ILLUSTRATIVE FINANCIAL STATEMENTS

Malaysian Private Entities Reporting Standard

Mazars SME Sdn Bhd ▪ 31 December 2016

MAZARS

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ABOUT MAZARS

Mazars is an international, integrated, transparent and independent organisation. Globally, we specialise in audit, accountancy, tax, legal and advisory services.

Mazars can rely on the skills of 17,000 professionals in the 77 countries which make up the integrated partnership in Europe, Africa, the Middle East, Asia Pacific, North America, Latin America and the Caribbean.

Mazars in Malaysia

The root of Mazars in Malaysia goes back to the 1986 merger of Hew & Co (established in 1955) and Tan Toh Hua & Partners (established in 1958). The merged firm practised under the name of Hew & Tan until December 1999 when it changed its name to Moores Rowland. On 1 September 2008, the Kuala Lumpur office of Moores Rowland merged with the global integrated structure of Mazars. To implement the merger, a new firm, Mazars (AF:001954), was registered to assume all existing mandates and statutory audit appointments of the Kuala Lumpur office of Moores Rowland.

Our staff and processes are committed to producing the highest standards of efficiency and technical excellence to our clients. Mazars Malaysia provides audit, accountancy, tax and advisory services across a range of markets and sectors. We also offer specialised services headed up by dedicated experts including financial due diligence, Global China Services, IFRS, outsourcing and technology & security.

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EXECUTIVE SUMMARY - MPERS

Abbreviations

● Act	Companies Act 1965, Malaysia
● MASB	Malaysian Accounting Standards Board
● MFRS	Malaysian Financial Reporting Standards
● MPERS	Malaysian Private Entities Reporting Standard
● PERS	Private Entity Reporting Standards

About MPERS

The MASB issued MPERS in February 2014. MPERS is a self-contained financial reporting standard that comes in 35 sections, which covers all the relevant areas for financial reporting by private entities in Malaysia. MPERS is word-for-word the *IFRS for SMEs* issued by the International Accounting Standards Board in July 2009, except for the requirements on income tax and property development activities.

MPERS is effective for financial statements with annual periods beginning on or after 1 January 2016. On the same date, PERS was withdrawn for application.

Private Entities

MPERS defines a private entity as a private company incorporated under the Act, that:

- is not itself required to prepare or lodge any financial statements under any law administered by the Securities Commission Malaysia or Bank Negara Malaysia; and

- is not a subsidiary or associate of, or jointly controlled by, an entity which is required to prepare or lodge any financial statements under any law administered by the Securities Commission Malaysia or Bank Negara Malaysia.

Private entities have the option to apply in its entirety either MPERS or MFRS.

Why MPERS ?

- Improved comparability. As of 30 August 2016, about 80 jurisdictions around the world require or permit the use of *IFRS for SMEs* .

- Improved quality of financial reporting as compared to PERS.

- Simplifications from full MFRS: (i) some topics in MFRS are omitted if irrelevant to private entities; (ii) recognition and measurement simplifications; (iii) reduced disclosures; and (iv) simplified drafting of financial statements.

- Less burden to preparers as compared to MFRS.

ABOUT THIS PUBLICATION

This publication provides a set of illustrative financial statements of a fictitious company, Mazars SME Sdn Bhd, for the financial year ending 31 December 2016. Mazars SME Sdn Bhd is a company incorporated in Malaysia, which is a private entity in accordance with the definition of MPERS. The names of people and entities included in this publication are fictitious. Any resemblance to a person or entity is purely coincidental.

Scope

This set of illustrative financial statements includes sample disclosures under the requirements of the Act and MPERS issued by the MASB that is effective for the financial year commencing on 1 January 2016. The 2015 Amendments to MPERS issued by the MASB in October 2015 had been adopted in this set of illustrative financial statements.

MPERS Section 9, Section 12 (hedge accounting), Section 26, Section 28 (defined benefit plan), Section 31 and part of Section 34 are not applied in this set of illustrative financial statements.

Illustrative in nature

This set of illustrative financial statements does not illustrate all requirements of the Act and MPERS. The sample disclosures in this set of illustrative financial statements should not be considered to be the only acceptable form of presentation. The form and content of each reporting entity's financial statements are the responsibility of the entity's directors/management and other forms of presentation which are equally acceptable may be preferred and adopted, provided they include the specific disclosures prescribed in the Act and MPERS. The illustrative financial statements are not substitutes for reading the legislation or standards themselves, or for professional judgement as to fairness of presentation. They do not cover all possible disclosures required by the Act and MPERS. Depending on the circumstances, further specific information may be required in order to ensure fair presentation and compliance with laws and financial reporting framework in Malaysia.

Disclaimer

The information in this publication is for general guidance and is not a substitute for professional advice. This publication shall under no circumstances be associated, in whole or in part, with an opinion or professional advice of Mazars. If professional advice is required, the services of a competent professional should be sought. Mazars and its employees accept no responsibility for any errors this publication might contain, whether caused by negligence or otherwise, or for any actions taken or not taken on the basis of the information in this publication.

MAZARS SME SDN BHD

Company No.: 00000-X
(Incorporated in Malaysia)

ILLUSTRATIVE FINANCIAL STATEMENTS

Financial Year Ended 31 December 2016

Company No.: 00000-X

MAZARS SME SDN BHD
(Incorporated in Malaysia)

CORPORATE INFORMATION

Domicile:	Malaysia
Legal form and place of incorporation:	Private company incorporated in Malaysia under the Companies Act 1965, and limited by shares.
Registered office:	7th Floor, South Block 142 Jalan Ampang 50450 Kuala Lumpur Malaysia
Principal place of business:	11th Floor, South Block 142 Jalan Ampang 50450 Kuala Lumpur Malaysia

Company No.: 00000-X

MAZARS SME SDN BHD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
NON-CURRENT ASSETS			
Property, plant and equipment	*5*	577,000	500,000
Investment properties - at cost	*6*	27,500	20,000
Investment properties - at fair value	*7*	35,000	30,000
Land held for property development	*8*	50,000	70,000
Intangible assets	*9*	12,400	15,000
Investments in associates	*10*	48,000	46,500
Investments in joint ventures	*11*	65,000	64,000
Other investments	*12*	29,000	26,500
Other receivables	*13*	178,000	179,000
Deferred tax assets	*14*	29,000	27,000
		1,050,900	978,000
CURRENT ASSETS			
Property development costs	*15*	585,000	310,000
Inventories	*16*	320,000	270,000
Trade and other receivables	*13*	281,000	214,000
Amount due from customers	*17*	130,000	110,000
Derivative financial assets	*18*	120,000	150,000
Current tax assets		25,000	-
Cash, bank balances and deposits	*19*	170,000	125,000
		1,631,000	1,179,000
TOTAL ASSETS		2,681,900	2,157,000
EQUITY			
Share capital	*20*	75,000	55,000
Share premium	*21*	15,000	5,000
Revaluation surplus	*21*	-	-
Translation reserve	*21*	700	(300)
Retained earnings	*21*	1,219,800	802,300
		1,310,500	862,000

Company No.: 00000-X

MAZARS SME SDN BHD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
NON-CURRENT LIABILITIES			
Bank borrowings	*22*	250,000	150,000
Lease liabilities	*23*	9,900	8,400
Other payables	*24*	107,000	100,000
Provision	*25*	20,000	30,000
		386,900	288,400
CURRENT LIABILITIES			
Trade and other payables	*24*	325,000	315,000
Amount due to customers	*17*	100,000	150,000
Derivative financial liabilities	*18*	150,000	110,000
Bank borrowings	*22*	130,000	150,000
Lease liabilities	*23*	2,500	1,600
Provision	*25*	157,000	170,000
Deferred income	*26*	120,000	70,000
Current tax liabilities		-	40,000
		984,500	1,006,600
TOTAL LIABILITIES		1,371,400	1,295,000
TOTAL EQUITY AND LIABILITIES		2,681,900	2,157,000

