing materials.
- Compliance with Environmental Quality (Clean Air) Regulation 2014  
The Group will engage certified independent testing laboratory to monitor the air pollutants level yearly to make sure it is in compliance with the Environmental Quality (Clean Air) Regulation 2014.

Air pollutants level monitoring		
FYE	Performed on	Result
2018	24 September 2018	In compliance
2017	26 September 2017	In compliance

# SUSTAINABILITY STATEMENT (Cont'd)

## SOCIAL

In terms of social aspect, we emphasize on our engagement with employees, shareholders and the community.

### Human capital development

In a research company like Elsoft, we consider talent management to be vital to sustain business growth and to stay competitive in the marketplace. We constantly provide funds for employees to improve their technical skills and knowledge by attending relevant training and educational courses. We ensure all employees are equipped with necessary skill sets and knowledge in their position.

### Safe working environment and employee welfare

At our workplace, we ensure a safe and healthy environment for our employees. Facility staff will periodically check the workplace condition and firefighting system to ensure the safety of employees. The Group also take care of employee health by giving better benefit for dental, spectacles and medical checkup claim in 2019.

### Budget allocation for contribution to the community

Being part of the community, Elsoft acknowledges its responsibility by giving back to the community as part of good business practice. Every year, Elsoft contributed cash donation to charitable organizations for sustaining their daily activities with the objective that they could help more people in need.

Charitable Organisation	Their main activity
<b>FYE2018</b>	
Pure Lotus Cancer Foundation	Providing support to poor cancer patients regardless of race and religion in the treatment of cancer.
Kriyalakshmi Mandir Shree Sai Gurukul Charitable Society ("KMSSG")	Providing guidance and education to under-served children, with the aim of uplifting the educational level and human values.
<b>FYE2017</b>	
Pure Lotus Cancer Foundation	Providing support to poor cancer patients regardless of race and religion in the treatment of cancer.
Penang Handicapped Welfare Association	Train and educate each disabled child according to their special ability so that they will be able to live independently in future.

In early 2019, we donated to Cancer Research Malaysia ("CRM") which conducts research in niche cancers often found in our Asian population. Through impactful research, CRM works towards the day when cancer is a disease that can be controlled and no longer feared.

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



The Directors are required by the Companies Act 2016 in Malaysia (the Act) to prepare financial statements for each financial year which have been made out in accordance with applicable Financial Reporting Standards in Malaysia and the provisions of the Act and Main Market Listing Requirements.

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

In preparing the financial statements, the Directors have:

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

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

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



# AUDIT COMMITTEE REPORT

**Mr Ooi Toon Kit**

*Chairman of Audit Committee*

*Independent Non-Executive Director*

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

*Member of Audit Committee*

*Independent Non-Executive Chairman*

**Madam Tan Ai Jiew**

*Member of Audit Committee*

*Non-Independent Non-Executive Director*

**Dato' Agatha Foo Tet Sin**

*Member of Audit Committee*

*Independent Non-Executive Director*

The Audit Committee consists of four (4) members, who are all Non-Executive Directors and majority of the members are Independent Directors.

## 1.0 Terms of Reference

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

## 2.0 Attendance at Meetings

There were five (5) meetings held for the financial year ended 31 December 2018 with 100% attendance. Details of attendance of the Committee members are as follows:-

Name of Committee Member	No. of meetings attended
Mr Ooi Toon Kit	5/5
Dato' Dr Chong Eng Keat @ Teoh Eng Keat	5/5
Madam Tan Ai Jiew	5/5
Dato' Agatha Foo Tet Sin	5/5

## 3.0 Summary of Activities

The Committee had carried out the following activities during the five (5) meetings during the financial year ended 31 December 2018 in discharging their duties and responsibilities:

- Reviewed the quarterly reports and audited financial statements of the Group, particularly on changes in or implementation of major accounting policy changes, significant and unusual events and compliance with accounting standards and other legal requirements and made recommendation of the same to the Board for approval prior to release to Bursa Malaysia Securities Berhad and Securities Commission.
- Reviewed Corporate Governance Overview Statement, statement about the state of Internal Control and Risk Management and Audit Committee Report and recommended the same to the Board for inclusion in the Annual Report.
- Reviewed with the external auditors their audit plan for the financial year 2018.
- Appraised and evaluated the performance of the external auditors.
- Reviewed and made recommendations concerning the appointment of the external auditors and their remuneration to the Board.
- The Committee met with the external auditors three (3) times during the year without the presence of the Management.



## 3.0 Summary of Activities (Cont'd)

The Committee had carried out the following activities during the five (5) meetings during the financial year ended 31 December 2018 in discharging their duties and responsibilities: (Cont'd)

- Reviewed the adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work.
- Reviewed with the internal auditors on the adequacy of the Group's risk management practices in identifying and considering significant financial and business risk and recommended to the Board of Directors the implementation of appropriate systems to manage these risks.
- Received and reviewed Internal Audit Reports with the internal auditors on findings and recommendation on the followings:-
  - (i) Cash Management
  - (ii) Conversion and Production
  - (iii) Sales & Marketing
  - (iv) Credit Control
- Reviewed the appraisal of the performance of members of internal audit function.

## 4.0 Internal Audit

At present, the Group does not have an in-house internal audit department. Nevertheless, the Board strongly recognizes the importance of a structured risk management and a risk-based internal audit to establish and maintain a sound system of internal control. The Board appointed JWC Consulting Sdn. Bhd. as the internal auditors for the financial year ended 2018.

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

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

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

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

The expenditure incurred for the internal audit function for the financial year 2018 was RM23,000.

The Board of Directors and the Audit Committee relied on discussions with the Management and Executive Directors, review of quarterly financial statements and input from the external and internal auditors to discharge its duties. The state of internal control is detailed in the Statement on Risk Management and Internal Control on pages 32 to 34.

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Malaysian Code on Corporate Governance 2017 ("MCCG 2017") requires public listed companies to maintain a sound system of risk management and internal control to safeguard shareholders' investments and company's assets. Under the provisions of the Bursa Malaysia Securities Berhad Main Market Listing Requirements ("Main Listing Requirements"), paragraph 15.26(b), Directors of public listed companies are required to produce a statement on the state of the company's internal control in their Annual Report.

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

## BOARD RESPONSIBILITY

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

## SENIOR MANAGEMENT AND KEY PERSONNEL OF THE GROUP

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

## CONTROL STRUCTURE AND ENVIRONMENT

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

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

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (Cont'd)



## RISK MANAGEMENT

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

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

### a. Board of Directors

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

### b. Senior Management and key personnel of the Group

- Oversee the effective implementation of risk policies and guidelines, and cultivation of risk management culture within the organization;
- Review and monitor periodically the status of the Group's principal risks and their mitigation actions and update the Board accordingly, where necessary.

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

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

## INTERNAL AUDIT FUNCTION

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

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

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

Based on the internal auditors' reports for the financial year ended 31 December 2018, the Board has reasonable assurance that the Group's systems of internal control are generally adequate and appear to be working satisfactorily. A number of minor internal control weaknesses were identified during the financial year, all of which have been, or are being, addressed. None of the weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report.

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

This statement is issued in accordance with a resolution of the Directors dated 19 April 2019.

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (Cont'd)

## REVIEW OF STATEMENT BY THE EXTERNAL AUDITORS

The external auditors have reviewed this Statement in accordance to Paragraph 15.23 of the MMLR of Bursa Securities. As set out in their terms of engagement, the limited assurance review was performed in accordance with Audit and Assurance Practice Guide ("AAPG") 3 issued by the Malaysian Institute of Accountants.

AAPG 3 does not require the external auditors to consider whether this Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk and control procedures.

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



# SHARE BUY-BACK STATEMENT IN RELATION TO THE PROPOSED RENEWAL OF AUTHORITY

for Share Buy-Back ("Statement")



## 1. INTRODUCTION

At the Annual General Meeting ("AGM") held on 25 May 2018, our Board of Directors ("Board") had obtained the shareholders' approval for the renewal of authority to enable the Company to purchase its own shares up to a maximum of 10% of its total number of issued shares ("Proposed Renewal of Authority for Share Buy-Back" or "Proposed Share Buy-Back"). The approval for the Proposed Renewal of Authority for Share Buy-Back shall lapse at the conclusion of the forthcoming Sixteenth (16<sup>th</sup>) AGM, which has been scheduled to be held on Monday, 27 May 2019 unless the approval is renewed.

On 19 April 2019, our Board had announced to Bursa Malaysia Securities Berhad ("Bursa Securities") that we proposed to seek our shareholders' approval for the Proposed Renewal of Authority for Share Buy-Back in our forthcoming 16<sup>th</sup> AGM.

The Proposed Renewal of Authority for Share Buy-Back will allow Elsoft Research Berhad ("Elssoft" or the "Company") to purchase its own shares up to a maximum of 10% of its total number of issued shares from the open market.

The purpose of this Statement is to provide you with details and information on the Proposed Renewal of Authority for Share Buy-Back as well as to seek your approval for the ordinary resolution in relation to the Proposed Renewal of Authority for Share Buy-Back to be tabled at our 16<sup>th</sup> AGM. The notice of the 16<sup>th</sup> AGM and the form of proxy are set out in page 107 to 110 and 111 to 112 respectively.

**WE ADVISE YOU TO READ AND CAREFULLY CONSIDER THE CONTENTS OF THIS STATEMENT BEFORE VOTING ON THE ORDINARY RESOLUTION IN RELATION TO THE PROPOSED RENEWAL OF AUTHORITY FOR SHARE BUY-BACK TO BE TABLED AT THE 16<sup>TH</sup> AGM.**

**IF YOU ARE IN ANY DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANKER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISORS IMMEDIATELY.**

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

Our Board proposed to seek approval from our shareholders for the Proposed Renewal of Authority for Share Buy-Back so that our Directors can exercise the power to purchase its own Shares in circumstances which the Directors consider would be in the best interest of the Company.

The Proposed Renewal of Authority for Share Buy-Back will be effective upon the passing of the resolution in our 16<sup>th</sup> AGM and will continue to be in force until:-

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

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

### 2.1 Maximum Number or Percentage of Shares to be Acquired

As at 29 March 2019 ("LPD"), the total issued share capital of our Company based on the Record of Depositors is RM41,225,006 comprising 665,936,780 Shares (inclusive of 957,360 treasury shares). As an illustration, the maximum number of Shares which may be purchased by our Company will not be more than 66,593,678 Shares based on the issued share capital of our Company as at the LPD.

As at the LPD, our Company has outstanding options of 10,931,600 granted under the Employees' Share Option Scheme which was established on 1 April 2016 ("Outstanding ESOS Options"). Should the issued share capital of our Company increase due to the exercise of the Outstanding ESOS Options, the maximum number of Shares that can be purchased is up to ten percent (10%) of the enlarged issued share capital of our Company at the time of purchase.

# SHARE BUY-BACK STATEMENT IN RELATION TO THE PROPOSED RENEWAL OF AUTHORITY (Cont'd)

for Share Buy-Back ("Statement")

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

### 2.2 Pricing

Pursuant to Chapter 12 of the Listing Requirements, Elsoft shall purchase its own Shares or resell its treasury shares (if applicable) only on the market of the Bursa Securities at a price not more than fifteen percent (15%) above the weighted average market price of ordinary shares in Elsoft ("Elsoft Share(s)" or "Share(s)") for the five (5) market days immediately preceding the date of purchase.

The price for the resale of treasury shares shall:-

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

### 2.3 Treatment of Shares Purchased pursuant to the Proposed Share Buy-Back ("Purchased Shares")

The Purchased Shares by our Company may be dealt by our Board in accordance with Section 127 of the Companies Act 2016 ("Act") in the following manners:-

- (a) cancel the Shares so purchased; or
- (b) retain the Shares so purchased as treasury shares; or
- (c) retain part of the Shares so purchased as treasury shares and cancel the remainder; or
- (d) distribute the treasury shares as share dividends to shareholders; or
- (e) resell the treasury shares on Bursa Securities; or
- (f) transfer the treasury shares, or any of the shares for the purposes of or under an employees' share scheme; or
- (g) transfer the treasury shares, or any of the shares as purchase consideration; or

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

As at the date of this Statement, our Board has yet to decide on the treatment of the Purchased Shares and will take into consideration the effects of such treatment on our Company in arriving at its decision. An immediate announcement will be made to Bursa Securities upon each purchase, cancellation and/or resale of Shares pursuant to the Proposed Renewal of Authority for Share Buy-Back.

If such Purchased Shares were held as treasury shares, the rights attaching to them in relation to voting, dividends and participation in any other distribution or otherwise will be suspended. The treasury shares would not be taken into account in calculating the number or percentage of Shares or a class of Shares in our Company for any purposes including the determination of substantial shareholdings, take-overs, notices, the requisitioning of meetings, the quorum for meetings and the result of a vote on resolution(s) at meetings.

# SHARE BUY-BACK STATEMENT IN RELATION TO THE PROPOSED RENEWAL OF AUTHORITY (Cont'd)

for Share Buy-Back ("Statement")



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

### 2.4 Share Prices

The monthly highest and lowest closing market prices of the Shares traded on Bursa Securities for the past twelve (12) months up to the LPD are as follows:-

	Low RM	High RM
<b>2018</b>		
April	2.22	2.59
May	2.39	2.65
June	2.45	2.68
July	2.52	2.75
August	2.69	3.44
September	3.25	3.53
October	2.86	3.45
November	1.21	3.35
December	1.00	1.29
<b>2019</b>		
January	1.00	1.17
February	1.02	1.25
March	0.945	1.06

Last transacted market price on 2 April 2019 (being the latest practicable date prior to the printing of this Statement)

0.995

(Source: Bloomberg)

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

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

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

# SHARE BUY-BACK STATEMENT IN RELATION TO THE PROPOSED RENEWAL OF AUTHORITY (Cont'd)

for Share Buy-Back ("Statement")

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

### 4.1 Potential Advantages

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

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

### 4.2 Potential Disadvantages

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

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

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

## 5. FUNDING

The maximum amount of funds to be allocated for the Proposed Renewal of Authority for Share Buy-Back shall not exceed the aggregate of retained earnings of our Company. As at 31 December 2018, being the latest available audited financial statements, the audited accumulated retained earnings of our Company were RM21,727,878.

Notwithstanding the above, our Board will ensure that there are sufficient retained earnings at our Company level at any time for the purchase of its own Shares by our Company under the Proposed Renewal of Authority for Share Buy-Back. In addition, our Board will ensure that the maximum amount of funds to be utilised for the Proposed Renewal of Authority for Share Buy-Back shall not exceed the retained earnings of our Company at the time of purchase and that the Proposed Renewal of Authority for Share Buy-Back will not result our Company being insolvent or its capital being impaired.

The Proposed Renewal of Authority for Share Buy-Back will be funded through internally generated funds and/or bank borrowings or a combination of both. The actual amount of borrowings will depend on the financial resources available at the time of purchase(s). The actual number of Elsoft Shares to be purchased and the timing of such purchases will depend on, amongst others, the market conditions, and sentiments of the stock market as well as the retained earnings and the financial resources available to our Group.

# SHARE BUY-BACK STATEMENT IN RELATION TO THE PROPOSED RENEWAL OF AUTHORITY (Cont'd)

for Share Buy-Back ("Statement")



## 5. FUNDING (Cont'd)

In the event that our Company intends to purchase its own shares using bank borrowings, our Board shall ensure that our Company shall have sufficient funds to repay the bank borrowings and interest expense and that the repayment would have no material effect on the cash flow of our Company.

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

The effects of the Proposed Renewal of Authority for Share Buy-Back on the share capital, earnings, net assets ("NA"), working capital, dividend and gearing of our Company and the Elsoft Group, whichever applicable, are set out below:-

### 6.1 Share Capital

The effects of the Proposed Renewal of Authority for Share Buy-Back on the total number of issued Shares of our Company will depend on whether the Purchased Shares are cancelled or retained as treasury shares.

Based on the total number of issued Shares of our Company as at the LPD and assuming that the maximum number of Elsoft Shares (of up to ten percent (10%) of the total number of issued shares) authorised under the Proposed Renewal of Authority for Share Buy-Back are purchased and cancelled, it will result in the total number of issued Shares of our Company being reduced as follows:-

	(i) Minimum Scenario No. of Shares	(ii) Maximum Scenario No. of Shares
Issued share capital as at the LPD	665,936,780	665,936,780
Shares to be issued upon full exercise of all Outstanding ESOS Options as at the LPD	-	10,931,600
	665,936,780	676,868,380
	-	-
Assuming all the Purchased Shares pursuant to the Proposed Renewal of Authority for Share Buy-Back are cancelled (iii)	(66,593,678)	(67,686,838)
Resultant issued share capital after the Proposed Renewal of Authority for Share Buy-Back	599,343,102	609,181,542

#### Notes:-

- (i) Minimum scenario assumes that there is no exercise of Outstanding ESOS Options outstanding as at the LPD.
- (ii) Maximum scenario assumes that all Outstanding ESOS Options outstanding as at the LPD are exercised.
- (iii) Exclude the 957,360 Shares that have been purchased and held as treasury shares as at the LPD.

However, the Proposed Renewal of Authority for Share Buy-Back will not have any effect on the total number of issued shares of Elsoft if all of the Purchased Shares are to be retained as treasury shares.