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

Company No.: 00000-X

MAZARS SME SDN BHD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Revenue	*27*	1,420,000	1,100,000
Cost of sales		(800,000)	(700,000)
Gross profit		620,000	400,000
Other income and gains	*28*	76,700	51,050
Administrative expenses		(15,000)	(10,000)
Distribution expenses		(25,000)	(20,000)
Other expenses and losses		(40,000)	(30,000)
Finance costs	*29*	(18,300)	(16,100)
Profit before tax	*30*	598,400	374,950
Income tax	*31*	(163,900)	(103,738)
Profit for the year		434,500	271,212
Other comprehensive income, net of tax:			
Items will be reclassified subsequently to profit or loss:			
Cash flow hedge of hedging instruments		-	-
Reclassification of cash flow hedge		-	-
Items will not be reclassified subsequently to profit or loss:			
Translation differences of foreign operations		1,000	(800)
Actuarial gain/(loss) of defined benefit plans		-	-
Revaluation of property, plant and equipment		-	-
		1,000	(800)
Total comprehensive income for the year		435,500	270,412

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

Company No.: 00000-X

MAZARS SME SDN BHD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Share capital RM'000	Share premium RM'000	Translation reserve RM'000	Retained earnings RM'000	Total RM'000
At 1 January 2015		50,000	-	500	551,088	601,588
Profit for the year		-	-	-	271,212	271,212
Other comprehensive income		-	-	(800)	-	(800)
Total comprehensive income		-	-	(800)	271,212	270,412
Issuance of shares		5,000	5,000	-	-	10,000
Dividends	*32*	-	-	-	(20,000)	(20,000)
Transfer of reserves		-	-	-	-	-
Issuance of convertible bond		-	-	-	-	-
At 31 December 2015		55,000	5,000	(300)	802,300	862,000
Profit for the year		-	-	-	434,500	434,500
Other comprehensive income		-	-	1,000	-	1,000
Total comprehensive income		-	-	1,000	434,500	435,500
Issuance of shares		20,000	10,000	-	-	30,000
Dividends	*32*	-	-	-	(17,000)	(17,000)
Transfer of reserves		-	-	-	-	-
Issuance of convertible bond		-	-	-	-	-
At 31 December 2016		75,000	15,000	700	1,219,800	1,310,500

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

Company No.: 00000-X

MAZARS SME SDN BHD
(Incorporated in Malaysia)

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Revenue	*27*	1,420,000	1,100,000
Cost of sales		(800,000)	(700,000)
Gross profit		620,000	400,000
Other income and gains	*28*	76,700	51,050
Administrative expenses		(15,000)	(10,000)
Distribution expenses		(25,000)	(20,000)
Other expenses and losses		(40,000)	(30,000)
Finance costs	*29*	(18,300)	(16,100)
Profit before tax	*30*	598,400	374,950
Income tax	*31*	(163,900)	(103,738)
Profit for the year		434,500	271,212
Retained earnings at the beginning of year		802,300	551,088
Dividends	*32*	(17,000)	(20,000)
Retained earnings at the end of year		1,219,800	802,300

<u>Guidance</u>

The statement of income and retained earnings presents an entity's profit or loss and changes in retained earnings for a reporting period.

Paragraph 3.18 of MPERS permits an entity to present a statement of income and retained earnings in place of a statement of comprehensive income and a statement of changes in equity, if the only changes to its equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy.

Company No.: 00000-X

MAZARS SME SDN BHD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
OPERATING ACTIVITIES			
Profit before tax		598,400	374,950
Adjustments for:			
Depreciation and amortisation		66,000	55,500
Impairment losses		37,900	39,000
Reversal of impairment losses		(13,700)	(300)
Amortisation of deferred income		(30,000)	(30,000)
Interest income		(6,000)	(5,000)
Dividend income		(1,500)	(750)
Changes in fair value of investment properties		(7,000)	(4,500)
Changes in fair value of investments in associates		(1,000)	-
Changes in fair value of investments in joint venture		(2,000)	-
Changes in fair value of other investments		(3,000)	-
Changes in fair value of derivative instruments		4,000	19,000
Property, plant and equipment written off		6,000	-
Investment properties written off		600	-
Intangible assets written off		200	-
Gain on disposal of property, plant and equipment		(2,000)	-
Loss on disposal of investment properties		50	-
Loss on disposal of intangible assets		100	-
Net provision expenses		17,000	200,000
Net unrealised foreign exchange losses/(gains)		600	(300)
Finance costs		18,300	16,100
Operating profit before changes in working capital		682,950	663,700
Changes in property development costs		(400,000)	(250,000)
Changes in inventories		(50,400)	(270,000)
Changes in receivables		62,000	199,900
Changes in payables		74,700	341,288
Cash flows from operations		369,250	684,888
Tax paid		(226,400)	(73,738)
Interest paid on bank overdraft		(900)	(700)
Interest received on bank deposit		6,000	5,000
Settlement of provision		(40,000)	-
Government grant received		80,000	100,000
Net cash from operating activities		187,950	715,450

Company No.: 00000-X

MAZARS SME SDN BHD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	*(a)*	(155,000)	(787,400)
Proceeds from disposal of property, plant and equipment		10,000	-
Purchase of investment properties		(7,000)	(60,000)
Proceeds from disposal of investment properties		50	-
Additions to land held for property development		(15,000)	(105,000)
Purchase of intangible assets		(2,000)	(30,000)
Proceeds from disposal of intangible assets		300	-
Investment in associates		-	(48,000)
Investment in joint ventures		(1,000)	(68,000)
Advances to a joint venture		(20,000)	(40,000)
Advances to an associate		-	(80,000)
Advances to holding company		-	(100,000)
Repayment from a director		-	1,000
Dividends received		1,500	750
Interest received on investments and advances		200	200
Decrease/(Increase) in pledged deposits		3,000	(5,000)
Net cash used in investing activities		(184,950)	(1,321,450)
FINANCING ACTIVITIES			
Issuance of ordinary shares		30,200	50,000
Issuance of redeemable preference shares		-	10,000
Share issuance expenses		(200)	-
Drawdown of bank borrowings		150,000	300,000
Repayment of bank borrowings		(50,000)	(50,000)
Advances from immediate holding company		-	100,000
Repayment to an associate		(35,000)	-
Finance lease rental paid		(2,600)	(2,600)
Dividends paid		(17,000)	(20,000)
Finance costs paid		(10,400)	(10,400)
Net cash from financing activities		65,000	377,000
Net changes in cash and cash equivalents		68,000	(229,000)
Effect of changes in exchange rate		-	-
Cash and cash equivalents at the beginning of year		70,000	299,000
Cash and cash equivalents at the end of year		138,000	70,000

MAZARS SME SDN BHD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Cash and cash equivalents at the end of year comprise:			
Cash, bank balances and deposits	*19*	170,000	125,000
Bank overdraft	*22*	(30,000)	(50,000)
Pledged deposits	*19*	(2,000)	(5,000)
		138,000	70,000

Non-cash Transactions:

(a) Purchase of property, plant and equipment:

		2016 RM'000	2015 RM'000
Cash paid		155,000	787,400
Finance lease		5,000	12,600
Additions during the year	*5*	160,000	800,000

(b) *Acquisition of an entity by means of an equity issue.*

(c) *Conversion of debt to equity.*

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

Mazars SME Sdn Bhd (the "Company") is a private limited liability company incorporated and domiciled in Malaysia. The addresses of the Company’s registered office and principal place of business are set out in page 1.