The rights attached to them as to voting, dividends and participation in other distribution and otherwise are suspended. While these Elsoft Shares remain as treasury shares, the said treasury shares shall not be taken into account in calculating the number or percentage of Elsoft Shares or of a class of shares in our Company for any purpose including substantial shareholdings, takeovers, notices, the requisitioning of meetings, the quorum for a meeting and the result of a vote on a resolution at a meeting.



# SHARE BUY-BACK STATEMENT IN RELATION TO THE PROPOSED RENEWAL OF AUTHORITY (Cont'd)

for Share Buy-Back ("Statement")

## 6. EFFECTS OF THE PROPOSED RENEWAL OF AUTHORITY FOR SHARE BUY-BACK (Cont'd)

### 6.2 Earnings

The effects of the Proposed Renewal of Authority for Share Buy-Back on the earnings of our Group would depend on the purchase price, the number of Shares purchased and the effective funding cost or loss in the interest income to our Company or opportunity cost in relation to other investment opportunities. The effective reduction in the issued share capital of our Company pursuant to the Proposed Renewal of Authority for Share Buy-Back will, generally, all else being equal, have a positive impact on our Group's EPS.

### 6.3 NA

The consolidated NA of our Company may increase or decrease depending on the number of Purchased Shares, the purchase prices of the Shares, the effective cost of funding and the treatment of the Purchased Shares pursuant to the Proposed Renewal of Authority for Share Buy-Back.

The Proposed Renewal of Authority for Share Buy-Back will reduce the NA per Share if the purchase price exceeds the NA per Share at the time of purchase. However, the NA per Share will increase if the purchase price is less than the NA per Share at the time of purchase.

### 6.4 Working Capital

The Proposed Renewal of Authority for Share Buy-Back would reduce the funds available for working capital purposes of our Group, the quantum of which would depend on the purchase price, the actual number of Purchased Shares and any associated costs incurred in making the purchase. However, if the Purchased Shares held as treasury shares are subsequently resold on Bursa Securities, the working capital of our Group will increase if our Company realises gain from the resale.

### 6.5 Dividends

The Proposed Renewal of Authority for Share Buy-Back is not expected to have any impact on the dividend payment as our Board will take into consideration of our Group's profit, cash flow and the capital commitments before proposing any dividend payment. However, our Board will have the option of distributing the treasury shares as share dividends to the shareholders of our Company.

### 6.6 Gearing

The Proposed Renewal of Authority for Share Buy-Back is not expected to have any effect on the gearing of our Group.

# SHARE BUY-BACK STATEMENT IN RELATION TO THE PROPOSED RENEWAL OF AUTHORITY (Cont'd)

for Share Buy-Back ("Statement")

## 7. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' SHAREHOLDINGS

Based on the Registers of Directors' Shareholdings and Substantial Shareholders as at the LPD and assuming that the Proposed Renewal of Authority for Share Buy-Back is implemented up to the maximum of 10% of the total number of issued shares and that the Purchased Shares are from the shareholders other than the Directors and Substantial Shareholders of Elsoft, its effects on the shareholdings of the Directors and Substantial Shareholders of Elsoft are illustrated as follows:-

	<sup>(i)</sup> Before the Proposed Renewal of Authority for Share Buy-Back			After the Proposed Renewal of Authority for Share Buy-Back					
	As at the LPD			<sup>(ii)</sup> Minimum Scenario			<sup>(iii)</sup> Maximum Scenario		
	Direct	Indirect		Direct	Indirect		Direct	Indirect	
	No. of Shares	No. of Shares	%	No. of Shares	No. of Shares	%	No. of Shares	No. of Shares	%
<b>Directors and Substantial Shareholders</b>									
Tan Cheik Eaik	161,101,440	-	24.23	161,101,440	-	26.88	161,389,440	-	-
Koay Kim Chiew	76,020,060	-	11.43	76,020,060	-	12.68	76,308,060	-	-
Tan Ah Lek	62,796,498	<sup>(iv)</sup> 162,000	9.44	62,796,498	<sup>(iv)</sup> 162,000	10.48	63,084,498	<sup>(iv)</sup> 270,000	0.04
Tan Ai Jiew	85,178,600	<sup>(iv)</sup> 6,012,000	12.81	85,178,600	<sup>(iv)</sup> 6,012,000	14.21	85,466,600	<sup>(iv)</sup> 6,264,000	1.03
<b>Directors</b>									
Dato' Dr Chong Eng Keat @ Teoh Eng Keat	2,964,500	-	0.45	2,964,500	-	0.49	3,324,500	-	-
Ooi Toon Kit	2,016,000	-	0.30	2,016,000	-	0.34	2,304,000	-	-
Dato' Agatha Foo Tet Sin	-	-	-	-	-	-	-	-	-
<b>Substantial Shareholder</b>									
Tan Cheik Kooi	48,282,360	-	7.26	48,282,360	-	8.06	48,534,360	-	-

### Notes:-

- Exclude the 957,360 Shares that have been purchased and held as treasury shares as at the LPD.
- Minimum scenario assumes that there is no exercise of Outstanding ESOS Options outstanding as at the LPD.
- Maximum scenario assumes that all Outstanding ESOS Options outstanding as at the LPD are exercised.
- Deemed interested through the shareholdings of his/her children pursuant to Section 59 (1)(c) of the Act.



# SHARE BUY-BACK STATEMENT IN RELATION TO THE PROPOSED RENEWAL OF AUTHORITY (Cont'd)

for Share Buy-Back ("Statement")

## 8. PUBLIC SHAREHOLDING SPREAD

Our Board is mindful of the requirement that the Proposed Renewal of Authority for Share Buy-Back must not result in the number of Elsoft Shares, which are in the hands of the public falling below 25% of the issued share capital of our Company.

The effects of the Proposed Renewal of Authority for Share Buy-Back on the public shareholding spread of Elsoft as at the LPD assuming that the Proposed Renewal of Authority for Share Buy-Back is implemented in full and all the Purchased Shares were cancelled (assuming all the Outstanding ESOS Options have yet to be exercised) are illustrated as below:-

	No. of Shares	Shareholding Spread
Total number of issued shares as at the LPD	665,936,780	33.08%
Assuming full implementation of the Proposed Renewal of Authority for Share Buy-Back at 10% of the issued Shares of Elsoft and the said Purchased Shares are cancelled	(66,593,678)	
Total number of issued Shares after the Proposed Renewal of Authority for Share Buy-Back	<u>599,343,102</u>	25.75%

The Proposed Renewal of Authority for Share Buy-Back will be carried out in accordance with the prevailing laws at the time of the purchase including compliance with 25% public shareholding spread as required under Paragraph 8.02(1) of the Listing Requirements.

Our Board will endeavour to ensure that our Company complies with the public shareholding spread requirements and shall not buy back our own shares if the purchase would result in the public shareholding spread requirements not being met.

## 9. APPROVAL REQUIRED FOR THE PROPOSED SHARE BUY-BACK

The Proposed Renewal of Authority for Share Buy-Back is conditional upon the approval of the shareholders of our Company being obtained at the AGM to be convened.

Save for the approval of the shareholders of Elsoft, there are no other approvals required for the Proposed Renewal of Authority for Share Buy-Back.

# SHARE BUY-BACK STATEMENT IN RELATION TO THE PROPOSED RENEWAL OF AUTHORITY (Cont'd)

for Share Buy-Back ("Statement")



## 10. SHARES PURCHASED IN THE PAST TWELVE (12) MONTHS

During the past twelve (12) months and up to the LPD, details of the purchase of the treasury shares were as follows:-

Month	No. of Shares Purchased	Lowest Price (RM/Share)	Highest Price (RM/Share)	Average Price (RM/Share)	Total Consideration Paid (RM)
<b>2018</b>					
April	-	-	-	-	-
May	88,900	2.50	2.50	2.50	222,792
June	-	-	-	-	-
July	-	-	-	-	-
August	-	-	-	-	-
September	-	-	-	-	-
October	-	-	-	-	-
November	-	-	-	-	-
December	-	-	-	-	-
<b>2019</b>					
January	-	-	-	-	-
February	-	-	-	-	-
March	-	-	-	-	-

As at the LPD, a total of 957,360 Shares were purchased and held as treasury shares. Our Company has not resold or cancelled any treasury shares on Bursa Securities during the financial year ended 31 December 2018.

## 11. IMPLICATIONS OF THE MALAYSIAN CODE ON TAKE-OVERS AND MERGERS, 2016 ("CODE")

Pursuant to the Code, a person, and any person acting in concert with him, will be required to make a mandatory offer for the remaining Shares not already owned by him/them if his/their stake in our Company is/are increased to beyond 33% or if his/their shareholding is/are between 33% and 50% and increases by another 2% in any 6-month period. However, an exemption may be granted by the Securities Commission.

Our Company does not intend to undertake the Proposed Renewal of Authority for Share Buy-Back such that it will trigger any obligation to undertake a mandatory offer pursuant to the Code. However, in the event an obligation to undertake a mandatory offer is to arise with respect to any party resulting from the Proposed Renewal of Authority for Share Buy-Back, the relevant parties shall make the necessary application to the Securities Commission for a waiver to undertake a mandatory offer pursuant to the Code.

## 12. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

Save for the inadvertent increase in the percentage of the shareholding and/or voting rights of our shareholders as a consequence of the Proposed Renewal of Authority for Share Buy-Back, none of our Directors and Substantial Shareholders or persons connected to them has any interest, direct or indirect, in the Proposed Renewal of Authority for Share Buy-Back.

## 13. DIRECTORS' STATEMENT AND RECOMMENDATION

Our Board, after having considered all aspects of the Proposed Renewal of Authority for Share Buy-Back, is of the opinion that the Proposed Renewal of Authority for Share Buy-Back is in the best interest of our Company.

Accordingly, our Board recommends that you vote in favour of the ordinary resolution pertaining to the Proposed Renewal of Authority for Share Buy-Back to be tabled at our 16<sup>th</sup> AGM.

# SHARE BUY-BACK STATEMENT IN RELATION TO THE PROPOSED RENEWAL OF AUTHORITY (Cont'd)

for Share Buy-Back ("Statement")

## 14. RESPONSIBILITY STATEMENT

The Board has seen and approved the contents of this Statement, and they collectively and individually, accept full responsibility for the accuracy of the information given in this Statement. They confirm that after making all reasonable enquires and to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement in this Statement false or misleading.

## 15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal office hours (except for Saturday, Sunday and public holidays) from the date of this Statement up to and including the date of the 16<sup>th</sup> AGM, at the registered office of our Company at 39, Salween Road, 10050 Penang:-

- (a) Memorandum and Articles of Association of our Company
- (b) the audited consolidated financial statements of Elsoft for the past two (2) financial years ended ("FYE") 31 December 2016 and 2017, and the unaudited consolidated financial statements of Elsoft for the FYE 31 December 2018;

## 16. BURSA SECURITIES

Bursa Securities has not perused the contents of this Statement in relation to the Proposed Renewal of Authority for Share Buy-Back prior to the issuance of this Statement as the said contents fall under the category of Exempt Circulars pursuant to Practice Note 18 of the Main Market Listing Requirements of Bursa Securities.

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

This Statement is issued in accordance with a Board of Directors' Resolution dated 19 April 2019.

## ADDITIONAL COMPLIANCE INFORMATION



### 1 Audit Fees

The audit fees charged by the external auditors for the financial year ended 31 December 2018 amounted to RM16,000 for the Company and RM59,000 for the Group respectively.

### 2 Non-Audit Fees

The amount of non-audit fees paid or payable to the external auditors or a firm or corporation affiliated to the auditors' firm by the Company and the Group for the financial year ended 31 December 2018 are as follows:

	Group (RM)	Company (RM)
Non-audit fees payable to the external auditors	3,000	3,000
Non-audit fees paid or payable to an affiliated firm of the external auditors for tax advisory services	11,200	2,300
<b>Total</b>	<b>14,200</b>	<b>5,300</b>

### 3 Material Contracts Involving Directors and Major Shareholders

There were no material contracts entered into by the Company and its subsidiaries involving Directors' and major shareholders' interests either still subsisting as at 31 December 2018 or entered into since the end of the previous financial year.

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

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

### 5 Employees' Share Option Scheme

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

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

	Number of ESOS as at 31 December 2018				Balance as at 31 December 2018
	Balance as at 1 January 2018	Granted	Bonus issued and share split	Exercised	
Directors	1,245,000	-	1,050,000	(495,000)	1,800,000
Employees	4,783,500	600,000	5,392,100	(1,532,000)	9,243,600
<b>Total</b>	<b>6,028,500</b>	<b>600,000</b>	<b>6,442,100</b>	<b>(2,027,000)</b>	<b>11,043,600</b>

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

Since the commencement of the scheme, 11% of the options available under the scheme have been granted to Directors and senior management.

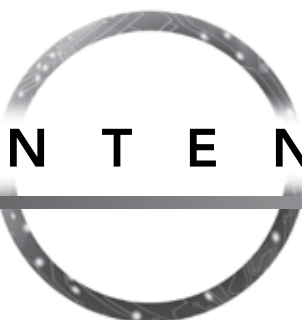


## ADDITIONAL COMPLIANCE INFORMATION (Cont'd)

### 5 Employees' Share Option Scheme (Cont'd)

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

	Number of ESOS as at 31 December 2018				Balance as at 31 December 2018
	Balance as at 1 January 2018	Granted	Bonus issued and share split	Exercised	
Dato' Dr Chong Eng Keat @ Teoh Eng Keat	225,000	-	210,000	(75,000)	360,000
Ooi Toon Kit	180,000	-	168,000	(60,000)	288,000
Tan Ai Jiew	180,000	-	168,000	(60,000)	288,000
Tan Ah Lek	180,000	-	168,000	(60,000)	288,000
Total	<b>765,000</b>	-	<b>714,000</b>	<b>(255,000)</b>	<b>1,224,000</b>



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# DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2018.

## PRINCIPAL ACTIVITIES

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

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

## RESULTS

	Group RM	Company RM
Profit for the financial year	<u>39,766,266</u>	<u>42,235,274</u>
Attributable to:		
Owners of the parent	<u>39,766,266</u>	<u>42,235,274</u>

## DIVIDENDS

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

	RM
In respect of the financial year ended 31 December 2017:	
Third interim dividend of RM0.03 per ordinary share, paid on 20 April 2018	8,256,090
In respect of the financial year ended 31 December 2018:	
First interim dividend of RM0.02 per ordinary share, paid on 29 June 2018	5,524,902
Second interim dividend of RM0.03 per ordinary share, paid on 28 September 2018	8,306,913
Third interim dividend of RM0.0125 per ordinary share, paid on 21 December 2018	8,310,843
	<u>30,398,748</u>

On 22 February 2019, the Directors declared a fourth single tier interim dividend of RM0.0125 per ordinary share in respect of the financial year ended 31 December 2018, amounting to RM8,312,243, which is payable on 19 April 2019. The financial statements for the current financial year do not reflect this dividend. This dividend, will be accounted for as an appropriation of retained earnings during the financial year ending 31 December 2019.

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

## RESERVES AND PROVISIONS

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



## ISSUE OF SHARES AND DEBENTURES

On 14 November 2018, the Company has subdivided its 332,912,390 ordinary shares into 665,824,780 ordinary shares on the basis of every one (1) share held into two (2) shares ("share split"). The share split was completed with the listing and quotation of the new shares on the Main Board of Bursa Malaysia Securities Berhad on 15 November 2018.

Before the share split, the Company issued:

- (a) 2,027,000 new ordinary shares pursuant to options exercised under the Employees' Share Option Scheme ("ESOS") at an exercise price of RM1 per ordinary share for cash; and
- (b) 55,485,392 bonus shares entirely capitalised from the Company's share premium account, on the basis of one (1) bonus share for every five (5) existing shares held.

The newly issued ordinary shares rank pari passu in all respects with the existing ordinary shares of the Company. There were no other issues of shares during the financial year.

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

## OPTIONS GRANTED OVER UNISSUED SHARES

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

The ESOS of the Company came into effect on 1 April 2016. The ESOS shall be in force for a period of five (5) years until 31 March 2021. The salient features and other terms of the ESOS are disclosed in Note 24 to the financial statements.

The movements of options offered to take up unissued ordinary shares during the financial year are as follows:

	Number of options over ordinary shares					
	Outstanding as at 1-1-2018	Granted	Bonus issue and share split	Exercised	Outstanding as at 31-12-2018	Exercisable as at 31-12-2018
<b>Grant date</b>						
2 June 2016	6,028,500	0	5,602,100	(2,027,000)	9,603,600	322,800
10 April 2018	0	600,000	840,000	0	1,440,000	480,000
	<b>6,028,500</b>	<b>600,000</b>	<b>6,442,100</b>	<b>(2,027,000)</b>	<b>11,043,600</b>	<b>802,800</b>

## DIRECTORS

The Directors who have held office during the financial year and up to the date of this report are as follows:

Dato' Dr Chong Eng Keat @ Teoh Eng Keat  
 Tan Cheik Eaik \*  
 Koay Kim Chiew \*  
 Tan Ai Jiew \*  
 Tan Ah Lek \*  
 Ooi Toon Kit  
 Dato' Agatha Foo Tet Sin

\* These Directors of the Company are also the Directors of certain subsidiaries of the Company.

# DIRECTORS' REPORT (Cont'd)

## DIRECTORS' INTERESTS

The Directors holding office at the end of the financial year and their beneficial interests in ordinary shares and options over ordinary shares of the Company during the financial year ended 31 December 2018 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016 in Malaysia were as follows:

	Number of ordinary shares				
	Balance as at 1-1-2018	Bought	Bonus issue and share split	Sold	Balance as at 31-12-2018
Shares in the Company					
Direct interests					
Dato' Dr Chong Eng Keat @ Teoh Eng Keat	1,200,000	75,000	1,645,000	(100,000)	2,820,000
Tan Cheik Eaik	67,665,600	120,000	93,975,840	(660,000)	161,101,440
Koay Kim Chiew	31,865,025	120,000	44,345,035	(310,000)	76,020,060
Tan Ai Jiew	35,536,500	167,000	49,625,100	(150,000)	85,178,600
Tan Ah Lek	26,409,375	270,000	36,427,123	(460,000)	62,646,498
Ooi Toon Kit	780,000	60,000	1,176,000	0	2,016,000
Deemed interests					
Tan Ai Jiew #	2,452,500	52,500	3,507,000	0	6,012,000
Tan Ah Lek #	45,000	22,500	94,500	0	162,000

# Deemed interest by virtue of Section 59(11)(c) of the Companies Act 2016 held through children.

	Number of options over ordinary shares				
	Balance as at 1-1-2018	Granted	Bonus issue and share split	Exercised	Balance as at 31-12-2018
Share options in the Company					
Dato’ Dr Chong Eng Keat @ Teoh Eng Keat	225,000	0	210,000	(75,000)	360,000
Tan Cheik Eaik	240,000	0	168,000	(120,000)	288,000
Koay Kim Chiew	240,000	0	168,000	(120,000)	288,000
Tan Ai Jiew	180,000	0	168,000	(60,000)	288,000
Tan Ah Lek	180,000	0	168,000	(60,000)	288,000
Ooi Toon Kit	180,000	0	168,000	(60,000)	288,000

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

None of the other Director holding office at the end of the financial year held any interest in the ordinary shares and options over ordinary shares of the Company and of its related corporations during the financial year.

## DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except for any benefits which may be deemed to have arisen by virtue of the transactions mentioned in Note 28 to the financial statements.

## DIRECTORS' REPORT (Cont'd)



### DIRECTORS' BENEFITS (Cont'd)

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

### TREASURY SHARES

The shareholders of the Company, by an ordinary resolution passed at the Annual General Meeting ("AGM") held on 25 May 2018, renewed the approval for the Company to repurchase its own shares.

During the financial year, the Company repurchased 118,900 of its issued ordinary shares from the open market at an average price of RM2.50 per share prior to enlargement of share capital. The total consideration paid for the repurchased shares was RM297,828. The shares repurchased are being held as treasury shares in accordance with Section 127 of the Companies Act 2016 in Malaysia.

As at 31 December 2018, the Company held a total of 957,360 ordinary shares as treasury shares out of its 665,824,780 issued and fully paid ordinary shares. Such shares are held at a carrying amount of RM915,678 and further relevant details are disclosed in Note 14 to the financial statements.

### DIRECTORS' REMUNERATION

The details of Directors' remuneration are disclosed in Note 23 to the financial statements.

### INDEMNITY AND INSURANCE FOR OFFICERS AND AUDITORS

There were no indemnity given to or insurance effected for the officers and auditors of the Group and of the Company during the financial year.

### OTHER STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY

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

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

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

- (c) The Directors are not aware of any circumstances:
  - (i) which would necessitate the writing off of bad debts or render the amounts of provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any material extent;
  - (ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; and
  - (iii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.



# DIRECTORS' REPORT (Cont'd)

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

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

(d) In the opinion of the Directors:

- (i) there has not arisen any item, transaction or event of a material and unusual nature which is likely to affect substantially the results of operations of the Group and of the Company for the financial year in which this report is made; and
- (ii) no contingent or other liability has become enforceable or is likely to become enforceable, within the period of twelve (12) months after the end of the financial year which would or may affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

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

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

## AUDITORS

The auditors, BDO PLT (LLP0018825-LCA & AF 0206), have expressed their willingness to continue in office.

Auditors' remuneration of the Company and its subsidiaries for the financial year ended 31 December 2018 amounted to RM16,000 and RM43,000 respectively.

BDO PLT (LLP0018825-LCA & AF 0206) was registered on 2 January 2019 and with effect from that date, BDO (AF 0206), a conventional partnership was converted to a limited liability partnership.

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

**Tan Cheik Eaik**  
Director

**Koay Kim Chiew**  
Director

Penang  
19 April 2019

## STATEMENT BY DIRECTORS



In the opinion of the Directors, the financial statements set out on pages 57 to 103 have been drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions 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 2018 and of the financial performance and cash flows of the Group and of the Company for the financial year then ended.

On behalf of the Board,

**Tan Cheik Eaik**  
Director

**Koay Kim Chiew**  
Director

Penang  
19 April 2019

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## STATUTORY DECLARATION

I, Tan Cheik Eaik, being the Director primarily responsible for the financial management of Elsoft Research Berhad, do solemnly and sincerely declare that the financial statements set out on pages 57 to 103 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the  
abovenamed at Georgetown in the State  
of Penang this 19 April 2019

**Tan Cheik Eaik**

Before me,

Commissioner for Oaths

# INDEPENDENT AUDITORS' REPORT

to the members of Elsoft Research Berhad

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Elsoft Research Berhad, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 57 to 103.

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 2018, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") 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 ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence and Other Ethical Responsibilities

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current 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.

### Impairment of trade receivables

Gross trade receivables of the Group as at 31 December 2018 were RM13,735,050 as disclosed in Note 11 to the financial statements.

We determined this to be key audit matter because it requires management to exercise significant judgement in determining the probability of default by trade receivables and appropriate forward-looking information.

### Audit response

Our audit procedures included the following:

- (i) Recomputed the probability of default using historical data and forward-looking information adjustment applied by the Group;
- (ii) Recomputed the correlation coefficient between the macroeconomic indicators used by the Group and historical losses to determine the appropriateness of the forward-looking information used by the Group; and
- (iii) Inquiries of management to assess the rationale underling the relationship between the forward-looking information and expected credit losses.

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

# INDEPENDENT AUDITORS' REPORT (Cont'd)

to the members of Elsoft Research Berhad



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

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

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

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

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

## Responsibilities of Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with MFRSs, IFRSs, and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

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

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

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

As part of an audit in accordance with approved standards on auditing in Malaysia and ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

# INDEPENDENT AUDITORS' REPORT (Cont'd)

to the members of Elsoft Research Berhad

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

As part of an audit in accordance with approved standards on auditing in Malaysia and ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also: (Cont'd)

- 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 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.

## Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**BDO PLT**  
LLP0018825-LCA & AF 0206  
Chartered Accountants

**Lee Beng Tuan**  
03271/07/2020 J  
Chartered Accountant

19 April 2019  
Penang

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018



	Note	31.12.2018 RM	31.12.2017 RM	01.01.2017 RM
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	5	16,124,096	15,934,426	16,315,004
Prepaid lease payment	6	2,889,061	2,952,903	3,016,745
Investment properties	7	2,845,276	2,928,599	3,011,922
Investment in associates	9	15,221,206	16,201,614	16,232,786
		<u>37,079,639</u>	<u>38,017,542</u>	<u>38,576,457</u>
<b>Current assets</b>				
Inventories	10	5,757,537	3,365,220	5,115,624
Trade and other receivables	11	14,190,995	23,733,812	22,805,118
Current tax assets		39,631	124,741	0
Other investments	12	62,291,590	41,552,855	33,435,463
Cash and bank balances	13	10,187,456	12,500,826	11,642,228
		<u>92,467,209</u>	<u>81,277,454</u>	<u>72,998,433</u>
<b>TOTAL ASSETS</b>		<u>129,546,848</u>	<u>119,294,996</u>	<u>111,574,890</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to owners of the parent</b>				
Share capital	14(a)	41,167,526	38,451,345	27,169,800
Treasury shares	14(b)	(915,678)	(617,850)	0
Reserves	15	72,678,593	63,192,599	67,241,855
<b>TOTAL EQUITY</b>		<u>112,930,441</u>	<u>101,026,094</u>	<u>94,411,655</u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Deferred tax liabilities	16	638,800	600,123	587,979
<b>Current liabilities</b>				
Trade and other payables	17	8,451,916	9,437,758	9,786,127
Provisions	18	2,153,232	1,855,260	2,983,279
Current tax liabilities		150,900	0	12,280
Contract liability	19	5,221,559	6,375,761	3,793,570
		<u>15,977,607</u>	<u>17,668,779</u>	<u>16,575,256</u>
<b>TOTAL LIABILITIES</b>		<u>16,616,407</u>	<u>18,268,902</u>	<u>17,163,235</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>129,546,848</u>	<u>119,294,996</u>	<u>111,574,890</u>

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



# STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Note	31.12.2018 RM	31.12.2017 RM	01.01.2017 RM
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	5	75,883	97,557	129,321
Investment in subsidiaries	8	29,689,961	28,977,951	28,208,731
Investment in associates	9	16,470,000	16,470,000	14,970,000
		<u>46,235,844</u>	<u>45,545,508</u>	<u>43,308,052</u>
<b>Current assets</b>				
Trade and other receivables	11	2,705	3,522	731,522
Current tax assets		1,874	82,669	63,116
Other investments	12	16,956,038	3,085,405	12,574,565
Cash and bank balances	13	454,856	496,175	435,420
		<u>17,415,473</u>	<u>3,667,771</u>	<u>13,804,623</u>
<b>TOTAL ASSETS</b>		<u>63,651,317</u>	<u>49,213,279</u>	<u>57,112,675</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to owners of the parent</b>				
Share capital	14(a)	41,167,526	38,451,345	27,169,800
Treasury shares	14(b)	(915,678)	(617,850)	0
Reserves	15	23,130,515	11,175,513	29,725,993
<b>TOTAL EQUITY</b>		<u>63,382,363</u>	<u>49,009,008</u>	<u>56,895,793</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	17	268,954	204,271	216,882
<b>TOTAL LIABILITIES</b>		<u>268,954</u>	<u>204,271</u>	<u>216,882</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>63,651,317</u>	<u>49,213,279</u>	<u>57,112,675</u>

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

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the financial year ended 31 December 2018



	Note	Group		Company	
		2018 RM	2017 RM	2018 RM	2017 RM
Revenue	21	<b>78,150,161</b>	61,766,299	<b>0</b>	0
Cost of sales		<b>(32,177,260)</b>	(29,106,504)	<b>0</b>	0
Gross profit		<b>45,972,901</b>	32,659,795	<b>0</b>	0
Other income		<b>4,919,073</b>	4,737,955	<b>43,331,585</b>	14,163,665
Other expenses		<b>(3,160,015)</b>	(2,203,547)	<b>(524,446)</b>	(6,604)
Administrative expenses		<b>(6,456,794)</b>	(6,549,913)	<b>(571,765)</b>	(1,232,874)
Share of loss of associates, net of tax	9(g)	<b>(980,408)</b>	(937,172)	<b>0</b>	0
Profit before tax	22	<b>40,294,757</b>	27,707,118	<b>42,235,374</b>	12,924,187
Tax expense	25	<b>(528,491)</b>	(454,276)	<b>(100)</b>	(172,569)
Profit for the financial year		<b>39,766,266</b>	27,252,842	<b>42,235,274</b>	12,751,618
Other comprehensive income, net of tax		<b>0</b>	0	<b>0</b>	0
Total comprehensive income		<b>39,766,266</b>	27,252,842	<b>42,235,274</b>	12,751,618
Profit for the financial year attributable to:					
Owners of the parent		<b>39,766,266</b>	27,252,842	<b>42,235,274</b>	12,751,618
Total comprehensive income attributable to:					
Owners of the parent		<b>39,766,266</b>	27,252,842	<b>42,235,274</b>	12,751,618
Earnings per ordinary share attributable to equity holders of the Company (sen):					
Basic	26(a)	<b>6.00</b>	4.15		
Diluted	26(b)	<b>5.94</b>	4.09		

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

# STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 31 December 2018

Group	Note	Non-distributable			Distributable		Total RM
		Share capital RM	Share premium RM	Treasury shares RM	Share options reserve RM	Retained earnings RM	
Balance as at 1 January 2017, as previously reported		27,169,800	6,320,865	0	1,587,564	63,141,265	98,219,494
Adjustments on initial application of:							
- MFRS 9	4.1(a)	0	0	0	0	(14,269)	(14,269)
- MFRS 15	4.1(a)	0	0	0	0	(3,793,570)	(3,793,570)
Balance as at 1 January 2017, as restated		27,169,800	6,320,865	0	1,587,564	59,333,426	94,411,655
Profit for the financial year		0	0	0	0	27,252,842	27,252,842
Other comprehensive income, net of tax		0	0	0	0	0	0
Total comprehensive income		0	0	0	0	27,252,842	27,252,842
<b>Transactions with owners</b>							
Purchase of treasury shares	14(b)	0	0	(617,850)	0	0	(617,850)
Share options vested under ESOS	23	0	0	0	955,277	0	955,277
Ordinary shares issued pursuant to ESOS	14(a)	4,960,680	0	0	(1,258,680)	0	3,702,000
Dividends paid	27	0	0	0	0	(24,677,830)	(24,677,830)
Total transactions with owners		4,960,680	0	(617,850)	(303,403)	(24,677,830)	(20,638,403)
Transfer pursuant to Companies Act 2016*	14(a)	6,320,865	(6,320,865)	0	0	0	0
Balance as at 31 December 2017		38,451,345	0	(617,850)	1,284,161	61,908,438	101,026,094

\* Pursuant to the Companies Act 2016, the credit balance in the share premium account was transferred to the share capital account. Details of share premium are disclosed in Note 14(a)(iv) to the financial statements.

# STATEMENTS OF CHANGES IN EQUITY (Cont'd)

for the financial year ended 31 December 2018



Group	Note	Non-distributable				Distributable		Total RM
		Share capital RM	Share premium RM	Treasury shares RM	Share options reserve RM	Retained earnings RM		
Balance as at 1 January 2018		38,451,345	0	(617,850)	1,284,161	61,908,438		101,026,094
Profit for the financial year		0	0	0	0	39,766,266		39,766,266
Other comprehensive income, net of tax		0	0	0	0	0		0
Total comprehensive income		0	0	0	0	39,766,266		39,766,266
<b>Transactions with owners</b>								
Purchase of treasury shares	14(b)	0	0	(297,828)	0	0		(297,828)
Share options vested under ESOS	23	0	0	0	807,657	0		807,657
Ordinary shares issued pursuant to ESOS	14(a)	2,716,181	0	0	(689,181)	0		2,027,000
Dividends paid	27	0	0	0	0	(30,398,748)		(30,398,748)
Total transactions with owners		2,716,181	0	(297,828)	118,476	(30,398,748)		(27,861,919)
Balance as at 31 December 2018		41,167,526	0	(915,678)	1,402,637	71,275,956		112,930,441
<b>Company</b>								
Balance as at 1 January 2017		27,169,800	6,320,865	0	1,587,564	21,817,564		56,895,793
Profit for the financial year		0	0	0	0	12,751,618		12,751,618
Other comprehensive income, net of tax		0	0	0	0	0		0
Total comprehensive income		0	0	0	0	12,751,618		12,751,618
<b>Transactions with owners</b>								
Purchase of treasury shares	14(b)	0	0	(617,850)	0	0		(617,850)
Share options vested under ESOS	23	0	0	0	955,277	0		955,277
Ordinary shares issued pursuant to ESOS	14(a)	4,960,680	0	0	(1,258,680)	0		3,702,000
Dividends paid	27	0	0	0	0	(24,677,830)		(24,677,830)
Total transactions with owners		4,960,680	0	(617,850)	(303,403)	(24,677,830)		(20,638,403)
Transfer pursuant to Companies Act 2016*	14(a)	6,320,865	(6,320,865)	0	0	0		0
Balance as at 31 December 2017		38,451,345	0	(617,850)	1,284,161	9,891,352		49,009,008

\* Pursuant to the Companies Act 2016, the credit balance in the share premium account was transferred to the share capital account. Details of share premium are disclosed in Note 14(a)(iv) to the financial statements.