The principal activities of the Company are construction, property development, manufacturing and investment holding.

The immediate and ultimate holding companies are Mazars Mega Sdn Bhd and Mazars Ultra Sdn Bhd respectively. Both the holding companies are incorporated in Malaysia.

The financial statements are presented in Ringgit Malaysia ("RM"), which is also the functional currency of the Company. All amounts in the financial statements are rounded to the nearest thousand, unless otherwise stated.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with Malaysian Private Entities Reporting Standard ("MPERS") issued by the Malaysian Accounting Standards Board ("MASB") and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements have been prepared using historical cost basis, unless otherwise stated in the significant accounting policies set out in note 3.

Application of Amendments to MPERS

In October 2015, the MASB issued amendments to MPERS which are effective for the annual periods beginning on or after 1 January 2017. The Company has early adopted such amendments to the MPERS for the financial year ended 31 December 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Property, Plant and Equipment

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

<u>Alternative</u>: Assets measured at revaluation.

Land and buildings are measured at revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated depreciation and any accumulated impairment losses. All other items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

The cost of an item of property, plant and equipment comprises (i) purchase price; (ii) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and (iii) the initial estimate of the costs of dismantling and removing the item and restoring the site on which the asset is located.

Freehold land and construction work in progress are not depreciated.

All other items of property, plant and equipment are depreciated by allocating the depreciable amounts of assets less their residual values over their estimated useful lives, using straight-line method. The annual depreciation rate used for the depreciation are as follows:

Leasehold land	Over the lease term
Buildings	2%
Tools and equipment	20% to 25%
Machinery	10%
Furniture and fittings	10% to 20%
Motor vehicles	20%

At the end of each reporting period, the estimated residual values, estimated useful lives and depreciation methods are reviewed for any significant changes. If there is any change, the depreciation of an asset is revised prospectively.

3.2 Investment Properties

Investment property is property (land or a building) held by the owner or by the lessee under a finance lease for capital appreciation, to earn rentals or both.

An investment property is recorded at cost on initial recognition. The cost of a purchased investment property comprises purchase price and any directly attributable expenditure and other transaction costs. The cost of a self-constructed investment property comprises construction cost and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, but exclude internal profit.

Investment properties whose fair value can be measured reliably without undue cost or effort on an ongoing basis:

Investment properties are measured at fair value at each reporting date, with changes in fair value recognised in profit or loss.

If a reliable measure of fair value of an investment property is no longer available without undue cost or effort, the investment property shall thereafter be measured at cost less accumulated depreciation and any accumulated impairment losses, until a reliable measure of fair value becomes available. The carrying amount of the investment property on the date of transfer becomes its deemed cost for subsequent accounting purposes.

Investment properties whose fair value cannot be measured reliably without undue cost or effort on an ongoing basis:

Investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land and investment properties under construction are not depreciated.

All other investment properties are depreciated by allocating the depreciable amounts of assets less their residual values over their estimated useful lives, using straight-line method. The annual depreciation rate used for the depreciation are as follows:

Leasehold land	Over the lease term
Buildings	2%

At the end of each reporting period, the estimated residual values, estimated useful lives and depreciation methods are reviewed for any significant changes. If there is any change, the depreciation of an asset is revised prospectively.

3.3 Intangible Assets

Goodwill

In a business combination accounted for under the purchase method, goodwill, if any, is recognised as an asset at the acquisition date. Goodwill is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

After the initial recognition, goodwill is measured at cost less accumulated amortisation and any accumulated impairment losses. Goodwill is amortised over 10 years on the straight-line basis.

Research and development

All expenditure for both research and development activities is recognised as an expense when it is incurred, unless it forms part of the cost of another recognised asset, in which case, the expenditure is capitalised in that asset.

Other intangible assets

Acquired intangible assets are recognised initially at cost. Subsequently, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised by allocating the depreciable amounts of assets over their estimated useful lives, using straight-line method. The annual amortisation rate used for the amortisation are as follows:

Software	20%
Patent and licence	10%

3.4 Associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Investments in associates, other than those for which there is a published price quotation, are measured at cost less any accumulated impairment losses.

Investments in associates for which there is a published price quotation are measured at fair value, with changes in fair value recognised in profit or loss.

3.5 Joint Venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

A jointly controlled entity is a joint venture that involves the establishment of a corporation in which each venturer has an interest.

Investments in jointly controlled entities, other than those for which there is a published price quotation, are measured at cost less any accumulated impairment losses.

Investments in jointly controlled entities for which there is a published price quotation are measured at fair value, with changes in fair value recognised in profit or loss.

3.6 Property Development

Land held for property development is classified as non-current asset, when no development activities have been carried out or when development activities are not expected to be completed within the normal operating cycle. Land held for property development is stated at cost (including incidental expenditure incurred to put the land in a condition ready for development) less any accumulated impairment losses.

Land on which development activity has commenced and is expected to be completed within the normal operating cycle is included in property development costs, which is classified as current assets.

Property development costs comprise land cost, all other costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities.

When the outcome of a development activity can be estimated reliably, revenue and development expenses are recognised in profit or loss by reference to the stage of completion of the development activity using the percentage of completion method. Under this method, revenue is matched with development expenses incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit attributed to the proportion of work completed.

The stage of completion is determined by the proportion of development costs incurred for work performed to date bear to the estimated total development costs. In applying this method of determining the stage of completion, only those development costs that reflect development work performed are included in development costs incurred to date. Revenue is only recognised in respect of all development units that have been sold.

When the outcome of a development cannot be estimated reliably, revenue is recognised only to the extent of development costs incurred that is probable will be recoverable, and the development costs on the development units sold are recognised as an expense in the period in which they are incurred.

When it is probable that total development costs will exceed total revenue, the foreseeable loss is recognised immediately.

The excess of revenue recognised in profit or loss over the billings to purchasers of development units is recognised as accrued billings classified as current asset. The excess of billings to purchasers of development units over revenue recognised in profit or loss is recognised as progress billings classified as current liability.

3.7 Impairment of Assets

Other than inventories, deferred tax assets, financial assets, investment properties measured at fair value and assets arising from construction contracts, an impairment loss occurs when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

At each reporting date, the entity assesses whether there is any indication that an asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset and compares with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss. For property, plant and equipment carried at revalued amount, impairment loss is treated as a revaluation decrease.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units that is expected to benefit from the synergies of the business combination.

An impairment loss recognised for goodwill shall not be reversed in a subsequent period. For other assets, any reversal of impairment loss for an asset is recognised in profit or loss, subject to the limit that the revised carrying amount does not exceed the amount that would have been determined had no impairment loss been recognised in prior periods.

3.8 Inventories

Inventories are measured at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost of inventories is measured by using the [first-in,first-out / weighted average] cost formula. Net realisable value is the estimated selling price less costs to complete and sell.

3.9 Construction Contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised by reference to the stage of completion of the contract activity, i.e. the percentage of completion method. The stage of completion is determined by the proportion of contract costs incurred for work performed to date bear to the estimated total contract costs.

When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable, and the contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately, with a corresponding provision for an onerous contract.

The excess of contract revenue recognised in profit or loss over the billings to contract customers is recognised as amount due from customers classified under current asset.

The excess of billings to contract customers over contract revenue recognised in profit or loss is recognised as amount due to customers classified under current liability.

3.10 Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. They are held to meet short-term cash commitments instead of for investment or other purposes. If bank overdrafts are repayable on demand and form an integral part of cash management, bank overdrafts are a component of cash and cash equivalents.

3.11 Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(a) Initial recognition and measurement

A financial asset or a financial liability (including derivative instruments) is recognised only when the entity becomes a party to the contractual provisions of the instrument.

On initial recognition, a financial asset or a financial liability is measured at the transaction price, including transaction costs. For a financial asset or a financial liability that is subsequently measured at fair value through profit or loss, transaction costs are expensed to profit or loss when incurred.

An arrangement constitutes a financing transaction, if payment is deferred beyond normal business terms. Under a financing transaction, a financial asset or a financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument as determined at initial recognition.

(b) Subsequent measurement

Debt instruments are measured at amortised cost using the effective interest method. Debt instruments that are classified as current assets or current liabilities are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, unless the arrangement constitutes, in effect, a financing transaction.

Investments in non-convertible preference shares and non-puttable ordinary or preference shares, that are publicly traded or their fair value can otherwise be measured reliably without undue cost or effort, are measured at fair value with changes in fair value recognised in profit or loss. All other such investments are measured at cost less impairment.

Derivative financial instruments (other than derivatives designated as a hedging instrument) are measured at fair value and changes in fair value recognised in profit or loss.

All financial assets are subject to review for impairment, except for financial assets measured at fair value through profit or loss.

(c) Impairment

At the end of each reporting period, financial assets that are measured at cost or amortised cost are assessed as to whether there is objective evidence of impairment. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

For a financial asset measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If such a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For a financial asset measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be receive for the asset if it were to be sold at the reporting date.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed in profit or loss.

(d) Derecognition

A financial asset is derecognised only when (i) the contractual rights to receive the cash flows from the financial asset expire or are settled; or (ii) the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset, including circumstances when the entity acts only as a collecting agent of the transferee, and retains no significant risks and rewards of ownership of the financial asset or no continuing involvement in the control of the financial asset transferred.

A financial liability is derecognised only when it is extinguished, i.e. when the obligation specified in the contract is discharged, is cancelled or expired. A substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

3.12 Equity Instruments and Distribution

Equity instruments (other than those issued as part of a business combination or as settlement of an existing financial liability) are measured at the fair value of the cash or other resources received or receivable. The transaction costs of an equity transaction are accounted for as a deduction from equity, net of any income tax effect.

Preference shares that are non-redeemable by the holders or give the issuer the right to redeem the instruments, and the dividend payment at discretion of the issuer, are classified as equity.

Preference shares that provide for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or give the holders the right to require the issuer to redeem the instruments at or after a particular date for a fixed or determinable amount, are classified as financial liability.

On issuing convertible debt or similar compound financial instruments that contain both a liability and an equity component, proceeds are allocated between the liability component and the equity component.

Equity is reduced for the amount of distributions to the holders of equity instruments. Dividends declared are recognised as a liability only after they have been appropriately authorised. For a distribution of non-cash assets to owners, dividend payable is measured at the fair value of the assets to be distributed.

3.13 Leases

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

Finance lease - Lessee

At the commencement of the lease term, the rights of use and obligations under finance leases are recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease. Subsequently, the minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the effective interest method. Contingent rents are charged as expenses in the periods in which they are incurred.

Operating lease - Lessee

Lease payments under operating leases are recognised as an expense over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern of the user’s benefit.

3.14 Provision

A provision is recognised only when (i) the entity has an obligation at the reporting date as a result of a past event; (ii) it is probable that the entity will be required to transfer economic benefits in settlement; and (iii) the amount of the obligation can be estimated reliably.

A provision is initially measured at the best estimate of the amount required to settle the obligation at the reporting date. When the effect of the time value of money is material, the amount of a provision shall be the present value of the amount expected to be required to settle the obligation. Thereafter, the provision is reviewed at each reporting date and adjust it to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. Any adjustments to the amounts previously recognised is recognised in profit or loss. When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

3.15 Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of any discounts, rebates, returns and taxes collected on behalf of government.

Revenue from the sale of goods is recognised when (i) significant risks and rewards of ownership of the goods are transferred to the buyer; (ii) the seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (iii) the amount of revenue can be measured reliably; (iv) it is probable on the inflow of economic benefits that are associated with the transaction; and (v) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue associated with the rendering of services is recognised by reference to the stage of completion of the transaction at the end of the reporting period, when the outcome of a transaction can be estimated reliably.

Interest income is recognised using the effective interest method.

Dividends income is recognised when the shareholder’s right to receive payment is established.

Lease income from operating leases is recognised on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the lessee’s benefit from the leased asset.

3.16 Government Grant

A grant that does not impose specified future performance conditions on the recipient is recognised in income when the grant proceeds are receivable. A grant that imposes specified future performance conditions on the recipient is recognised in income only when the performance conditions are met.

A grant received before fulfilment of the revenue recognition criteria is recognised as a deferred income (a liability).

The benefit of a government loan at a below market rate of interest is treated as a government grant. The benefit is measured as the difference between its fair value and the proceeds received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the related costs for which the grants are intended to compensate are recognised as an expense.

3.17 Employee Benefits

The cost of all employee benefits to which the employees have become entitled as a result of service rendered to the entity during the reporting period is recognised as an expense in profit or loss, other than the cost to be recognised as part of the cost of an asset.

Short-term employee benefits (including wages, salaries, social security contributions, short-term compensated absences, bonuses, non-monetary benefits, etc.) are measured at the undiscounted amount of benefits expected to be paid in exchange for the services rendered by employees.

The contribution payable to an approved fund for a period in accordance with the terms of the plan (i.e. a defined contribution plan) is recognised as an expense in profit or loss, other than the cost to be recognised as part of the cost of an asset. When the fixed contributions have been paid, the entity has no further contribution obligations.

Termination benefits are recognised as a liability and an expense only when the entity is demonstrably committed either: (i) to terminate the employment of an employee or group of employees before the normal retirement date; or (ii) to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits are measured at the best estimate of the expenditure that would be required to settle the obligation at the reporting date. When termination benefits are due more than twelve months after the end of the reporting period, they are measured at their discounted present value.

3.18 Borrowing Costs

All borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

3.19 Income Tax

Current tax liability is recognised for tax payable on taxable profit for the current and past periods. If the amount paid for the current and past periods exceeds the amount payable for those periods, the excess is recognised as a current tax asset. Current tax liability or asset is measured at the amount it expects to pay or recover using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from: (i) the initial recognition of goodwill; or (ii) the initial recognition of an asset or a liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit or tax loss.

Deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that (a) the parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and (b) it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or a liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit or tax loss.

Deferred tax asset is recognised for all deductible temporary differences arising from investments in subsidiaries, branches and associates and interests in joint ventures, only to the extent that it is probable that: (a) the temporary difference will reverse in the foreseeable future; and (b) taxable profit will be available against which the temporary difference can be utilised.

A deferred tax liability or asset is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which, at the reporting date, the carrying amount of the related assets and liabilities is expected to be recovered or settled.

Current or deferred tax assets and liabilities are not discounted.

3.20 Foreign Currency

Functional currency is the currency of the primary economic environment in which the entity operates.

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period: (i) foreign currency monetary items are translated using the closing rate; (ii) non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and (iii) non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items are recognised in profit or loss in the period in which they arise.

Foreign operations

Exchange differences arising on a monetary item that forms part of the entity's net investment in a foreign operation are recognised in other comprehensive income and reported as a component of equity. They shall not be recognised in profit or loss on disposal of the net investment.