# STATEMENTS OF CHANGES IN EQUITY (Cont'd)

for the financial year ended 31 December 2018

Company	Note	Non-distributable			Distributable		Total RM
		Share capital RM	Share premium RM	Treasury shares RM	Share options reserve RM	Retained earnings RM	
Balance as at 1 January 2018		38,451,345	0	(617,850)	1,284,161	9,891,352	49,009,008
Profit for the financial year		0	0	0	0	42,235,274	42,235,274
Other comprehensive income, net of tax		0	0	0	0	0	0
Total comprehensive income		0	0	0	0	42,235,274	42,235,274
<b>Transactions with owners</b>							
Purchase of treasury shares	14(b)	0	0	(297,828)	0	0	(297,828)
Share options vested under ESOS	23	0	0	0	807,657	0	807,657
Ordinary shares issued pursuant to ESOS	14(a)	2,716,181	0	0	(689,181)	0	2,027,000
Dividends paid	27	0	0	0	0	(30,398,748)	(30,398,748)
Total transactions with owners		2,716,181	0	(297,828)	118,476	(30,398,748)	(27,861,919)
Balance as at 31 December 2018		41,167,526	0	(915,678)	1,402,637	21,727,878	63,382,363

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

# STATEMENTS OF CASH FLOWS

for the financial year ended 31 December 2018



		Group		Company	
	Note	2018 RM	2017 RM	2018 RM	2017 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before tax		<b>40,294,757</b>	27,707,118	<b>42,235,374</b>	12,924,187
Adjustments for:					
Property, plant and equipment written off		<b>15</b>	2	<b>15</b>	2
Dividend income from:					
- subsidiaries	28(b)	<b>0</b>	0	<b>(43,080,000)</b>	(12,240,000)
- associate	9(g)	<b>0</b>	0	<b>0</b>	(594,000)
- other investments		<b>(1,683,903)</b>	(1,454,093)	<b>(229,140)</b>	(254,150)
Interest income		<b>(558,027)</b>	(88,937)	<b>(11,945)</b>	(485)
Inventories written off	10(d)	<b>23,445</b>	1,788	<b>0</b>	0
Unrealised gain on foreign exchange		<b>(667,046)</b>	(50,964)	<b>0</b>	0
Share of loss of associates	9(g)	<b>980,408</b>	937,172	<b>0</b>	0
Share options vested under ESOS	23	<b>807,657</b>	955,277	<b>95,647</b>	186,057
Amortisation of prepaid lease payment	6	<b>63,842</b>	63,842	<b>0</b>	0
Depreciation of investment properties	7	<b>83,323</b>	83,323	<b>0</b>	0
Provision for repair and other services	18	<b>2,153,232</b>	1,855,260	<b>0</b>	0
Reversal of provision for repair and other services	18	<b>(1,557,044)</b>	(2,617,161)	<b>0</b>	0
Loss/(Gain) on fair value adjustment on other investments		<b>2,608,688</b>	(298,660)	<b>524,446</b>	(689,500)
Gain on disposal of other investments		<b>(10,644)</b>	(463,856)	<b>(10,500)</b>	(385,532)
Gain on disposal of property, plant and equipment		<b>(9,000)</b>	0	<b>0</b>	0
Reversal of impairment losses on:					
- trade receivables	11(e)	<b>(8,004)</b>	(30)	<b>0</b>	0
- other receivables	11(f)	<b>(30,898)</b>	(12,800)	<b>0</b>	0
Impairment losses on:					
- trade receivables	11(e)	<b>118,950</b>	0	<b>0</b>	0
- other receivables	11(f)	<b>0</b>	728,000	<b>0</b>	728,000
Depreciation of property, plant and equipment	5	<b>480,698</b>	437,257	<b>21,659</b>	31,762
Operating profit/(loss) before working capital changes		<b>43,090,449</b>	27,782,538	<b>(454,444)</b>	(293,659)
(Increase)/Decrease in inventories		<b>(2,415,762)</b>	1,748,616	<b>0</b>	0
Decrease/(Increase) in trade and other receivables		<b>10,018,118</b>	(2,053,937)	<b>817</b>	0
(Decrease)/Increase in trade and other payables		<b>(994,271)</b>	(330,672)	<b>64,683</b>	(12,611)
Decrease in provisions	18	<b>(298,216)</b>	(366,118)	<b>0</b>	0
(Decrease)/Increase in contract liability		<b>(1,154,202)</b>	2,582,191	<b>0</b>	0
Cash generated from/(used in) operations		<b>48,246,116</b>	29,362,618	<b>(388,944)</b>	(306,270)



# STATEMENTS OF CASH FLOWS (Cont'd)

for the financial year ended 31 December 2018

		Group		Company	
	Note	2018 RM	2017 RM	2018 RM	2017 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES (Cont'd)</b>					
Tax paid		(340,454)	(579,153)	(1,875)	(192,122)
Tax refunded		86,650	0	82,570	0
Net cash from/(used in) operating activities		47,992,312	28,783,465	(308,249)	(498,392)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Dividends received from:					
- subsidiaries	28(b)	0	0	43,080,000	12,240,000
- an associate	9(g)	0	594,000	0	594,000
- other investments		3,300	0	3,300	0
Interest received		558,027	88,937	11,945	485
Proceeds from disposal of other investments		54,628,750	48,812,417	12,865,330	19,518,342
Proceeds from disposal of property, plant and equipment		9,000	0	0	0
Purchase of other investments		(76,284,926)	(54,713,200)	(27,024,069)	(8,700,000)
Purchase of property, plant and equipment	5	(670,383)	(56,681)	0	0
Additional interests acquired in an associate	9(c)	0	(1,500,000)	0	(1,500,000)
Net cash (used in)/from investing activities		(21,756,232)	(6,774,527)	28,936,506	22,152,827
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Purchase of treasury shares	14(b)	(297,828)	(617,850)	(297,828)	(617,850)
Dividends paid	27	(30,398,748)	(24,677,830)	(30,398,748)	(24,677,830)
Proceeds from issuance of ordinary shares pursuant to ESOS	14(a)	2,027,000	3,702,000	2,027,000	3,702,000
Net cash used in financing activities		(28,669,576)	(21,593,680)	(28,669,576)	(21,593,680)
Net changes in cash and cash equivalents		(2,433,496)	415,258	(41,319)	60,755
Effects of exchange rate changes on cash and cash equivalents		120,126	443,340	0	0
Cash and cash equivalents at beginning of the financial year		12,500,826	11,642,228	496,175	435,420
Cash and cash equivalents at end of the financial year	13	10,187,456	12,500,826	454,856	496,175

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

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2018



## 1. CORPORATE INFORMATION

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

The registered office of the Company is located at 39, Salween Road, 10050 Penang.

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

The consolidated financial statements for the financial year ended 31 December 2018 comprise the financial statements of the Company and its subsidiaries and the interests of the Group in associates. The financial statements are presented in Ringgit Malaysia ("RM"), which is also the functional currency of the Company.

The financial statements were authorised for issue in accordance with a resolution by the Board of Directors on 19 April 2019.

## 2. PRINCIPAL ACTIVITIES

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

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

## 3. BASIS OF PREPARATION

The financial statements of the Group and of the Company set out on pages 57 to 103 have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the provisions of the Companies Act 2016 in Malaysia.

The accounting policies adopted are consistent with those of the previous financial year except for the effects of adoption of new MFRSs during the financial year. The new MFRSs and Amendments to MFRSs adopted during the financial year are disclosed in Note 4.1 to the financial statements.

The Group and the Company applied MFRS 15 *Revenue from Contracts with Customers* and MFRS 9 *Financial Instruments* for the first time during the current financial year, using the retrospective method with a date of initial application of 1 January 2017. Consequently, the Group and the Company have consistently applied the same accounting policies in their opening statements of financial position as at 1 January 2017 and throughout all the years presented, as if these policies had always been in effect.

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

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

### 4.1 New MFRSs adopted during the financial year

The Group and the Company adopted the following Standards of the MFRS Framework that were issued by the Malaysian Accounting Standards Board ("MASB") during the financial year:

Title	Effective Date
Amendments to MFRS 1 <i>Annual Improvements to MFRS Standards 2014 - 2016 Cycle</i>	1 January 2018
MFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
Clarifications to MFRS 15	1 January 2018
MFRS 9 <i>Financial Instruments</i> (IFRS 9 as issued by IASB in July 2014)	1 January 2018

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

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

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

The Group and the Company adopted the following Standards of the MFRS Framework that were issued by the Malaysian Accounting Standards Board ("MASB") during the financial year: (Cont'd)

Title	Effective Date
Amendments to MFRS 2 <i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
Amendments to MFRS 128 <i>Annual Improvements to MFRS Standards 2014 - 2016 Cycle</i>	1 January 2018
IC Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
Amendments to MFRS 140 <i>Transfers of Investment Property</i>	1 January 2018
Amendments to MFRS 4 <i>Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts</i>	See MFRS 4 Paragraphs 46 and 48

The Group adjusted amounts previously reported in the financial statements upon initial application of MFRS 9 and MFRS 15 using the retrospective method with a date of initial application of 1 January 2017. In preparing the opening consolidated statement of financial position as at 1 January 2017, explanations on the impact arising upon initial application of MFRS 9 and MFRS 15 on the financial position and financial performance of the Group are set as below.

#### (a) Reconciliation of financial position and equity

	Previously reported RM	Effects of MFRS 9 RM	Effects of MFRS 15 RM	Restated RM
<b>Group</b>				
<b>1 January 2017</b>				
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	16,315,004	0	0	16,315,004
Prepaid lease payment	3,016,745	0	0	3,016,745
Investment properties	3,011,922	0	0	3,011,922
Investment in associates	16,232,786	0	0	16,232,786
	<u>38,576,457</u>	<u>0</u>	<u>0</u>	<u>38,576,457</u>
<b>Current assets</b>				
Inventories	5,115,624	0	0	5,115,624
Trade and other receivables	22,819,387	(14,269)	0	22,805,118
Current tax assets	0	0	0	0
Other investments	33,435,463	0	0	33,435,463
Cash and bank balances	11,642,228	0	0	11,642,228
	<u>73,012,702</u>	<u>(14,269)</u>	<u>0</u>	<u>72,998,433</u>
<b>TOTAL ASSETS</b>	<u>111,589,159</u>	<u>(14,269)</u>	<u>0</u>	<u>111,574,890</u>

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



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

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

(a) Reconciliation of financial position and equity (Cont'd)

	Previously reported RM	Effects of MFRS 9 RM	Effects of MFRS 15 RM	Restated RM
<b>Group</b>				
<b>1 January 2017</b>				
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to owners of the parent</b>				
Share capital	27,169,800	0	0	27,169,800
Treasury shares	0	0	0	0
Reserves	71,049,694	(14,269)	(3,793,570)	67,241,855
<b>TOTAL EQUITY</b>	<u>98,219,494</u>	<u>(14,269)</u>	<u>(3,793,570)</u>	<u>94,411,655</u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Deferred tax liabilities	<u>587,979</u>	<u>0</u>	<u>0</u>	<u>587,979</u>
<b>Current liabilities</b>				
Trade and other payables	9,786,127	0	0	9,786,127
Provisions	2,983,279	0	0	2,983,279
Current tax liability	12,280	0	0	12,280
Contract liability	<u>0</u>	<u>0</u>	<u>3,793,570</u>	<u>3,793,570</u>
	<u>12,781,686</u>	<u>0</u>	<u>3,793,570</u>	<u>16,575,256</u>
<b>TOTAL LIABILITIES</b>	<u>13,369,665</u>	<u>0</u>	<u>3,793,570</u>	<u>17,163,235</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u>111,589,159</u>	<u>(14,269)</u>	<u>0</u>	<u>111,574,890</u>

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

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

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

(a) Reconciliation of financial position and equity (Cont'd)

	Previously reported RM	Effects of MFRS 9 RM	Effects of MFRS 15 RM	Restated RM
<b>Group</b>				
<b>31 December 2017</b>				
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	15,934,426	0	0	15,934,426
Prepaid lease payment	2,952,903	0	0	2,952,903
Investment properties	2,928,599	0	0	2,928,599
Investment in subsidiaries	0	0	0	0
Investment in associates	16,201,614	0	0	16,201,614
	<u>38,017,542</u>	<u>0</u>	<u>0</u>	<u>38,017,542</u>
<b>Current assets</b>				
Inventories	3,365,220	0	0	3,365,220
Trade and other receivables	23,748,051	(14,239)	0	23,733,812
Current tax assets	124,741	0	0	124,741
Other investments	41,552,855	0	0	41,552,855
Cash and bank balances	12,500,826	0	0	12,500,826
	<u>81,291,693</u>	<u>(14,239)</u>	<u>0</u>	<u>81,277,454</u>
<b>TOTAL ASSETS</b>	<u>119,309,235</u>	<u>(14,239)</u>	<u>0</u>	<u>119,294,996</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to owners of the parent</b>				
Share capital	38,451,345	0	0	38,451,345
Treasury shares	(617,850)	0	0	(617,850)
Reserves	69,582,599	(14,239)	(6,375,761)	63,192,599
<b>TOTAL EQUITY</b>	<u>107,416,094</u>	<u>(14,239)</u>	<u>(6,375,761)</u>	<u>101,026,094</u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Deferred tax liabilities	600,123	0	0	600,123

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



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

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

#### (a) Reconciliation of financial position and equity (Cont'd)

	Previously reported RM	Effects of MFRS 9 RM	Effects of MFRS 15 RM	Restated RM
<b>Group</b>				
<b>31 December 2017</b>				
<b>LIABILITIES (Cont'd)</b>				
<b>Current liabilities</b>				
Trade and other payables	9,437,758	0	0	9,437,758
Provisions	1,855,260	0	0	1,855,260
Current tax liability	0	0	0	0
Contract liability	0	0	6,375,761	6,375,761
	<u>11,293,018</u>	<u>0</u>	<u>6,375,761</u>	<u>17,668,779</u>
<b>TOTAL LIABILITIES</b>	<u>11,893,141</u>	<u>0</u>	<u>6,375,761</u>	<u>18,268,902</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u>119,309,235</u>	<u>(14,239)</u>	<u>0</u>	<u>119,294,996</u>

#### (b) Reconciliation of profit or loss

	Previously reported RM	Effects of MFRS 9 RM	Effects of MFRS 15 RM	Restated RM
<b>Group</b>				
<b>31 December 2017</b>				
Revenue	64,348,490	0	(2,582,191)	61,766,299
Cost of sales	(29,106,504)	0	0	(29,106,504)
Gross profit	<u>35,241,986</u>	<u>0</u>	<u>(2,582,191)</u>	<u>32,659,795</u>
Other income	4,737,955	0	0	4,737,955
Other expense	(2,203,547)	0	0	(2,203,547)
Administrative expenses	(6,549,943)	30	0	(6,549,913)
Share of loss of associates, net of tax	(937,172)	0	0	(937,172)
Profit before tax	<u>30,289,279</u>	<u>30</u>	<u>(2,582,191)</u>	<u>27,707,118</u>
Tax expense	(454,276)	0	0	(454,276)
Profit for the financial year	<u>29,835,003</u>	<u>30</u>	<u>(2,582,191)</u>	<u>27,252,842</u>
Other comprehensive income, net of tax	0	0	0	0
Total comprehensive income	<u>29,835,003</u>	<u>30</u>	<u>(2,582,191)</u>	<u>27,252,842</u>

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

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

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

#### (b) Reconciliation of profit or loss (Cont'd)

	Previously reported RM	Effects of MFRS 9 RM	Effects of MFRS 15 RM	Restated RM
<b>Group</b>				
<b>31 December 2017</b>				
Profit for the financial year attributable to:				
Owners of the parent	29,835,003	30	(2,582,191)	27,252,842
Total comprehensive income attributable to:				
Owners of the parent	29,835,003	30	(2,582,191)	27,252,842
Earnings per ordinary share attributable to equity holders of the Company (sen):				
Basic	4.54			4.15
Diluted	4.48			4.09

#### (c) Reconciliation of cash flows

	Previously reported RM	Effects of MFRS 9 RM	Effects of MFRS 15 RM	Restated RM
<b>Group</b>				
<b>31 December 2017</b>				
Profit before tax	30,289,279	30	(2,582,191)	27,707,118
Adjustments for:				
Property, plant and equipment written off	2	0	0	2
Dividend income from other investments	(1,454,093)	0	0	(1,454,093)
Interest income	(88,937)	0	0	(88,937)
Inventories written off	1,788	0	0	1,788
Unrealised gain on foreign exchange	(50,964)	0	0	(50,964)
Share of loss of associates	937,172	0	0	937,172
Share options vested under ESOS	955,277	0	0	955,277
Amortisation of prepaid lease payment	63,842	0	0	63,842



# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



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

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

(c) Reconciliation of cash flows (Cont'd)

	Previously reported RM	Effects of MFRS 9 RM	Effects of MFRS 15 RM	Restated RM
<b>Group</b>				
<b>31 December 2017</b>				
Depreciation of investment properties	83,323	0	0	83,323
Gain on fair value adjustment on other investments	(298,660)	0	0	(298,660)
Gain on disposal of other investments	(463,856)	0	0	(463,856)
Provision for repair and other services	1,855,260	0	0	1,855,260
Reversal of provision for repair and other services	(2,617,161)	0	0	(2,617,161)
Reversal of impairment losses on:				
- trade receivables	0	(30)	0	(30)
- other receivables	(12,800)	0	0	(12,800)
Impairment loss on other receivables	728,000	0	0	728,000
Depreciation of property, plant and equipment	437,257	0	0	437,257
Operating profit before working capital changes	30,364,729	0	(2,582,191)	27,782,538
Decrease in inventories	1,748,616	0	0	1,748,616
Increase in trade and other receivables	(2,053,937)	0	0	(2,053,937)
Decrease in trade and other payables	(330,672)	0	0	(330,672)
Decrease in provisions	(366,118)	0	0	(366,118)
Increase in contract liability	0	0	2,582,191	2,582,191
Cash generated from operations	29,362,618	0	0	29,362,618
Tax paid	(579,153)	0	0	(579,153)
Net cash from operating activities	28,783,465	0	0	28,783,465

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

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

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

(c) Reconciliation of cash flows (Cont'd)

	Previously reported RM	Effects of MFRS 9 RM	Effects of MFRS 15 RM	Restated RM
<b>Group</b>				
<b>31 December 2017</b>				
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Dividend received from an associate	594,000	0	0	594,000
Interest received	88,937	0	0	88,937
Proceeds from disposal of other investments	48,812,417	0	0	48,812,417
Purchase of other investments	(54,713,200)	0	0	(54,713,200)
Purchase of property, plant and equipment	(56,681)	0	0	(56,681)
Additional interests acquired in an associate	(1,500,000)	0	0	(1,500,000)
Net cash used in investing activities	(6,774,527)	0	0	(6,774,527)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Purchase of treasury shares	(617,850)	0	0	(617,850)
Dividends paid	(24,677,830)	0	0	(24,677,830)
Proceeds from issuance of ordinary shares pursuant to ESOS	3,702,000	0	0	3,702,000
Net cash used in financing activities	(21,593,680)	0	0	(21,593,680)
Net changes in cash and cash equivalents	415,258	0	0	415,258
Effects of exchange rate changes on cash and cash equivalents	443,340	0	0	443,340
Cash and cash equivalents at beginning of the financial year	11,642,228	0	0	11,642,228
Cash and cash equivalents at end of the financial year	12,500,826	0	0	12,500,826



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

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

#### Notes to the reconciliations

#### (a) Adoption of MFRS 9

MFRS 9 replaces MFRS 139 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, encompassing all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

#### (i) Classification of financial assets and financial liabilities

The Group and the Company classify their financial assets into the following measurement categories depending on the business model of the Group and the Company for managing the financial assets and the terms of contractual cash flows of the financial assets:

- Those to be measured at amortised cost; and
- Those to be measured subsequently at fair value either through other comprehensive income or through profit or loss.