For the purpose of preparation of financial statements that incorporating the assets, liabilities, income and expenses of foreign operations: (a) assets and liabilities of foreign operations are translated at the closing rate; (b) goodwill and fair value adjustments arising on the acquisition of foreign operations are translated at the closing rate; (c) income and expenses of foreign operations are translated at exchange rates at the dates of the transactions; and (d) all resulting exchange differences arising on translation of foreign operations are recognised in other comprehensive income and reported as a component of equity, and are not subsequently be reclassified to profit or

4. JUDGEMENTS AND ESTIMATION UNCERTAINTY

4.1 Judgements

The judgements that management has made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Joint control over an investee

The Company and another investor hold 75% and 25% respectively in the equity interest of ABC Sdn Bhd. In the arrangement, decisions about the relevant activities of ABC Sdn Bhd require agreement of all shareholders. The Company determines that on the basis of the terms in the arrangement, it has joint control over ABC Sdn Bhd and thus treats it as a joint arrangement.

4.2 Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period:

Measurement of provision

Management evaluates the estimates based on the historical experience and other inputs or assumptions, current developments and future events that are reasonably possible under the particular circumstances. A probability-weighted estimate of the outflows required to settle the obligation is used. The actual outcome may differ from the estimates made and this may have a significant effect on the Company's financial position and financial performance. The carrying amount of provision as at the end of the reporting period is set out in note 25.

Impairment of receivables

The Company recognises impairment losses for receivables using the incurred loss model. Individually significant receivables are tested for impairment separately by estimating the cash flows expected to be recoverable. All others are grouped into credit risk classes and tested for impairment collectively, using the past experience of loss statistics, ageing of past due amounts and current economic trends. The actual eventual losses may be different from the allowance made and this may affect the Company's future financial position and financial performance. The carrying amount of receivables as at the end of the reporting period is set out in note 13.

Company No.: 00000-X

5. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Tools and equipment RM'000	Machinery RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Construction work in progress RM'000	Total RM'000
Cost									
At the beginning of year	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	800,000
Additions	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	160,000
Disposals	-	-	-	(10,000)	(10,000)	(10,000)	(10,000)	-	(40,000)
Written off	-	-	-	(5,000)	(5,000)	(5,000)	(5,000)	-	(20,000)
Transfer	-	-	50,000	-	-	-	-	(50,000)	-
Transfer from investment properties	-	3,000	-	-	-	-	-	-	3,000
At the end of year	120,000	123,000	170,000	105,000	105,000	105,000	105,000	70,000	903,000
Depreciation & Impairment									
At the beginning of year	-	50,000	50,000	50,000	50,000	50,000	50,000	-	300,000
Depreciation	-	10,000	10,000	10,000	10,000	10,000	10,000	-	60,000
Disposals	-	-	-	(8,000)	(8,000)	(8,000)	(8,000)	-	(32,000)
Written off	-	-	-	(3,500)	(3,500)	(3,500)	(3,500)	-	(14,000)
Impairment losses	-	-	-	-	-	10,000	10,000	-	20,000
Reversal of impairment losses	-	-	-	(4,000)	(4,000)	-	-	-	(8,000)
At the end of year	-	60,000	60,000	44,500	44,500	58,500	58,500	-	326,000
Carrying Amount									
At 31 December 2016	120,000	63,000	110,000	60,500	60,500	46,500	46,500	70,000	577,000
At 31 December 2015	100,000	50,000	50,000	50,000	50,000	50,000	50,000	100,000	500,000

5. PROPERTY, PLANT AND EQUIPMENT

Freehold land with carrying amount of RM100,000 (2015: RM100,000) has been pledged as security for the term loan of the Company.

The Company has not obtained title to leasehold land with carrying amount of RM120,000 (2015: RM100,000) as it is being processed by the land office.

The unexpired lease period of leasehold land:

	2016 RM'000	2015 RM'000
Long lease (50 years or more)	19,000	20,000
Short lease (less than 50 years)	44,000	30,000
	63,000	50,000

Carrying amount of assets under finance leases:

	2016 RM'000	2015 RM'000
Motor vehicles	30,000	12,000
Machinery	20,000	22,000
	50,000	34,000

The Company had entered into an agreement to dispose a machine for RM21,000,000. At the end of the reporting period, the disposal is not completed and the carrying amounts of the asset and its related liability are as follows:

	RM'000
Machinery	20,000
Lease liability	(8,400)
	11,600

<u>Alternative</u>: Property, plant and equipment measured at cost and revaluation

	Freehold land RM'000	Buildings RM'000	Machinery RM'000	Total RM'000
<u>Cost or Valuation</u>				
At the beginning of year	50,000	20,000	5,000	75,000
Additions	-	-	1,000	1,000
Disposals	-	-	(500)	(500)
Revaluation	8,000	5,000	-	13,000
At the end of year	58,000	25,000	5,500	88,500
<u>Depreciation & Impairment</u>				
At the beginning of year	-	4,000	1,500	5,500
Depreciation	-	1,000	600	1,600
Disposals	-	-	(450)	(450)
Impairment losses	-	-	800	800
Elimination on revaluation	-	(4,000)	-	(4,000)
At the end of year	-	1,000	2,450	3,450
<u>Carrying Amount</u>				
At 31 December 2016	58,000	24,000	3,050	85,050
At 31 December 2015	50,000	16,000	3,500	69,500

Freehold land and buildings were revalued on 31 December 2016 by reference to comparable market prices of similar properties of recent transactions in the market. The fair value is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of assets being valued. The valuation conforms to the Malaysian Valuation Standards.

Had the freehold land and buildings been carried at cost less accumulated depreciation and any accumulated impairment losses, their carrying amounts would have been approximately RM38,000 (2015: RM38,000) and RM9,000 (2015: RM10,000) respectively.

6. INVESTMENT PROPERTIES - AT COST

Investment properties carried at cost less accumulated depreciation and impairment:

	Leasehold land RM'000	Buildings RM'000	Construction work in progress RM'000	Total RM'000
Cost				
At the beginning of year	10,000	10,000	10,000	30,000
Additions	-	5,000	2,000	7,000
Disposals	-	(600)	-	(600)
Written off	-	(500)	(500)	(1,000)
Transfer	-	3,000	(3,000)	-
Transfer from inventories	-	5,000	-	5,000
Transfer from investment properties - at fair value	-	2,000	-	2,000
Transfer to property, plant and equipment	(4,000)	-	-	(4,000)
At the end of year	6,000	23,900	8,500	38,400
Depreciation & Impairment				
At the beginning of year	5,000	5,000	-	10,000
Depreciation	1,000	1,000	-	2,000
Disposals	-	(500)	-	(500)
Written off	-	(400)	-	(400)
Impairment losses	-	1,000	-	1,000
Reversal of impairment losses	-	(200)	-	(200)
Transfer to property, plant and equipment	(1,000)	-	-	(1,000)
At the end of year	5,000	5,900	-	10,900
Carrying Amount				
At 31 December 2016	1,000	18,000	8,500	27,500
At 31 December 2015	5,000	5,000	10,000	20,000

Leasehold land with carrying amount of RM1,000,000 (2015: RM5,000,000) has been pledged as security for the term loan of the Company.

The fair value of the above investment properties cannot be measured reliably without undue cost or effort, because the directors do not have relevant expertise in valuing such properties and the service of an independent valuer is costly to the Company.

7. INVESTMENT PROPERTIES - AT FAIR VALUE

Investment properties carried at fair value through profit or loss:

	Freehold land RM'000	Buildings RM'000	Construction work-in-progress RM'000	Total RM'000
At the beginning of year	10,000	10,000	10,000	30,000
Changes in fair value	5,000	2,000	-	7,000
Transfer	-	9,000	(9,000)	-
Transfer to investment properties - at cost	-	(2,000)	-	(2,000)
At the end of year	15,000	19,000	1,000	35,000

The fair value of investment properties is determined by reference to comparable market prices of similar properties of recent transactions in the market. The fair value of freehold land is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of investment property being valued. The valuation conforms to the Malaysian Valuation Standards. Other investment properties are not valued by an independent valuer because undue cost is required.