The following summarises the key changes:

- The Available-For-Sale (AFS), Held-To-Maturity (HTM) and Loans and Receivables (L&R) financial asset categories were removed.
- A new financial asset category measured at Amortised Cost (AC) was introduced. This applies to financial assets with contractual cash flow characteristics that are solely payments of principal and interest and held in a business model whose objective is achieved by collecting contractual cash flows.
- A new financial asset category measured at Fair Value Through Other Comprehensive Income (FVTOCI) was introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principal and interest and held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- A new financial asset category for non-traded equity investments measured at FVTOCI was introduced.

MFRS 9 largely retains the existing requirements in MFRS 139 for the classification of financial liabilities.

However, under MFRS 139 all fair value changes of liabilities designated as FVTPL are recognised in profit or loss, whereas under MFRS 9 these fair value changes are generally presented as follows:

- Amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income; and
- The remaining amount of change in the fair value is presented in profit or loss.

#### (ii) Impairment of financial assets

The adoption of MFRS 9 has fundamentally changed the accounting for impairment losses for financial assets of the Group by replacing the incurred loss approach of MFRS 139 with a forward-looking expected credit loss approach. MFRS 9 requires the Group to record an allowance for expected credit losses for all debt financial assets not held at fair value through profit or loss.

Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The estimate of expected cash shortfall shall reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms. The shortfall is then discounted at an approximation to the asset's original effective interest rate of the asset.

Impairment for trade receivables and contract assets that do not contain a significant financing component are recognised based on the simplified approach within MFRS 9 using the lifetime expected credit losses.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

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

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

Notes to the reconciliations (Cont'd)

(a) Adoption of MFRS 9 (Cont'd)

(ii) Impairment of financial assets (Cont'd)

During this process, the probability of non-payment by the trade receivables is adjusted by forward-looking information and multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such impairments are recorded in a separate impairment account with the loss being recognised within administrative expenses in the statements of profit or loss and other comprehensive income. On confirmation that the trade receivable would not be collectable, the gross carrying value of the asset would be written off against the associated impairment.

(iii) The MFRS 9 adjustments are mainly due to:

(i) Reclassification of the financial assets and financial liabilities as follows:

	Classification	
	Existing under MFRS 139	New under MFRS 9
<b>Group and Company</b>		
<b>Financial assets</b>		
Trade and other receivables	L&R	AC
Other investments	FVTPL	FVTPL
Cash and bank balances	L&R	AC
<b>Financial liability</b>		
Trade and other payables	OFL	AC

(ii) Additional credit losses to be recognised on trade and other receivables.

(b) Adoption of MFRS 15

MFRS 15 establishes a comprehensive framework for revenue recognition and measurement. It replaces MFRS 118 *Revenue* and other related Interpretations. Under MFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires significant judgement.

In applying MFRS 15 retrospectively, the Group applied the following practical expedients:

- (i) For completed contracts, contracts that begin and end within the same annual reporting period were not restated;
- (ii) For completed contracts that have variable consideration, rather than estimating variable consideration amounts in the comparative reporting periods, transaction price at the date the contract was completed was used; and
- (iii) For all reporting period presented before the date of initial application, the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the revenue is expected to be recognised need not be disclosed.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



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

### 4.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2019

The following are Standards of the MFRS Framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been early adopted by the Group and the Company:

Title	Effective Date
MFRS 16 <i>Leases</i>	1 January 2019
IC Interpretation 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Amendments to MFRS 128 <i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019
Amendments to MFRS 9 <i>Prepayment Features with Negative Compensation</i>	1 January 2019
Amendments to MFRS 3 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to MFRS 11 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to MFRS 112 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to MFRS 123 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to MFRS 119 <i>Plan Amendment, Curtailment or Settlement</i>	1 January 2019
Amendments to <i>References to the Conceptual Framework in MFRS Standards</i>	1 January 2020
Amendments to MFRS 3 <i>Definition of a Business</i>	1 January 2020
Amendments to MFRS 101 and MFRS 108 <i>Definition of Material</i>	1 January 2020
MFRS 17 <i>Insurance Contracts</i>	1 January 2021
Amendments to MFRS 10 and MFRS 128 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Deferred

The Group does not expect the adoption of the above Standards to have a significant impact on the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

## 5. PROPERTY, PLANT AND EQUIPMENT

	Leasehold factory building RM	Industrial and research and development equipment RM	Motor vehicles RM	Furniture and fittings, office and other equipment RM	Electrical installation and renovation RM	Total RM
<b>Group</b>						
<b>At cost</b>						
Balance as at 1 January 2018	17,428,253	823,329	189,940	665,559	291,542	19,398,623
Additions	0	359,865	100,980	209,538	0	670,383
Disposal	0	0	(40,311)	0	0	(40,311)
Written-off	0	(84,342)	0	0	0	(84,342)
Balance as at 31 December 2018	17,428,253	1,098,852	250,609	875,097	291,542	19,944,353
<b>Accumulated depreciation</b>						
Balance as at 1 January 2018	1,888,067	671,367	189,939	452,716	262,108	3,464,197
Current charge	308,566	101,833	8,415	56,953	4,931	480,698
Disposal	0	0	(40,311)	0	0	(40,311)
Written-off	0	(84,327)	0	0	0	(84,327)
Balance as at 31 December 2018	2,196,633	688,873	158,043	509,669	267,039	3,820,257
<b>Carrying amount</b>						
Balance as at 31 December 2018	15,231,620	409,979	92,566	365,428	24,503	16,124,096
<b>At cost</b>						
Balance as at 1 January 2017	17,416,753	796,624	189,940	789,353	291,542	19,484,212
Additions	11,500	26,705	0	18,476	0	56,681
Written-off	0	0	0	(142,270)	0	(142,270)
Balance as at 31 December 2017	17,428,253	823,329	189,940	665,559	291,542	19,398,623
<b>Accumulated depreciation</b>						
Balance as at 1 January 2017	1,579,579	601,282	189,939	541,307	257,101	3,169,208
Current charge	308,488	70,085	0	53,677	5,007	437,257
Written-off	0	0	0	(142,268)	0	(142,268)
Balance as at 31 December 2017	1,888,067	671,367	189,939	452,716	262,108	3,464,197
<b>Carrying amount</b>						
Balance as at 31 December 2017	15,540,186	151,962	1	212,843	29,434	15,934,426

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



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

	Industrial and research and development equipment RM	Furniture and fittings, office and other equipment RM	Electrical installation and renovation RM	Total RM
<b>Company</b>				
<b>At cost</b>				
Balance as at 1 January 2018	573,934	455,903	260,011	1,289,848
Written-off	(84,342)	0	0	(84,342)
Balance as at 31 December 2018	489,592	455,903	260,011	1,205,506
<b>Accumulated depreciation</b>				
Balance as at 1 January 2018	552,879	382,966	256,446	1,192,291
Current charge	6,683	13,198	1,778	21,659
Written-off	(84,327)	0	0	(84,327)
Balance as at 31 December 2018	475,235	396,164	258,224	1,129,623
<b>Carrying amount</b>				
Balance as at 31 December 2018	14,357	59,739	1,787	75,883
<b>At cost</b>				
Balance as at 1 January 2017	573,934	598,173	260,011	1,432,118
Written-off	0	(142,270)	0	(142,270)
Balance as at 31 December 2017	573,934	455,903	260,011	1,289,848
<b>Accumulated depreciation</b>				
Balance as at 1 January 2017	544,969	503,237	254,591	1,302,797
Current charge	7,910	21,997	1,855	31,762
Written-off	0	(142,268)	0	(142,268)
Balance as at 31 December 2017	552,879	382,966	256,446	1,192,291
<b>Carrying amount</b>				
Balance as at 31 December 2017	21,055	72,937	3,565	97,557

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

Leasehold factory building	2%
Industrial and research and development equipment	14 - 35%
Motor vehicles	20%
Furniture and fittings, office and other equipment	8 - 35%
Electrical installation and renovation	10 - 20%



# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

## 6. PREPAID LEASE PAYMENT

	Balance as at 1.1.2018 RM	Amortisation charge for the financial year RM	Balance as at 31.12.2018 RM
<b>Group</b>			
<b>Carrying amount</b>			
Short term leasehold land	2,952,903	(63,842)	<b>2,889,061</b>

	← Balance as at 31.12.2018 →		
	Cost RM	Accumulated amortisation RM	Carrying amount RM
Short term leasehold land	<b>3,830,522</b>	<b>(941,461)</b>	<b>2,889,061</b>

	Balance as at 1.1.2017 RM	Amortisation charge for the financial year RM	Balance as at 31.12.2017 RM
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### Group

#### Carrying amount

Short term leasehold land	3,016,745	(63,842)	2,952,903
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	← Balance as at 31.12.2017 →		
	Cost RM	Accumulated amortisation RM	Carrying amount RM
Short term leasehold land	<b>3,830,522</b>	<b>(877,619)</b>	<b>2,952,903</b>

The short term leasehold land of the Group has remaining tenure of 46 (2017: 47) years.

## 7. INVESTMENT PROPERTIES

	Balance as at 1.1.2018 RM	Depreciation charge for the financial year RM	Balance as at 31.12.2018 RM
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### Group

#### Carrying amount

Leasehold land and building	2,928,599	(83,323)	<b>2,845,276</b>
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# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



## 7. INVESTMENT PROPERTIES (Cont'd)

	← Balance as at 31.12.2018 →		
	Cost RM	Accumulated depreciation RM	Carrying amount RM
Leasehold land and building	<u>4,413,197</u>	<u>(1,567,921)</u>	<u>2,845,276</u>

	Balance as at 1.1.2017 RM	Depreciation charge for the financial year RM	Balance as at 31.12.2017 RM
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### Group

#### Carrying amount

Leasehold land and building	<u>3,011,922</u>	<u>(83,323)</u>	<u>2,928,599</u>
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	← Balance as at 31.12.2017 →		
	Cost RM	Accumulated depreciation RM	Carrying amount RM
Leasehold land and building	<u>4,413,197</u>	<u>(1,484,598)</u>	<u>2,928,599</u>

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

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

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

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

- (b) Included in the investment properties is a leasehold office with a carrying amount of RM127,369 (2017: RM131,648) for which strata title has yet to be issued by the relevant authority to the Group.
- (c) The fair value of the investment properties for disclosure purposes, which are at Level 3 fair value are estimated at approximately RM19.8 million (2017: RM19.8 million) based on Directors' estimation by reference to market evidence of transaction prices of similar properties and recent experience in the location and category of the properties being valued.
- (d) Direct operating expenses arising from investment properties generating rental income during the financial year are as follows:

	Group	
	2018 RM	2017 RM
Repairs and maintenance	<u>95,560</u>	16,500
Quit rent and assessment	<u>31,202</u>	<u>32,253</u>

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

## 8. INVESTMENT IN SUBSIDIARIES

	Company	
	2018 RM	2017 RM
Unquoted shares, at cost	<b>31,864,845</b>	31,864,845
Share option paid to employees of a subsidiary	<b>2,765,824</b>	2,053,814
Less: Impairment losses	<b>(4,940,708)</b>	(4,940,708)
	<b><u>29,689,961</u></b>	<u>28,977,951</u>

- (a) Investment in subsidiaries, which is eliminated on consolidation, is stated in the separate financial statements of the Company at cost less impairment losses, if any.
- (b) Details of the subsidiaries are as follows:

Name of company	Country of incorporation	Equity interest held		Principal activities
		2018 %	2017 %	
Elsoft Systems Sdn. Bhd.	Malaysia	<b>100</b>	100	Design and production of test, burn-in and embedded test equipment and its related modules for electronic industry
Siangtronics Technology Sdn. Bhd.	Malaysia	<b>100</b>	100	Generate rental income
AGS Automation (Malaysia) Sdn. Bhd.	Malaysia	<b>100</b>	100	Dormant

## 9. INVESTMENT IN ASSOCIATES

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
At cost:				
Unquoted ordinary shares	<b>12,270,000</b>	8,070,000	<b>12,270,000</b>	8,070,000
Redeemable cumulative preference shares *	<b>4,200,000</b>	8,400,000	<b>4,200,000</b>	8,400,000
Share of post acquisition loss, net of dividend received	<b>(1,248,794)</b>	(268,386)	<b>0</b>	0
	<b><u>15,221,206</u></b>	<u>16,201,614</u>	<b><u>16,470,000</u></b>	<u>16,470,000</u>

\* During the financial year, the Group and the Company held 38.5% (2017: 38.5%) in the Redeemable Cumulative Preference Shares ("RCPS").

- (a) Investment in associates are measured at cost less impairment losses, if any, in the separate financial statements of the Company and accounted for using the equity method in the consolidated financial statements.
- (b) On 27 December 2018, the Company exercised its conversion rights to convert a total of 4,200,000 RCPS into 8,400,000 ordinary shares in Butterfly House (PG) Sdn. Bhd. ("BHSB"). Pursuant thereto, Elsoft's equity interest in BHSB will increase from approximately 21.16% to 30.91%.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



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

- (c) In the previous financial year, the Company subscribed additional 1,500,000 ordinary shares in Leso Corporation Sdn. Bhd. for cash consideration of RM1,500,000.
- (d) The financial statements of the associates are coterminous with those of the Group. In applying the equity method of accounting, the most recent available unaudited financial statements of the associates have been used. The use of unaudited financial statements is not expected to have any significant effects on the financial statements of the Group.
- (e) The details of the associates are as follows:

Name of company	Country of incorporation	Equity interest held		Principal activities
		2018 %	2017 %	
Leso Corporation Sdn. Bhd.	Malaysia	30.00	30.00	Investment holding
Butterfly House (PG) Sdn. Bhd. *	Malaysia	30.91	21.16	Operate a butterfly farm

\* Not audited by BDO PLT, Malaysia

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

	Leso Corporation Sdn. Bhd. RM	Butterfly House (PG) Sdn. Bhd. RM	Total RM
<b>2018</b>			
<b>Assets and liabilities</b>			
Non-current assets	2,945,380	46,102,456	49,047,836
Current assets	25,544,521	2,789,439	28,333,960
Non-current liabilities	(200)	(20,221,411)	(20,221,611)
Current liabilities	(2,893,985)	(17,858,431)	(20,752,416)
Net assets	25,595,716	10,812,053	36,407,769
<b>Results</b>			
Revenue	20,036,306	14,182,535	34,218,841
Profit/(Loss) for the financial year	920,094	(1,847,426)	(927,332)
Total comprehensive income/(loss)	920,094	(1,847,426)	(927,332)
Cash flows from operating activities	1,808,110	5,248,858	7,056,968
Cash flows used in investing activities	(6,929,636)	(761,998)	(7,691,634)
Cash flows from/(used in) financing activities	279,304	(3,166,858)	(2,887,554)
Net (decrease)/increase in cash and cash equivalents	(4,842,222)	1,320,002	(3,522,220)

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

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

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

	Leso Corporation Sdn. Bhd. RM	Butterfly House (PG) Sdn. Bhd. RM	Total RM
<b>2017</b>			
<b>Assets and liabilities</b>			
Non-current assets	2,963,568	48,296,620	51,260,188
Current assets	24,043,388	2,803,480	26,846,868
Non-current liabilities	(3,800)	(34,004,233)	(34,008,033)
Current liabilities	(2,234,228)	(15,342,866)	(17,577,094)
Net assets	<u>24,768,928</u>	<u>1,753,001</u>	<u>26,521,929</u>
<b>Results</b>			
Revenue	18,589,522	13,831,093	32,420,615
Profit/(Loss) for the financial year	170,159	(4,673,029)	(4,502,870)
Total comprehensive income/(loss)	<u>170,159</u>	<u>(4,673,029)</u>	<u>(4,502,870)</u>
Cash flows from operating activities	241,514	346,350	587,864
Cash flows from investing activities	2,303,915	2,139,485	4,443,400
Cash flows from/(used in) financing activities	3,082,025	(2,754,642)	327,383
Net increase/(decrease) in cash and cash equivalents	<u>5,627,454</u>	<u>(268,807)</u>	<u>5,358,647</u>

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

	Leso Corporation Sdn. Bhd. RM	Butterfly House (PG) Sdn. Bhd. RM	Total RM
<b>As at 31 December 2018</b>			
Share of net assets of the Group/ Carrying amount in the statements of financial position	<u>7,678,715</u>	<u>7,542,491</u>	<u>15,221,206</u>
Share of profit/(loss) of the Group	248,036	(1,228,444)	(980,408)
Share of other comprehensive income of the Group	0	0	0
Share of total comprehensive income/(loss) of the Group	<u>248,036</u>	<u>(1,228,444)</u>	<u>(980,408)</u>
<b>As at 31 December 2017</b>			
Share of net assets of the Group/ Carrying amount in the statements of financial position	<u>7,430,679</u>	<u>8,770,935</u>	<u>16,201,614</u>
Share of profit/(loss) of the Group	51,641	(988,813)	(937,172)
Share of other comprehensive income of the Group	0	0	0
Share of total comprehensive income/(loss) of the Group	<u>51,641</u>	<u>(988,813)</u>	<u>(937,172)</u>
<b>Other information</b>			
Dividend received	<u>594,000</u>	<u>0</u>	<u>594,000</u>

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



## 10. INVENTORIES

	Group	
	2018 RM	2017 RM
<b>At cost:</b>		
Raw materials	1,761,107	1,896,008
Work-in-progress	3,996,430	1,469,212
	<u>5,757,537</u>	<u>3,365,220</u>

- (a) Inventories are stated at the lower of cost and net realisable value.
- (b) Cost of raw materials and work-in-progress is determined based on a weighted average basis.
- (c) During the financial year, inventories of the Group recognised as cost of sales amounted to RM19,131,015 (2017: RM20,022,249).
- (d) The Group has written off inventories amounting to RM23,445 (2017: RM1,788) during the financial year.