Freehold land with carrying amount of RM15,000,000 (2015: RM10,000,000) has been pledged as security for the term loan of the Company. Any disposal of such property is subject to full settlement of the term loan.

8. LAND HELD FOR PROPERTY DEVELOPMENT

	2016 RM'000	2015 RM'000
Cost		
At the beginning of year	85,000	100,000
Additions	10,000	10,000
Land improvement costs	5,000	5,000
Transfer to property development costs	(30,000)	(30,000)
At the end of year	70,000	85,000
Impairment		
At the beginning of year	15,000	10,000
Impairment losses	5,000	5,000
At the end of year	20,000	15,000
Carrying Amount	50,000	70,000

Freehold land with carrying amount of RM40,000 (2015: RM65,000) has been pledged as security for the term loan of the Company.

9. INTANGIBLE ASSETS

	Goodwill RM'000	Software RM'000	Patent and licence RM'000	Total RM'000
Cost				
At the beginning of year	10,000	10,000	10,000	30,000
Additions	-	1,000	1,000	2,000
Disposals	-	(800)	(800)	(1,600)
Written off	-	(500)	(500)	(1,000)
At the end of year	10,000	9,700	9,700	29,400
Amortisation & Impairment				
At the beginning of year	5,000	5,000	5,000	15,000
Amortisation (included in administrative expenses)	1,000	1,000	2,000	4,000
Disposals	-	(600)	(600)	(1,200)
Written off	-	(400)	(400)	(800)
Impairment losses	1,000	-	-	1,000
Reversal of impairment losses	-	-	(1,000)	(1,000)
At the end of year	7,000	5,000	5,000	17,000
Carrying Amount				
At 31 December 2016	3,000	4,700	4,700	12,400
At 31 December 2015	5,000	5,000	5,000	15,000

Included in patent and licence is a patent on design of a product of the Company with carrying amount of RM3,000,000 (2015: RM4,000,000). The remaining amortisation period of that patent is three years.

Patent with carrying amount of RM3,000,000 (2015: RM4,000,000) has been pledged as security for the term loan of the Company.

10. INVESTMENTS IN ASSOCIATES

	2016 RM'000	2015 RM'000
At fair value through profit or loss:		
Quoted shares in Malaysia	12,000	10,000
Quoted shares outside Malaysia	7,000	8,000
	19,000	18,000
At cost less impairment:		
Unquoted shares	30,000	30,000
Impairment losses	(1,000)	(1,500)
	29,000	28,500
	48,000	46,500

The fair value of quoted shares is determined with reference to the quoted market prices in active markets.

11. INVESTMENTS IN JOINT VENTURES

	2016 RM'000	2015 RM'000
At fair value through profit or loss:		
Quoted shares in Malaysia	9,000	10,000
Quoted shares outside Malaysia	12,000	8,000
	21,000	18,000
At cost less impairment:		
Unquoted shares	50,000	50,000
Impairment losses	(6,000)	(4,000)
	44,000	46,000
	65,000	64,000

The fair value of quoted shares is determined with reference to the quoted market prices in active markets.

Commitment to a Joint Venture

The Company has made a commitment to contribute RM5 million to a joint venture. As at the end of the reporting period, the Company had contributed RM3 million (2015: RM2 million) to the joint venture.

Commitment of a Joint Venture

A joint venture of the Company had entered into an agreement to acquire a piece of land for RM10 million. The joint venture is committed to pay RM8 million after the end of the reporting period. The commitment shall be financed via internal fund; and any shortfall shall be financed on a pro-rata basis by each venturer according to their percentage of equity interest in the joint venture.

12. OTHER INVESTMENTS

	2016 RM'000	2015 RM'000
At fair value through profit or loss:		
Quoted shares in Malaysia	15,000	10,000
Quoted shares outside Malaysia	6,000	8,000
	21,000	18,000
At cost less impairment:		
Unquoted shares	10,000	10,000
Impairment losses	(2,000)	(1,500)
	8,000	8,500
	29,000	26,500

The fair value of quoted shares is determined with reference to the quoted market prices in active markets.

13. TRADE AND OTHER RECEIVABLES

		2016 RM'000	2015 RM'000
Non-current			
Amount due from holding company	(a)	100,000	100,000
Amount due from an associate	(b)	80,000	80,000
Impairment losses		(2,000)	(1,000)
		178,000	179,000
Current			
Trade receivables			
Joint ventures	(c)	80,000	50,000
Impairment losses		-	(4,000)
Associates	(c)	20,000	20,000
Others		100,000	100,000
Impairment losses		(20,000)	(15,000)
		180,000	151,000
Amount due from a joint venture	(d)	60,000	40,000
Impairment losses		(2,000)	(2,000)
Other receivables		25,000	10,000
Impairment losses		(7,000)	(5,000)
Deposits		15,000	10,000
Prepaid expenses		10,000	10,000
		281,000	214,000
Included in trade receivables are:			
Retention sum		1,500	1,000
Progress billings receivable		2,000	1,000

(a) Amount due from holding company is unsecured, interest free, and repayable in November 2018.

(b) Amount due from an associate is unsecured, subject to interest at 8% (2015: 7%) per annum, and repayable by January 2020.

(c) Amounts due from joint ventures and associates are unsecured, interest free, and repayable according to ordinary credit terms.

(d) Amount due from a joint venture is unsecured, interest free, and repayable on demand.

14. DEFERRED TAX

	2016 RM'000	2015 RM'000
Deferred tax assets	29,000	27,000
Deferred tax liabilities	-	-
	29,000	27,000

The details of deferred taxes:

	Property, plant and equipment RM'000	Provision RM'000	Unutilised tax losses RM'000	Total RM'000
At the beginning of year	(18,000)	15,000	30,000	27,000
Recognised in profit or loss	(8,000)	5,000	5,000	2,000
At the end of year	(26,000)	20,000	35,000	29,000

Deductible temporary differences not recognised:

	2016 RM'000	2015 RM'000
Unused tax losses	10,000	10,000

Unused tax losses not recognised of a branch in Country X amounting to RM8,000 (2015: RM8,000) will expire in 2020.

15. PROPERTY DEVELOPMENT COSTS

	2016 RM'000	2015 RM'000
Land cost	70,000	100,000
Development costs	330,000	80,000
Amount recognised in profit or loss	(90,000)	(40,000)
At the beginning of year	310,000	140,000
Transfer from land held for property development	30,000	30,000
Development costs incurred	400,000	250,000
Amount recognised in profit or loss	(100,000)	(50,000)
Transfer to inventories	(50,000)	(40,000)
Transfer to investment properties	(5,000)	(20,000)
At the end of year	585,000	310,000

Property development projects with carrying amount of RM400,000,000 (2015: RM200,000,000) has been pledged as security for the term loan of the Company.

16. INVENTORIES

	2016 RM'000	2015 RM'000
Raw materials	100,000	100,000
Work in progress	50,000	50,000
Finished goods	80,000	80,000
Completed development units	90,000	40,000
	320,000	270,000

Finished goods with carrying amount of RM6,000,000 (2015: RM7,000,000) has been pledged as security for the credit facility of the Company.

17. AMOUNT DUE FROM/TO CUSTOMERS

	2016 RM'000	2015 RM'000
Gross amount due from customers for contract work	80,000	90,000
Accrued billings	50,000	20,000
	130,000	110,000
Gross amount due to customers for contract work	70,000	100,000
Progress billings	30,000	50,000
	100,000	150,000

18. DERIVATIVE FINANCIAL INSTRUMENTS

	2016 RM'000	2015 RM'000
Foreign currency forward contracts	70,000	100,000
Commodity futures contracts	50,000	50,000
Financial assets at fair value through profit or loss	120,000	150,000
Foreign currency forward contracts	100,000	100,000
Commodity futures contracts	50,000	10,000
Financial liabilities at fair value through profit or loss	150,000	110,000

The fair value of forward contracts, which are not traded in an active market, is determined using a valuation technique. The key assumption applied in determining the fair value is risk free rate of 5% per annum.

The fair value of futures contracts is determined with reference to values quoted by brokers.

19. CASH, BANK BALANCES AND DEPOSITS

	2016 RM'000	2015 RM'000
Cash and bank balances	150,000	100,000
Fixed deposits placed with licensed banks	20,000	25,000
	170,000	125,000

Included in bank balances is RM800,000 (2015: RM600,000) held under Housing Development Accounts.

Fixed deposits with carrying amount of RM2,000,000 (2015: RM5,000,000) has been pledged as security for a credit facility of the Company.

20. SHARE CAPITAL

	No. of shares	RM'000
Authorised		
Ordinary shares of RM1 each		
At the beginning of year	50,000	50,000
Increase during the year	50,000	50,000
At the end of year	100,000	100,000
Redeemable preference shares of RM0.10 each		
At the beginning/end of year	50,000	5,000
		105,000
Issued and fully paid		
Ordinary shares of RM1 each		
At the beginning of year	50,000	50,000
Issuance for cash	20,000	20,000
At the end of year	70,000	70,000
Redeemable preference shares of RM0.10 each		
At the beginning/end of year	50,000	5,000
		75,000

The holders of redeemable preference shares are entitled to dividends as declared, if any, at the discretion of the Company. The redeemable preference shares are redeemable at the discretion of the Company.

21. RESERVES

Retained earnings

Retained earnings are available for distributions by way of dividends. Under the single tier tax system, tax on the Company’s profit is a final tax in Malaysia, and any dividends distributed are not taxable in the hands of the shareholders.

Share premium

Share premium represents the excess of issue price over the par value of shares issued.

Revaluation surplus

Revaluation surplus represents the surplus on revaluation of property, plant and equipment. Revaluation surplus is not available for distribution to the shareholders.

Translation reserve

Translation reserve represents foreign exchange differences arising from the translation of foreign operations. Translation reserve is not available for distribution to the shareholders.

22. BANK BORROWINGS

		2016 RM'000	2015 RM'000
Non-current			
Term loan	(a)	200,000	100,000
Revolving credit	(b)	50,000	50,000
		250,000	150,000
Current			
Term loan	(a)	100,000	100,000
Bank overdraft	(c)	30,000	50,000
		130,000	150,000

(a) The term loan is secured by charges over certain freehold land and property development projects of the Company, subject to interest at 7% (2015: 7%) per annum and repayable by September 2019.

(b) The revolving credit is secured by a charge over certain inventories of the Company, subject to interest at 5% (2015: 6%) per annum and repayable by June 2018.

(c) The bank overdraft is guaranteed by all directors of the Company, repayable on demand and subject to interest at 7% (2015: 7%) per annum.

23. LEASES

Finance lease - the Company as a lessee

The Company leases equipment, which typically run for periods ranging from 3 to 5 years. At the end of the lease term, the Company has an option to purchase the equipment at RM50,000. The Company entered into hire-purchase agreements in recpect of motor vehicles for periods ranging from 5 to 7 years.

	2016 RM'000	2015 RM'000
Future minimum lease payments:		
Not later than 1 year	3,000	2,000
Later than 1 year and not later than 5 years	12,000	8,000
Later than 5 years	-	2,000
	15,000	12,000
Future finance charges	(2,600)	(2,000)
Present value of minimum lease payments	12,400	10,000
Non-current	9,900	8,400
Current	2,500	1,600
	12,400	10,000

Operating lease - the Company as a lessee

The Company leases office premises, which typically run for periods ranging from 5 to 10 years, with option to renew the leases after expiry dates. The future minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
	RM'000	RM'000
Future minimum lease payments:		
Not later than 1 year	10,000	10,000
Later than 1 year and not later than 5 years	40,000	40,000
Later than 5 years	10,000	20,000
	60,000	70,000

Operating lease - the Company as a lessor

The Company leases out investment properties, which typically run for periods ranging from 5 to 10 years, with option to renew the leases after expiry dates. Certain leases contain contingent rent arrangements, where the variable rents are based on sales achieved by the lessees. The future minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
	RM'000	RM'000
Future minimum lease payments:		
Not later than 1 year	10,000	10,000
Later than 1 year and not later than 5 years	40,000	40,000
Later than 5 years	40,000	50,000
	90,000	100,000

24. TRADE AND OTHER PAYABLES

		2016 RM'000	2015 RM'000
Non-current			
Amount due to immediate holding company	(a)	107,000	100,000
Current			
Trade payable			
Joint ventures	(b)	50,000	35,000
Entities controlled by a director	(b)	10,000	-
Others		100,000	80,000
		160,000	115,000
Amount due to an associate	(c)	15,000	50,000
GST payable		50,000	50,000
Other payable		50,000	50,000
Accrued expenses		50,000	50,000
		325,000	315,000
Included in trade and other payables are advances from contract customers		1,000	1,000

(a) Amount due to immediate holding company is unsecured, subject to interest at 8% (2015: 7%) per annum and repayable by January 2020.

(b) Amounts due to joint ventures and entities controlled by a director are unsecured, interest free and repayable according to ordinary credit terms.

(c) Amount due to an associate is unsecured, interest free, and repayable on demand.

25. PROVISION

	Warranty RM'000	Legal claim RM'000	Total RM'000
At the beginning of year	100,000	100,000	200,000
Additions	10,000	10,000	20,000
Amount utilised	(20,000)	(20,000)	(40,000)
Unused amount reversed	(3,000)	-	(3,000)
At the end of year	87,000	90,000	177,000

	Total RM'000
Non-current	20,000
Current	157,000
	177,000

The warranty relates to goods sold. The provision represents the best estimate made by the directors with reference to the historical defect rate of goods sold. The Company provides 2-year product warranty for all goods sold.

The legal claim relates to a claim made by a customer. The provision represents the best estimate made by the directors of compensation for the customer, which is expected to settle within one year. The Company expects to reimburse the compensation from a sub-contractor amounting to RM6,000,000.

26. DEFERRED INCOME

	2016 RM'000	2015 RM'000
Government grant:		
At the beginning of year	70,000	100,000
Additions	80,000	-
Amortisation	(30,000)	(30,000)
At the end of year	120,000	70,000

27. REVENUE

	2016 RM'000	2015 RM'000
Sale of goods	800,000	700,000
Rendering of services	20,000	20,000
Property development	500,000	300,000
Construction contracts	100,000	80,000
	1,420,000	1,100,000

28. OTHER INCOME AND GAINS

	2016 RM'000	2015 RM'000
Interest income	6,000	5,000
Interest income on financial assets at amortised cost	-	-
	6,000	5,000
Operating lease income:		
Investment properties	10,000	10,000
Machinery	-	-
Liquidated damages receivable from contractors	500	200
Dividends from shares quoted in Malaysia	1,000	400
Dividends from shares quoted outside Malaysia	300	100
Dividends from associates	200	250
Government grant	30,000	30,000
Reversal of impairment losses:		
Property, plant and equipment	8,000	-
Investment properties	200	-
Intangible assets (other than goodwill)	1,000	-
Investments in associates	500	-
Inventories	-	300
Trade receivables - joint ventures	4,000	-
Gain on disposal of property, plant and equipment	2,000	-
Changes in fair value of investment properties	7,000	4,500
Changes in fair value of investments in associates	1,000	-
Changes in fair value of investments in joint venture	2,000	-
Changes in fair value of other investments	3,000	-
Net foreign exchange gains	-	300
	76,700	51,050

Included in rental income is contingent rent of RM500,000 (2015: RM600,000).