## 11. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
<b>Trade receivables</b>				
Third parties	13,735,050	23,063,068	0	0
Less: Impairment losses	(143,785)	(32,839)	0	0
Total trade receivables	13,591,265	23,030,229	0	0
<b>Other receivables</b>				
Other receivables	1,065,803	1,316,654	728,000	728,817
Less: Impairment losses	(766,528)	(797,426)	(728,000)	(728,000)
Deposits	297,855	181,755	2,705	2,705
Total other receivables	597,130	700,983	2,705	3,522
<b>Total receivables</b>	<u>14,188,395</u>	<u>23,731,212</u>	<u>2,705</u>	<u>3,522</u>
Prepayments	2,600	2,600	0	0
	<u>14,190,995</u>	<u>23,733,812</u>	<u>2,705</u>	<u>3,522</u>

- (a) Total receivables are classified as financial assets measured at amortised cost.
- (b) Trade receivables of the Group and of the Company are non-interest bearing and the normal credit terms of trade receivables ranged from 30 to 90 days (2017: 30 to 90 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

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

(c) Foreign currency exposure of total receivables of the Group and of the Company are as follows:

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Ringgit Malaysia	<b>7,336,074</b>	15,409,031	<b>2,705</b>	3,522
US Dollar	<b>6,852,321</b>	8,322,181	<b>0</b>	0
	<b>14,188,395</b>	23,731,212	<b>2,705</b>	3,522

(d) Impairment losses for trade receivables that do not contain a significant financing component are recognised based on the simplified approach using the lifetime expected credit losses.

The Group uses an allowance matrix to measure the expected credit loss of trade receivables from individual customers. Expected loss rates are calculated using the roll rate method based on the common credit risk characteristic - industry.

During this process, the probability of non-payment by the trade receivables is adjusted by forward-looking information (producer price index) and multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such impairments are recorded in a separate impairment account with the loss being recognised within administrative expenses in the consolidated statement of profit or loss and other comprehensive income. On confirmation that the trade receivable would not be collectable, the gross carrying value of the asset would be written off against the associated impairment.

It requires management to exercise significant judgement in determining the probability of default by trade receivables and appropriate forward-looking information.

Lifetime expected loss provision for trade receivables of the Group as at 31 December 2018 and 31 December 2017 are as follows:

	Current	More than 30 days past due	More than 90 days past due	Total RM
<b>As at 31 December 2018</b>				
Expected loss rate	<b>0.01%</b>	<b>0.04%</b>	<b>0.14%</b>	
Gross carrying amount (RM)	<b>6,751,112</b>	<b>4,404,814</b>	<b>2,579,124</b>	<b>13,735,050</b>
Impairment (RM)	<b>770</b>	<b>1,805</b>	<b>3,660</b>	<b>6,235</b>
<b>As at 31 December 2017</b>				
Expected loss rate	0.01%	0.04%	0.26%	
Gross carrying amount (RM)	14,148,440	4,737,996	4,176,632	23,063,068
Impairment (RM)	1,613	1,943	10,683	14,239

During the financial year, the Group did not renegotiate the terms of any trade receivables.



# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



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

(e) Movements in the impairment allowance for trade receivables of the Group are as follows:

	Lifetime ECL allowance RM	Credit impaired RM	Total RM
Balance as at 1 January 2018	14,239	18,600	32,839
Restated through opening retained earnings	0	0	0
Opening impairment loss of trade receivables in accordance with MFRS 9	14,239	18,600	32,839
Reversal of impairment losses	(8,004)	0	(8,004)
Charge for the financial year	0	118,950	118,950
Balance as at 31 December 2018	6,235	137,550	143,785
Balance as at 1 January 2017	0	18,600	18,600
Restated through opening retained earnings	14,269	0	14,269
Opening impairment loss of trade receivables in accordance with MFRS 9	14,269	18,600	32,869
Reversal of impairment losses	(30)	0	(30)
Charge for the financial year	0	0	0
Balance as at 31 December 2017	14,239	18,600	32,839

Trade receivables that are individually determined to be impaired at the financial year end relate to trade receivables who are in significant financial difficulties and have defaulted on payments.

- (f) Impairment for other receivables are recognised based on the general approach within MFRS 9 using the forward looking expected credit loss model. The methodology used to determine the amount of the impairment is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. At the end of the reporting period, the Group assesses whether there has been a significant increase in credit risk for financial assets by comparing the risk of default occurring over the expected life with the risk of default since initial recognition. For those in which the credit risk has not increased significantly since initial recognition of the financial asset, twelve months expected credit losses along with gross interest income are recognised. For those in which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

Movements in the impairment allowance for other receivables of the Group are as follows:

	2018 RM	2017 RM
<b>Credit impaired</b>		
Balance as at 1 January	797,426	82,226
Restated through opening retained earnings	0	0
Opening impairment loss of other receivables in accordance with MFRS 9	797,426	82,226
Reversal of impairment losses	(30,898)	(12,800)
Charge for the financial year	0	728,000
Balance as at 31 December	766,528	797,426

No expected credit losses were recognised arising from other receivables because the probability of default by these debtors were negligible.

Other receivables that are individually determined to be impaired at the financial year end relate to other receivables who are in significant financial difficulties and have defaulted on payments.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

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

(g) Information on financial risks of trade and other receivables is disclosed in Note 29 to the financial statements.

## 12. OTHER INVESTMENTS

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Financial assets at fair value through profit or loss				
- quoted shares	363,000	917,000	363,000	917,000
- unit trust and bond funds	61,928,590	40,635,855	16,593,038	2,168,405
	<u>62,291,590</u>	<u>41,552,855</u>	<u>16,956,038</u>	<u>3,085,405</u>

- (a) Other investments classified as financial assets at fair value through profit or loss are measured at fair value.
- (b) These investments are grouped under Level 1 of the fair value hierarchy based on the degree to which the fair value is observable.
- (c) Level 1 fair value measurement are those derived from quoted prices (unadjusted) in active market for identical assets and liabilities.
- (d) There is no transfer between levels in the hierarchy during the financial year.

## 13. CASH AND BANK BALANCES

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Cash and bank balances	<u>10,187,456</u>	<u>12,500,826</u>	<u>454,856</u>	<u>496,175</u>

- (a) No expected credit losses were recognised arising from cash and bank balances because the probability of default were negligible.
- (b) The currency exposure of cash and bank balances are as follows:

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Ringgit Malaysia	7,151,504	10,428,390	454,856	496,175
US Dollar	3,011,588	2,053,826	0	0
Others	24,364	18,610	0	0
	<u>10,187,456</u>	<u>12,500,826</u>	<u>454,856</u>	<u>496,175</u>

- (c) Information on financial risk of cash and bank balances are disclosed in Note 29 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



## 14. SHARE CAPITAL AND TREASURY SHARES

### (a) Share capital

	Group and Company			
	2018		2017	
	Number of shares	RM	Number of shares	RM
<b>Issued and fully paid</b>				
Balance as at 1 January	275,399,998	38,451,345	271,697,998	27,169,800
Transfer from share premium account pursuant to the Companies Act 2016	0	0	0	6,320,865
Issuance of ordinary shares pursuant to ESOS exercised	2,027,000	2,716,181	3,702,000	4,960,680
Bonus issue	55,485,392	0	0	0
Subdivision of ordinary shares	332,912,390	0	0	0
Balance as at 31 December	<b>665,824,780</b>	<b>41,167,526</b>	<b>275,399,998</b>	<b>38,451,345</b>

- (i) On 14 November 2018, the Company has subdivided its 332,912,390 ordinary shares into 665,824,780 ordinary shares on the basis of every one (1) share held into two (2) shares ("share split"). The share split was completed with the listing and quotation of the new shares on the Main Board of Bursa Malaysia Securities Berhad on 15 November 2018.

Before the share split, the Company issued:

- 2,027,000 new ordinary shares pursuant to options exercised under the Employees' Share Option Scheme ("ESOS") at an exercise price of RM1 per ordinary share for cash; and
  - 55,485,392 bonus shares entirely capitalised from the Company's share premium account, on the basis of one (1) bonus share for every five (5) existing shares held.
- (ii) In the previous financial year, the issued and fully paid-up ordinary share capital of the Company was increased from 271,697,998 to 275,399,998 by way of issuance of 3,702,000 new ordinary shares pursuant to options exercised under the Employees' Share Option Scheme ("ESOS") at an exercise price of RM1 per ordinary share for cash.
- (iii) Owners of the parent (except treasury shares) are entitled to receive dividends as and when declared by the Company and are entitled to one (1) vote per ordinary share at meetings of the Company. All ordinary shares rank pari passu with regard to the residual assets of the Company.
- (iv) With the introduction of the new Companies Act 2016 effective 31 January 2017, the concepts of authorised share capital and par value of share capital have been abolished. Consequently, balances within the share premium account of RM6,320,865 have been transferred to the share capital account pursuant to the transitional provisions set out in Section 618(2) of the Companies Act 2016. During the financial year, the Company has capitalised RM5,548,538 from the share premium account resulting from bonus issue of shares. As at 31 December 2018, the Company may utilise its balance in the share premium account of RM772,327 for purposes stipulated in Section 618(3) of the Companies Act 2016 for a transitional period of 24 months from 31 January 2017.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

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

### (b) Treasury shares

The shareholders of the Company, by an ordinary resolution passed at the Annual General Meeting ("AGM") held on 25 May 2018, renewed the approval for the Company to repurchase its own shares.

	Group and Company			
	2018		2017	
	Number of shares	RM	Number of shares	RM
<b>Treasury shares</b>				
Balance as at 1 January	(280,000)	(617,850)	0	0
Purchase of treasury shares	(118,900)	(297,828)	(280,000)	(617,850)
Bonus issue	(79,780)	0	0	0
Subdivision of ordinary share	(478,680)	0	0	0
Balance as at 31 December	<u>(957,360)</u>	<u>(915,678)</u>	<u>(280,000)</u>	<u>(617,850)</u>

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

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

The carrying amount of the treasury shares shall be offset against equity in the statements of financial position. To the extent that the carrying amount of the treasury shares exceeds the share premium account, it shall be considered as a reduction of any other reserves as may be permitted by the Companies Act 2016 in Malaysia.

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

- (ii) During the financial year, the Company repurchased 118,900 of its issued ordinary shares from the open market at an average price of RM2.50 per share prior to enlargement of share capital. The total consideration paid for the repurchased shares was RM297,828. The shares repurchased are being held as treasury shares in accordance with Section 127 of the Companies Act 2016 in Malaysia.

Of the total 665,824,780 (2017: 275,399,998) issued and fully paid ordinary shares as at 31 December 2018, 957,360 (2017: 280,000) are held as treasury shares by the Company. As at 31 December 2018, the number of outstanding ordinary shares in issue after the set-off against the treasury shares is therefore 664,867,420 (2017: 275,119,998) ordinary shares.

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

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



## 15. RESERVES

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
<b>Non-distributable:</b>				
Share options reserve	1,402,637	1,284,161	1,402,637	1,284,161
<b>Distributable:</b>				
Retained earnings	71,275,956	61,908,438	21,727,878	9,891,352
	<u>72,678,593</u>	<u>63,192,599</u>	<u>23,130,515</u>	<u>11,175,513</u>

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

## 16. DEFERRED TAX LIABILITIES

	Group	
	2018 RM	2017 RM
Balance as at 1 January	600,123	587,979
Recognised in profit or loss (Note 25)	38,677	12,144
Balance as at 31 December	<u>638,800</u>	<u>600,123</u>

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

	Group	
	2018 RM	2017 RM
<b>Property, plant and equipment</b>		
Balance as at 1 January	600,123	587,979
Recognised in profit or loss	38,677	12,144
Balance as at 31 December	<u>638,800</u>	<u>600,123</u>

The amount of temporary differences for which no deferred tax assets has been recognised in the statements of financial position is as follows:

	Group	
	2018 RM	2017 RM
Unused tax losses		
- Expires by 31 December 2025	<u>67,900</u>	<u>67,900</u>

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

## 17. TRADE AND OTHER PAYABLES

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
<b>Trade payables</b>				
Third parties	<b>1,941,816</b>	5,025,131	<b>0</b>	0
<b>Other payables</b>				
Other payables	<b>102,412</b>	110,480	<b>13,954</b>	13,771
Accruals	<b>5,968,538</b>	3,830,997	<b>255,000</b>	190,500
Deposits received	<b>439,150</b>	471,150	<b>0</b>	0
	<b>8,451,916</b>	9,437,758	<b>268,954</b>	204,271

- (a) Trade and other payables are classified as financial liabilities measured at amortised cost.
- (b) Trade and other payables are non-interest bearing and the normal credit terms granted to the Group and the Company ranged from 30 to 120 days (2017: 30 to 120 days).
- (c) The currency exposure of trade and other payables of the Group and of the Company are as follows:

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Ringgit Malaysia	<b>8,000,688</b>	7,995,836	<b>268,954</b>	204,271
US Dollar	<b>449,010</b>	1,424,086	<b>0</b>	0
Singapore Dollar	<b>2,218</b>	17,836	<b>0</b>	0
	<b>8,451,916</b>	9,437,758	<b>268,954</b>	204,271

- (d) Maturity profile of trade and other payables of the Group and of the Company at the end of the reporting period based on contractual undiscounted repayment obligations is repayable on demand or within one (1) year.
- (e) Information on financial risks of trade and other payables is disclosed in Note 29 to the financial statements.

## 18. PROVISIONS

	Group	
	2018 RM	2017 RM
<b>Current</b>		
Provision for repair and other services	<b>2,153,232</b>	1,855,260

The Group makes a provision for repair work and replacement of electronic components at end of the reporting period based on the Management's expectation of the level of repairs.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



## 18. PROVISIONS (Cont'd)

Movements during the financial year in the amount recognised in the consolidated statement of financial position in respect of the provision for repair and other services are as follows:

	2018 RM	Group 2017 RM
Balance as at 1 January	1,855,260	2,983,279
Provision made during the financial year	2,153,232	1,855,260
Utilisation of provision during the financial year	(298,216)	(366,118)
Provision reversed during the financial year	(1,557,044)	(2,617,161)
Balance as at 31 December	<u>2,153,232</u>	<u>1,855,260</u>

## 19. CONTRACT LIABILITY

	2018 RM	Group 2017 RM
Deferred revenue	<u>5,221,559</u>	<u>6,375,761</u>

- (a) Contract liability arises from unsatisfied performance obligations when the Group issues billing to customers. This liability is recognised as revenue upon satisfaction of each performance obligation.
- (b) The amount of RM6,375,761 (2017: RM3,439,185) recognised in contract liability at the beginning of the respective financial years have been recognised as revenue for the financial years ended 31 December 2018 and 31 December 2017.
- (c) Contract value yet to be recognised as revenue

Revenue expected to be recognised in the future relating to performance obligations that are unsatisfied at the end of the reporting period, is as follows:

	2019 RM	Group Total RM
Deferred revenue	<u>5,221,559</u>	<u>5,221,559</u>

## 20. COMMITMENTS

Operating lease commitments

- (a) The Group as a lessor

The Group has entered into a non-cancellable operating lease arrangement on certain investment property for a term of two (2) years. The lease includes a clause to enable an upward revision of the rental charge on annual basis depending on prevailing market conditions.



# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

## 20. COMMITMENTS (Cont'd)

Operating lease commitments (Cont'd)

(b) The future aggregate minimum lease receivables under non-cancellable operating lease contracted for as at the reporting date are as follows:

	2018 RM	Group 2017 RM
Future minimum lease receivables:		
Not later than one (1) year	16,800	2,760
Later than one (1) year and not later than five (5) years	2,800	0
	<u>19,600</u>	<u>2,760</u>

## 21. REVENUE

	2018 RM	Group 2017 RM
Sale of goods/Services rendered	<u>78,150,161</u>	<u>61,766,299</u>

Sale of goods and services rendered

Disaggregation of revenue from contracts with customers is disclosed in Note 30 to the financial statements.

Revenue from sale of products and services rendered is recognised at a point in time when the control of the products have been transferred or the services have been rendered to the customers and coincide with the delivery of products and services and acceptance by customers.

There is no significant financing component in the revenue arising from sale of products and services rendered as the sales or services are made on the normal credit terms not exceeding twelve (12) months.

## 22. PROFIT BEFORE TAX

	Note	2018 RM	Group 2017 RM	Company 2018 RM	2017 RM
Profit before tax is arrived at after charging:					
Auditors' remuneration:					
- current provision		59,000	54,000	16,000	11,000
Depreciation of property, plant and equipment	5	480,698	437,257	21,659	31,762
Amortisation of prepaid lease payment	6	63,842	63,842	0	0
Depreciation of investment properties	7	83,323	83,323	0	0
Inventories written off	10(d)	<u>23,445</u>	<u>1,788</u>	<u>0</u>	<u>0</u>

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



## 22. PROFIT BEFORE TAX (Cont'd)

		Group		Company	
	Note	2018 RM	2017 RM	2018 RM	2017 RM
Profit before tax is arrived at after charging: (Cont'd)					
Property, plant and equipment written off		15	2	15	2
Impairment losses on:					
- trade receivables	11(e)	118,950	0	0	0
- other receivables	11(f)	0	728,000	0	728,000
Realised loss on foreign exchange		529,312	1,795,379	0	0
Loss on fair value adjustment on other investments		2,608,688	0	524,446	0
and crediting:					
Rental income:					
- property, plant and equipment		301,760	700,560	0	0
- investment properties		1,663,800	1,261,290	0	0
Dividend income received from:					
- subsidiaries	28(b)	0	0	43,080,000	12,240,000
- associate	9(g)	0	0	0	594,000
- other investments		1,683,903	1,454,093	229,140	254,150
Reversal of impairment losses on:					
- trade receivables	11(e)	8,004	30	0	0
- other receivables	11(f)	30,898	12,800	0	0
Unrealised gain on foreign exchange		667,046	50,964	0	0
Interest income		558,027	88,937	11,945	485
Gain on disposal of property, plant and equipment		9,000	0	0	0
Gain on disposal of other investments		10,644	463,856	10,500	385,532
Gain on fair value adjustment on other investments		0	298,660	0	689,500

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

## 23. EMPLOYEE BENEFITS

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Research and development staff:				
Directors				
- remuneration	991,950	910,750	0	0
- defined contribution plan	188,471	173,043	0	0
- social security contribution	1,657	1,657	0	0
	<u>1,182,078</u>	<u>1,085,450</u>	<u>0</u>	<u>0</u>
Other staff				
- salaries, wages and bonus	6,594,524	4,509,167	0	0
- defined contribution plan	341,717	568,526	0	0
- social security contribution	25,425	20,537	0	0
- share options vested/granted under ESOS	329,642	457,698	0	0
	<u>8,473,386</u>	<u>6,641,378</u>	<u>0</u>	<u>0</u>
Non-research and development staff:				
Directors				
- fee	230,000	179,000	230,000	179,000
- share options vested/granted under ESOS	95,647	186,057	95,647	186,057
	<u>325,647</u>	<u>365,057</u>	<u>325,647</u>	<u>365,057</u>
Other staff				
- salaries, wages and bonus	4,871,499	3,678,136	0	0
- defined contribution plan	317,449	425,786	0	0
- social security contribution	37,426	30,847	0	0
- share options vested/granted under ESOS	382,368	311,522	0	0
	<u>5,934,389</u>	<u>4,811,348</u>	<u>325,647</u>	<u>365,057</u>
<b>Total employee benefits</b>	<u>14,407,775</u>	<u>11,452,726</u>	<u>325,647</u>	<u>365,057</u>

## 24. EMPLOYEES' SHARE OPTION SCHEME ("ESOS")

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

- The total number of new ordinary shares which are available to be issued under the ESOS shall not exceed ten percent (10%) of the total issued and fully paid-up share capital of the Company (excluding treasury shares) at any time throughout the duration of the ESOS.
- Any employee (including Executive Directors) of the Group shall be eligible to participate in the ESOS if, as at the date of offer, the employee is at least 18 years of age and is a full time employee.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



## 24. EMPLOYEES' SHARE OPTION SCHEME ("ESOS") (Cont'd)

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

- (c) Any Director of the Company or any company in the Group who has been appointed to the Board shall be eligible to participate in the ESOS if, as at the date of offer, the director is at least 18 years of age.
- (d) The ESOS shall be valid for a duration of 5 years from the effective date.
- (e) The exercise price shall be determined based on the weighted average market price of shares for the 5 market days immediately preceding the date of offer with a discount of not more than 10% or at the par value of the shares, whichever is higher.
- (f) The options granted are exercisable on a time proportion basis over the duration of the ESOS. The employee's entitlement to the options is vested as soon as they become exercisable.
- (g) The new shares to be allotted and issued upon exercise of any options granted under the scheme will, upon allotment and issuance, rank pari passu in all respects with the then existing shares and paid-up shares in the Company, save and except that the new shares so allotted and issued will not be entitled to any right, dividend, allotment and/or distribution declared, made or paid, the entitlement date of which precedes the date of exercise of the options.

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

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

	Number of options over ordinary shares					
	Outstanding as at 1-1-2018	Granted	Bonus issued and share split	Exercised	Outstanding as at 31-12-2018	Exercisable as at 31-12-2018
<b>Grant date</b>						
2 June 2016	6,028,500	0	5,602,100	(2,027,000)	9,603,600	322,800
10 April 2018	0	600,000	840,000	0	1,440,000	480,000
	<u>6,028,500</u>	<u>600,000</u>	<u>6,442,100</u>	<u>(2,027,000)</u>	<u>11,043,600</u>	<u>802,800</u>
Weighted average exercise price (RM)	<u>1.00</u>	<u>2.20</u>	<u>0.48</u>	<u>1.00</u>	<u>0.48</u>	<u>0.71</u>
Weighted average remaining contractual life (months)	<u>39</u>					<u>27</u>

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

## 24. EMPLOYEES' SHARE OPTION SCHEME ("ESOS") (Cont'd)

The details of the options over ordinary shares of the Company are as follows: (Cont'd)

	Number of options over ordinary shares				
	Outstanding as at 1-1-2017	Retracted*	Exercised	Outstanding as at 31-12-2017	Exercisable as at 31-12-2017
<b>Grant date</b>					
2 June 2016	9,825,000	(94,500)	(3,702,000)	6,028,500	228,000
Weighted average exercise price (RM)	1.00	1.00	1.00	1.00	1.00
Weighted average remaining contractual life (months)	51				39

Share options exercised during the financial year resulted in the issuance of 2,027,000 (2017: 3,702,000) ordinary shares at an average price of RM1.00 (2017: RM1.00).

\* Due to resignation

The adjustment to the exercise price of ESOS in the previous financial year was as follows:

	Exercise price per share option	
	Before adjustment RM	After bonus issues and share split RM
<b>Grant date</b>		
2 June 2016	1.00	0.415
10 April 2018	2.20	0.915

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

	Weighted average exercise price		Exercise period
	2018 RM	2017 RM	
<b>Grant date</b>			
2 June 2016	0.415	0.415	02.06.2016 - 31.03.2021
10 April 2018	0.915	0.915	04.10.2018 - 31.03.2021

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



## 24. EMPLOYEES' SHARE OPTION SCHEME ("ESOS") (Cont'd)

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

	10 April 2018	2 June 2016
Fair value of share options (RM)	0.74	0.51
Average share price at grant date (RM)	2.40	1.52
Exercise price (RM)	2.20	1.50
Expected volatility (%)	44.38	41.68
Expected life (years)	2.98	4.83
Risk-free rate (%)	3.82	3.77
Expected dividend yield (%)	3.51	2.53

## 25. TAX EXPENSE

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Current tax expense based on profit for the financial year:				
Current year provision	437,900	308,981	0	17
Underprovision of tax expense in prior years	51,914	133,151	100	172,552
	<u>489,814</u>	<u>442,132</u>	<u>100</u>	<u>172,569</u>
Deferred tax (Note 16):				
Relating to origination and reversal of temporary differences	37,800	19,344	0	0
Under/(Over)provision of deferred tax liabilities in prior years	877	(7,200)	0	0
	<u>38,677</u>	<u>12,144</u>	<u>0</u>	<u>0</u>
Total tax expense	<u>528,491</u>	<u>454,276</u>	<u>100</u>	<u>172,569</u>

The Malaysian income tax is calculated at the statutory tax rate of twenty-four percent (24%) (2017: 24%) of the estimated taxable profits for the fiscal year.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

## 25. TAX EXPENSE (Cont'd)

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

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Profit before tax	<b>40,294,757</b>	27,707,118	<b>42,235,374</b>	12,924,187
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	<b>9,670,700</b>	6,649,800	<b>10,136,500</b>	3,101,800
Tax effects in respect of:				
- income not subject to tax	<b>(578,100)</b>	(629,819)	<b>(10,400,000)</b>	(3,399,283)
- tax exempt income under pioneer status	<b>(10,034,200)</b>	(8,079,000)	<b>0</b>	0
- expenses not deductible for tax purposes	<b>1,182,100</b>	2,162,544	<b>263,500</b>	297,500
- share of loss in associates	<b>235,200</b>	224,800	<b>0</b>	0
	<b>475,700</b>	328,325	<b>0</b>	17
Underprovision of tax expense in prior years	<b>51,914</b>	133,151	<b>100</b>	172,552
Under/(Over)provision of deferred tax liabilities in prior years	<b>877</b>	(7,200)	<b>0</b>	0
Tax expense for the financial year	<b>528,491</b>	454,276	<b>100</b>	172,569

A subsidiary of the Company has been granted pioneer status for its promoted principal activities which exempt 100% of its statutory income for a period of 5 years beginning on 2 January 2015 and expires on 1 January 2020.

The tax incentive period granted for the said pioneer status is for a period of 10 years with an initial period of 5 years commencing from 2 January 2015 to 1 January 2020 and can be subsequently extended for another period of five (5) years beginning on 2 January 2020 to 1 January 2025.

## 26. EARNINGS PER ORDINARY SHARE

### (a) Basic

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

	Group	
	2018 RM	2017 RM
Profit attributable to equity holders of the parent	<b>39,766,266</b>	27,252,842
Weighted average number of ordinary shares in issue	<b>275,317,751</b>	271,596,368
Effects of:		
- Exercise of ESOS	<b>1,003,605</b>	2,181,651
- Bonus issue	<b>386,849,897</b>	383,289,226
Adjusted weighted average number of ordinary shares applicable to basic earnings per ordinary share	<b>663,171,253</b>	657,067,245
Basic earnings per ordinary share (sen)	<b>6.00</b>	4.15



# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



## 26. EARNINGS PER ORDINARY SHARE (Cont'd)

### (b) Diluted

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

	2018 RM	Group 2017 RM
Profit attributable to equity holders of the parent	<b>39,766,266</b>	27,252,842
Weighted average number of ordinary shares in issue applicable to basic earnings per ordinary share	<b>663,171,253</b>	657,067,245
Effect of dilution:		
- ESOS	<b>6,471,900</b>	8,520,480
Adjusted weighted average number of ordinary shares applicable to diluted earnings per ordinary share	<b>669,643,153</b>	665,587,725
Diluted earnings per ordinary share (sen)	<b>5.94</b>	4.09

## 27. DIVIDENDS

	Group and Company			
	2018		2017	
	Dividend per share RM	Amount of dividend RM	Dividend per share RM	Amount of dividend RM
Interim cash dividend paid	<b>0.093</b>	<b>30,398,748</b>	0.070	19,215,760
Special cash dividend paid	<b>0</b>	<b>0</b>	0.020	5,462,070
	<b>0.093</b>	<b>30,398,748</b>	0.090	24,677,830

On 22 February 2019, the Directors declared a fourth single tier interim dividend of RM0.0125 per ordinary share in respect of the financial year ended 31 December 2018, amounting to RM8,312,243, which is payable on 19 April 2019. The financial statements for the current financial year do not reflect this dividend. This dividend, will be accounted for as an appropriation of retained earnings during the financial year ending 31 December 2019.

## 28. RELATED PARTY DISCLOSURES

### (a) Identities of related parties

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

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

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018

## 28. RELATED PARTY DISCLOSURES (Cont'd)

(b) The Group and the Company had the following transactions with related parties during the financial year:

	Company	
	2018 RM	2017 RM
Subsidiaries:		
Dividend income	43,080,000	12,240,000
Associate:		
Dividend income	0	594,000

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

(c) Compensation of key management personnel

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

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

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
<b>Directors</b>				
Fees	230,000	179,000	230,000	179,000
Other emoluments	1,277,725	1,271,507	95,647	186,057
	<u>1,507,725</u>	<u>1,450,507</u>	<u>325,647</u>	<u>365,057</u>
<b>Other key management personnel</b>				
Other emoluments	<u>281,501</u>	<u>274,955</u>	<u>0</u>	<u>0</u>

## 29. CAPITAL AND FINANCIAL RISK MANAGEMENT

(a) Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial years ended 31 December 2018 and 31 December 2017.

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

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



## 29. CAPITAL AND FINANCIAL RISK MANAGEMENT (Cont'd)

### (a) Capital management (Cont'd)

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Trade and other payables	<b>8,451,916</b>	9,437,758	<b>268,954</b>	204,271
Provisions	<b>2,153,232</b>	1,855,260	<b>0</b>	0
Less: Cash and bank balances	<b>(10,187,456)</b>	(12,500,826)	<b>(454,856)</b>	(496,175)
Net debt/(cash)	<b>417,692</b>	(1,207,808)	<b>(185,902)</b>	(291,904)
Total capital	<b>112,930,441</b>	101,026,094	<b>63,382,363</b>	49,009,008
Net debt	<b>417,692</b>	0	<b>0</b>	0
Equity	<b>113,348,133</b>	101,026,094	<b>63,382,363</b>	49,009,008
Gearing ratio (%)	<b>0.37%</b>	*	*	*

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

Pursuant to the requirements of Practice Note No. 17/2005 of the Bursa Malaysia Securities, the Group is required to maintain a consolidated shareholders' equity equal to or not less than the 25% of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM40.0 million. The Group has complied with this requirement for the financial year ended 31 December 2018.

The Group is not subject to any other externally imposed capital requirements.

### (b) Financial risk management

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

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

#### (i) Credit risk

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

The primary exposure of the Group to credit risk arises through its trade receivables. The trading terms of the Group with its customers are mainly on credit, except for new customers, where deposits in advance are normally required. The credit period is generally for a period of one (1) month, extending up to three (3) months for major customers. Each customer has a maximum credit limit and the Group seeks to maintain strict control over its outstanding receivables via a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. For other financial assets (including investment securities, cash and bank balances and derivatives), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

## 29. CAPITAL AND FINANCIAL RISK MANAGEMENT (Cont'd)

### (b) Financial risk management (Cont'd)

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

##### Credit risk concentration profile

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

	Group			
	2018 RM	2018 % of total	2017 RM	2017 % of total
By country:				
Malaysia	6,738,944	50%	16,552,040	72%
People's Republic of China	6,618,452	49%	4,313,998	18%
Taiwan	233,869	1%	659,352	3%
Others	0	0%	1,504,839	7%
	<u>13,591,265</u>	<u>100%</u>	<u>23,030,229</u>	<u>100%</u>

At the end of the reporting period, approximately 39% (2017: 63%) of the Group's trade receivables were due from one (1) (2017: one (1)) major customer who is a multi-industry conglomerate.

#### (ii) Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar ("USD"). Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group also holds cash and bank balances denominated in foreign currencies for working capital purposes. At the end of the reporting period, such foreign currency balances amounted to RM3,035,952 (2017: RM2,072,436) for the Group. The policy of the Group is to minimise the exposure in foreign currency risk by matching foreign currency income against foreign currency cost.

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

	Group		Company	
	2018 Profit after tax RM Increase/ (Decrease)	2017 Profit after tax RM Increase/ (Decrease)	2018 Profit after tax RM Increase/ (Decrease)	2017 Profit after tax RM Increase/ (Decrease)
USD/RM				
- Strengthen by 3%	214,660	204,104	0	0
- Weaken by 3%	<u>(214,660)</u>	<u>(204,104)</u>	<u>0</u>	<u>0</u>

#### (iii) Liquidity and cash flow risk

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

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

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 December 2018



## 30. OPERATING SEGMENTS

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

### (a) Geographical information

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

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

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

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

	2018 RM	Group 2017 RM
Malaysia	67,022,465	50,931,172
China	10,198,153	5,872,899
Taiwan	824,899	2,832,876
Others	104,644	2,129,352
	<u>78,150,161</u>	<u>61,766,299</u>

### (b) Major customer

A major customer with revenue equal or more than ten (10) percent of the Group's revenue amounted to RM58,555,689 (2017: RM47,862,784).

## 31. COMPARATIVE FIGURES

Certain comparative figures of the Group have been reclassified to conform with the current year's presentation so as to reflect appropriate presentation of the financial statements of the Group.

	As reported RM	Reclassification RM	As restated RM
<b>Group</b>			
<b>1 January 2017</b>			
<b>Consolidated Statement of Financial Position</b>			
Trade and other payables	12,769,406	(2,983,279)	9,786,127
Provisions	<u>0</u>	<u>2,983,279</u>	<u>2,983,279</u>
<b>Group</b>			
<b>31 December 2017</b>			
<b>Consolidated Statement of Financial Position</b>			
Trade and other payables	11,293,018	(1,855,260)	9,437,758
Provisions	<u>0</u>	<u>1,855,260</u>	<u>1,855,260</u>

# STATISTICS OF SHAREHOLDINGS

## SHARE CAPITAL AS AT 29<sup>th</sup> MARCH, 2019

Number of issued shares : 665,936,780  
 Class of share : Ordinary Shares  
 Voting right : One vote for one ordinary share

## DISTRIBUTION OF SHAREHOLDERS AS AT 29<sup>th</sup> MARCH, 2019

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
Less than 100	47	1.30	1,487	0.00
100 – 1,000	722	20.04	359,259	0.06
1,001 – 10,000	1,636	45.41	8,059,356	1.21
10,001 – 100,000	974	27.03	29,947,420	4.50
100,001 – Less than 5%	219	6.08	193,382,940	29.08
Above 5%	5	0.14	433,228,958	65.15
	3,603	100.00	664,979,420 *	100.00

\* Excluding of 957,360 treasury shares

## TOP THIRTY SHAREHOLDERS AS AT 29<sup>th</sup> MARCH, 2019

Name	Shareholdings	%
1 TAN CHEIK EAIK	160,790,400	24.18%
2 TAN AI JIEW	85,178,600	12.81%
3 KOAY KIM CHIEW	76,020,060	11.43%
4 TAN AH LEK	53,371,026	8.03%
5 TAN CHEIK KOOI	48,282,360	7.26%
6 CHAN HONG HENG	29,739,600	4.47%
7 TAY CHENG KOON	23,471,200	3.53%
8 AMANAH RAYA TRUSTEES BERHAD PMB SHARIAH AGGRESSIVE FUND	10,804,900	1.62%
9 CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	9,652,280	1.45%
10 DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR EASTSPRING INVESTMENTS SMALL-CAP FUND	9,523,520	1.43%
11 TAN AH LEK	9,051,472	1.36%
12 CIMB ISLAMIC NOMINEES (TEMPATAN) SDN BHD CIMB ISLAMIC TRUSTEE BHD FOR BIMB I DIVIDEND FUND	6,754,800	1.02%
13 LAU KHENG TAT	5,148,000	0.77%
14 YAP WING CHUN	3,788,000	0.57%
15 CHONG ENG KEAT @ TEOH ENG KEAT	2,964,500	0.45%
16 RHB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM HOOI CHUAN	2,887,900	0.43%
17 GOLDEN FRESH SDN BHD	2,861,760	0.43%
18 CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 14)	2,694,940	0.41%
19 LIN, CHIN-HSIUNG	2,640,000	0.40%
20 TAN CHENG CHUA	2,568,000	0.39%

## STATISTICS OF SHAREHOLDINGS (Cont'd)



### TOP THIRTY SHAREHOLDERS AS AT 29<sup>th</sup> MARCH, 2019 (Cont'd)

Name	Shareholdings	%
21 HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR RHB SMALL CAP OPPORTUNITY UNIT TRUST	2,527,400	0.38%
22 HUANG, MAO-HSIUNG	2,520,000	0.38%
23 OOI TOON KIT	2,016,000	0.30%
24 TAN BOOI CHARN	1,920,000	0.29%
25 HOONG KIM CHAI	1,824,000	0.27%
26 TAY CHENG KOON	1,713,300	0.26%
27 ANG KUI KIM	1,530,000	0.23%
28 MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR BIMB I GROWTH FUND (940160)	1,505,280	0.23%
29 ANG HOOI ENG	1,440,000	0.22%
30 LO KANG KWAI SIN	1,422,000	0.21%
<b>Total</b>	<b>566,611,298</b>	<b>85.21%</b>

### DIRECTORS' SHAREHOLDINGS AS AT 29<sup>th</sup> MARCH, 2019

Name	Direct Shareholdings	%	Indirect Shareholdings	%
1 Tan Cheik Eaik	161,101,440	24.23	-	-
2 Tan Ai Jiew	85,178,600	12.81	6,012,000 *	0.90
3 Koay Kim Chiew	76,020,060	11.43	-	-
4 Tan Ah Lek	62,796,498	9.44	162,000 *	0.02
5 Dato' Dr Chong Eng Keat @ Teoh Eng Keat	2,964,500	0.45	-	-
6 Ooi Toon Kit	2,016,000	0.30	-	-
7 Dato' Agatha Foo Tet Sin	-	-	-	-

\* Deemed interest held through the shareholdings of his/her children pursuant to Section 59(11)(c) of the Companies Act 2016

### SUBSTANTIAL SHAREHOLDERS (EXCLUDING BARE TRUSTEES) ACCORDING TO THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 29<sup>th</sup> MARCH, 2019

Name	Direct Shareholdings	%	Indirect Shareholdings	%
1 Tan Cheik Eaik	161,101,440	24.23	-	-
2 Tan Ai Jiew	85,178,600	12.81	6,012,000 *	0.90
3 Koay Kim Chiew	76,020,060	11.43	-	-
4 Tan Ah Lek	62,796,498	9.44	162,000 *	0.02
5 Tan Cheik Kooi	48,282,360	7.26	-	-

\* Deemed interest held through the shareholdings of his/her children pursuant to Section 59(11)(c) of the Companies Act 2016



# LIST OF LANDED PROPERTIES

Name of Registered Owner/ Title Identification	Approximate Age of Building/ Tenure/Date of Expiry of Lease	Description/ Existing Use	Land Area/ Built Up Area	Restriction in Interest/ Encumbrances	Prices Paid/Date of Transaction/ Date of Issuance of Certificate of Fitness	Audited Net Book Value as at 31.12.2018
<b>Siangtronics Technology Sdn. Bhd.</b> Plot 9, Medan Bayan Lepas, Technoplex, Bayan Lepas Industrial Zone Phase 4, Bayan Lepas, 11900 Penang erected on the leasehold land held under No. HSD 16397 No. Lot PT 5047 Daerah Barat Daya, Mukim 12, Penang.	18 years/ Leasehold land 60 years/ 17.01.2062	2-storey factory building/ Manufacturing plant, office and warehouse	87,370/ 22,000	(a) The land cannot be transferred, charged, leased or sub-leased, rented or encumbered in whatever manner without a written approval from the State Authority (b) The land cannot be subdivided or partitioned (c) The land and any building erected cannot be used for other usage other than approved by the Penang Development Corporation and State Authority	RM4,199,267/ 01.04.1999/ 06.09.2004	RM2,716,837
<b>Siangtronics Technology Sdn. Bhd.</b> 303-4-20, Krystal Point, Jalan Sultan Azlan Shah MK12, Penang erected on part of the land held under No. GM1333, No. Lot 12033 Tempatan Sungai Nibong Mukim 12, Daerah Barat Daya, Penang.	18 years/ Freehold building/ Not applicable	Office lot/ Office	Not applicable/ 1,049	Nil	RM213,930/ 10.01.1997/ 02.10.1998	RM128,439
<b>Elsoft Research Bhd</b> Plot 85(b), Medan Bayan Lepas, Technoplex, Bayan Lepas Industrial Zone Phase 4, Bayan Lepas, 11900 Penang erected on the leasehold land held under No. Lot 85(b) Daerah Barat Daya, Mukim 12, Penang.	13 years/ Leasehold land 60 years/ date of alienation/ 11.9.2065	2-storey factory building/ Manufacturing plant, office and warehouse	184,945/ 50,000	(a) The land cannot be transferred, charged, leased or sub-leased, rented or encumbered in whatever manner without a written approval from the State Authority (b) The land cannot be subdivided or partitioned (c) The land and any building erected cannot be used for other usage other than approved by the Penang Development Corporation and State Authority	RM10,499,352/ 05.11.2004/ 12.12.2006	RM8,421,818
	5 years/ Leasehold land 60 years/ date of alienation/ 11.9.2065	2-storey factory building/ Manufacturing plant, office and warehouse	184,945/ 92,000		RM10,517,100/ 31.12.2013/ 29.04.2014	RM9,698,863

# NOTICE OF ANNUAL GENERAL MEETING



**NOTICE IS HEREBY GIVEN THAT** the Sixteenth Annual General Meeting of Elsoft Research Berhad ("the Company") will be held at the Conference Room of the Company, Plot 85B, Lintang Bayan Lepas 9, Bayan Lepas Industrial Park, Phase 4, 11900 Penang on Monday, 27 May 2019 at 11.00 a.m. for the transaction of the following business:

## AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2018 together with the Reports of the Directors and Auditors thereon.
2. To approve the payment of Directors' fees of not exceeding RM300,000.00 to the Non-Executive Directors for the financial year ending 31 December 2019.
3. To re-elect the following Directors who retire pursuant to Article 100 (1) of the Company's Articles of Association and being eligible, have offered themselves for re-election:-
  - (i) Mr Tan Ah Lek
  - (ii) Mr Tan Cheik Eaik
4. To re-appoint BDO PLT as Auditors of the Company until the conclusion of the next annual general meeting and to authorise the Directors to fix their remuneration.

**Ordinary Resolution 1**

**Ordinary Resolution 2  
Ordinary Resolution 3**

**Ordinary Resolution 4**

## AS SPECIAL BUSINESS

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

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

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

**Ordinary Resolution 5**

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

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

- (a) The aggregate of the shares which may be purchased and/or held by the Company shall not exceed 10% of the total number of issued shares of the Company ("Shares");
- (b) The maximum fund to be allocated by the Company for the purpose of purchasing the Shares shall not exceed the aggregate of the retained profits of the Company. As of 31 December 2018, the audited retained profits of the Company was RM21,727,878.

# NOTICE OF ANNUAL GENERAL MEETING (Cont'd)

## AS SPECIAL BUSINESS (Cont'd)

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

- (c) The authority conferred by this resolution will commence immediately upon passing of this ordinary resolution and will continue to be in force until:
- (i) the conclusion of the next annual general meeting of the Company following the general meeting at which such resolution was passed at which time it shall lapse unless by ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions; or
  - (ii) the expiration of the period within which the next annual general meeting of the Company after that date is required by law to be held; or
  - (iii) revoked or varied by ordinary resolution passed by the shareholders of the Company in general meeting,
- whichever occurs first, but not so as to prejudice the completion of purchase(s) by the Company before the aforesaid expiry date and in any event, in accordance with the provisions of the Main Market Listing Requirements of Bursa Securities or any other relevant authority; and
- (d) upon completion of the purchase(s) of the Shares by the Company, the Directors of the Company be and are hereby authorised to deal with the Shares in the following manner:
- (i) cancel the Shares so purchased; or
  - (ii) retain the Shares so purchased as treasury shares; or
  - (iii) retain part of the Shares so purchased as treasury shares and cancel the remainder; or
  - (iv) distribute the treasury shares as share dividends to shareholders; or
  - (v) resell the treasury shares on Bursa Securities; or
  - (vi) transfer the treasury shares, or any of the shares for the purposes of or under an employees' share scheme; or
  - (vii) transfer the treasury shares, or any of the shares as purchase consideration; or
- in any other manner as prescribed by the Act, rules, regulations and guidelines pursuant to the Act and the requirements of Bursa Securities and any other relevant authority for the time being in force;

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

**Ordinary Resolution 6**

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

"THAT, Dato' Dr. Chong Eng Keat @ Teoh Eng Keat be retained as Independent Non-Executive Director of the Company, in accordance with the Malaysian Code on Corporate Governance 2017 until the conclusion of the next annual general meeting."

**Ordinary Resolution 7**

### 8. PROPOSED ADOPTION OF NEW CONSTITUTION OF THE COMPANY TO REPLACE THE EXISTING MEMORANDUM AND ARTICLES OF ASSOCIATION

"THAT the Company's existing Memorandum and Articles of Association be replaced in its entirety with a new Constitution as set out in Appendix A AND THAT the Directors and Secretary of the Company be and are hereby authorised to assent to any modifications, variations and/or amendments as may be required by the relevant authorities and to do all things and take all such steps as may be considered necessary and/or expedient in order to give full effect to the Proposed Adoption of New Constitution."

**Special Resolution 1**

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

## BY ORDER OF THE BOARD,

**DATUK TAN LEH KIAH (MAICSA 719692)**  
**OOI YOONG YOONG (MAICSA 7020753)**  
Secretaries

Penang  
26 April 2019

# NOTICE OF ANNUAL GENERAL MEETING (Cont'd)



## Notes:-

### Appointment of Proxy

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

### General Meeting Record of Depositors

8. Only a depositor whose name appears on the Record of Depositors of the Company as at 20 May 2019 shall be entitled to attend this Annual General Meeting or appoint proxies to attend, speak and/or vote on his/her behalf.

### Ordinary Business

9. **Ordinary Resolution 1 – Proposed payment of Directors' fees of not exceeding RM300,000.00 to the Non-Executive Directors for the financial year ending 31 December 2019**

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

### Special Business

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

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

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

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

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

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

Detail information on the Proposed Renewal of Share Buy-Back Authority are set out in page 35 to 44 of the 2018 Annual Report.

# NOTICE OF ANNUAL GENERAL MEETING (Cont'd)

Notes:- (Cont'd)

## **Special Business (Cont'd)**

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

The proposed Ordinary Resolution 7, if passed, will allow Dato' Dr. Chong Eng Keat @ Teoh Eng Keat to be retained as an Independent Non-Executive Director of the Company. The Board of Directors, had vide the Nomination Committee, conducted an annual performance evaluation and assessment of, Dato' Dr. Chong Eng Keat @ Teoh Eng Keat, who has served as Independent Non-Executive Chairman of the Company for a cumulative term of more than twelve (12) years, and recommended him to continue to act as Independent Non-Executive Chairman of the Company based on the justification as set out under Corporate Governance Overview Statement in the Company's Annual Report 2018.

### **13. Special Resolution 1 – Proposed Adoption of New Constitution of the Company to Replace the Existing Memorandum and Articles of Association ("Proposed Adoption")**

The Proposed Adoption is undertaken primarily to streamline the existing Memorandum and Articles of Association with the Companies Act 2016 which came into effective on 31 January 2017. The Proposed Adoption is also undertaken to align the clauses and articles of the existing Memorandum and Articles of Association with the revised Listing Requirements issued by Bursa Malaysia Securities Berhad on 29 November 2017, to provide clarity to certain provisions thereof and to render consistency throughout in order to facilitate and further enhance administrative efficiency.

### **14. Voting at Sixteenth AGM**

Pursuant to Paragraph 8.29A of Bursa Malaysia Securities Berhad Main Market Listing Requirements, all resolutions set out in the Notice of Sixteenth AGM will be put to vote on a poll.

## **Personal data privacy:**

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



# PROXY FORM



ELSOFT RESEARCH BERHAD (617504-K)  
(Incorporated in Malaysia)

CDS account no.:

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

of \_\_\_\_\_

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

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

of \_\_\_\_\_

or failing whom, the Chairman, as \* my/our proxy to vote for \* me/us on \* my/our behalf at the Sixteenth Annual General Meeting of the Company to be held at the Conference Room of the Company, Plot 85B, Lintang Bayan Lepas 9, Bayan Lepas Industrial Park, Phase 4, 11900 Penang on Monday, 27 May 2019 at 11.00 a.m. and at any adjournment thereof, on the following resolutions referred to in the Notice of Sixteenth Annual General Meeting.

No.	Resolutions		For	Against
1.	To approve the payment of Directors' fees of not exceeding RM300,000.00 to the Non-Executive Directors for the financial year ending 31 December 2019	Ordinary Resolution 1		
2.	To re-elect Mr Tan Ah Lek as Director of the Company	Ordinary Resolution 2		
3.	To re-elect Mr Tan Cheik Eaik as Director of the Company	Ordinary Resolution 3		
4.	To re-appoint BDO PLT as Auditors of the Company and to authorize the Directors to fix their remuneration	Ordinary Resolution 4		
5.	Authority under Sections 75 and 76 of the Companies Act 2016 for the Directors to issue shares	Ordinary Resolution 5		
6.	Proposed Renewal of Share Buy-Back Authority	Ordinary Resolution 6		
7.	Continuation in office as an Independent Non-Executive Director - Dato' Dr. Chong Eng Keat @ Teoh Eng Keat	Ordinary Resolution 7		
8.	To approve the adoption of new Constitution of the Company	Special Resolution 1		

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

The proportion of shareholdings to be represented by my proxies:

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

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2019

Number of shares held

\_\_\_\_\_  
Signature(s) of member(s)

\* Strike out whichever is not desired.

## Notes:-

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

Please fold across the line and close

STAMP

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

39 Salween Road  
10050 Penang

Please fold across the line and close





<http://elsoftresearch.com>

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