29. FINANCE COSTS

	2016 RM'000	2015 RM'000
Interest on term loan	9,800	9,400
Interest on revolving credit	200	600
Interest on bank overdraft	900	700
Interest on finance leases	400	400
Interest expense on financial liabilities at amortised cost	7,000	5,000
	18,300	16,100

30. PROFIT BEFORE TAX

Profit before tax is determined after recognising the following expenses:

	2016 RM'000	2015 RM'000
Auditors' remuneration	75	50
Cost of inventories recognised as an expense	600,000	500,000
Liquidated damages payable to purchasers of development units	100	-
Research and development cost	500	150
Net foreign exchange losses	600	-
Depreciation and amortisation:		
Property, plant and equipment	60,000	50,000
Investment properties	2,000	1,500
Goodwill	1,000	1,000
Intangible assets (other than goodwill)	3,000	3,000
Impairment losses (included in other expenses):		
Goodwill	1,000	-
Property, plant and equipment	20,000	-
Investment properties	1,000	-
Land held for property development	5,000	5,000
Inventories	400	-
Investments in associates	-	1,500
Investments in joint ventures	2,000	4,000
Other investments	500	1,500
Trade receivables	5,000	15,000
Trade receivables - joint ventures	-	4,000
Other receivables	2,000	5,000
Amount due from an associate	1,000	1,000
Amount due from a joint venture	-	2,000
Operating lease payment:		
Land and building	7,000	7,000
Plant and machinery	3,000	3,000
Employee benefits:		
Defined contribution plan expenses	5,000	5,500
Termination benefits	1,000	-
Loss on disposal of investment properties	50	-
Loss on disposal of intangible assets	100	-
Property, plant and equipment written off	6,000	-
Investment properties written off	600	-
Intangible assets written off	200	-
Changes in fair value of derivative instruments	4,000	19,000

31. INCOME TAX

		2016 RM'000	2015 RM'000
Current tax			
Malaysia	- Current year	120,000	90,000
	- Prior years	12,500	10,000
Overseas	- Current year	32,400	11,738
	- Prior years	1,000	2,000
		165,900	113,738
Deferred tax			
Deferred tax		(2,500)	(10,000)
Attributable to change in tax rate		500	-
		(2,000)	(10,000)
Total tax expense		163,900	103,738

Corporate income tax rate had decreased from 25% in year of assessment 2015 to 24% in year of assessment 2016. Accordingly, deferred tax has been remeasured to take effect of the change in tax rate.

The significant differences between the income tax expense and accounting profit multiplied by the applicable tax rate, is analysed as follows:

	2016 RM'000	2015 RM'000
Profit before tax	598,400	374,950
Tax at applicable tax rate	143,616	93,738
Non-taxable income	(10,216)	(2,000)
Non-deductible expenses	26,500	2,000
Expenses eligible for double deduction	(10,000)	(1,000)
Utilisation of reinvestment allowance	-	(1,000)
Deferred tax assets not recognised	-	2,000
Utilisation of previously unrecognised deductible temporary differences	-	(2,000)
Adjustment attributable to change in tax rate	500	-
Adjustment attributable to prior years	13,500	12,000
Tax expense	163,900	103,738

32. DIVIDENDS

	2016 RM'000	2015 RM'000
Ordinary shares:		
Interim single-tier dividends of 10 sen per share for 2016	7,000	-
Interim single-tier dividends of 20 sen per share for 2015	-	10,000
Final single-tier dividends of 20 sen per share for 2015	10,000	-
Final single-tier dividends of 20 sen per share for 2014	-	10,000
	17,000	20,000

The final single-tier dividend recommended by the directors in respect of the financial year ended 31 December 2016 is 15 sen per ordinary share amounting to RM10,500,000 and subject to the approval of the shareholders at the forthcoming annual general meeting.

33. RELATED PARTY TRANSACTIONS

Other than those disclosed elsewhere in the financial statements, the significant related party transactions are disclosed below.

	2016 RM'000	2015 RM'000
Sales to:		
Associates	10,000	5,000
Joint ventures	5,000	10,000
Purchases from:		
Ultimate holding company	8,000	14,000
Entities controlled by a director	14,000	8,000
Joint ventures	8,000	14,000
Rendering of services to:		
A shareholder who has significant influence over the Company	12,000	11,000
Loan obtained from:		
A close member of a shareholder's family	3,000	-
Immediate holding company	-	100,000
Loan given to:		
A joint venture	20,000	40,000
Holding company	-	100,000
An associate	-	80,000
Interest paid to:		
Immediate holding company	7,000	5,000
Interest received from:		
An associate	200	200

	2016 RM'000	2015 RM'000
Rental income from:		
Directors	1,000	1,000
Payment on behalf by:		
An associate	-	50,000
Sale of properties to:		
A key management personnel	-	20,000
Key management personnel compensation:		
Directors		
Fees	1,000	1,000
Other employee benefits	30,000	50,000
Estimated monetary value of benefit-in-kind	500	200
	31,500	51,200
Other key management personnel		
Employee benefits	2,000	3,000
	33,500	54,200

The Company provides guarantee to an associate in respect of bank loan granted to the associate amounting to RM500,000 (2015: RM500,000).

A warehouse of a shareholder is occupied by the Company free of charge.

34. CONTINGENT LIABILITIES AND ASSETS

Disclose the following for each class of contingent liability:
(a) Nature of contingent liability.
(b) Estimate of financial impact.
(c) Uncertainties relating to amount or timing of any outflow.
(d) Possibility of any reimbursement.

Disclose the following for each class of contingent asset:
(a) Nature of contingent asset.
(b) Estimate of financial impact.

35. COMMITMENTS

	2016 RM'000	2015 RM'000
Acquisition of property, plant and equipment:		
Approved but not yet contracted	10,000	10,000
Approved and contracted	10,000	10,000
Acquisition and construction of investment properties:		
Approved but not yet contracted	10,000	10,000
Approved and contracted	10,000	10,000
Acquisition of intangible assets:		
Approved but not yet contracted	10,000	10,000
Approved and contracted	10,000	10,000
Contractual obligations for repairs, maintenance or enhancement of investment properties	10,000	10,000

36. FINANCIAL INSTRUMENTS

	2016 RM'000	2015 RM'000
Financial assets at fair value through profit or loss	181,000	204,000
Financial assets (debt instruments) at amortised cost	449,000	383,000
Financial assets (equity instruments) at cost less impairment	8,000	8,500
Financial liabilities at fair value through profit or loss	150,000	110,000
Financial liabilities at amortised cost	762,000	665,000

37. EVENTS AFTER THE END OF THE REPORTING PERIOD

An entity shall disclose the following for each category of non-adjusting event:
(a) the nature of the event; and
(b) an estimate of its financial effect or a statement that such an estimate cannot be made.

Examples:
(a) a major business combination or disposal of a business.
(b) announcement of a plan to discontinue an operation.
(c) a major purchase of an asset, disposal or plan to dispose an asset.
(d) the destruction of a major production plant by a fire.
(e) announcement or commencement of a major restructuring.
(f) issues or repurchases of an entity's debt or equity instruments.
(g) abnormally large changes in asset prices or foreign exchange rates.

38. TRANSITION TO MPERS

The Company prepared its financial statements for the year ended 31 December 2015 in accordance with Private Entity Reporting Standards ("PERS"). The financial statements for the year ended 31 December 2016 are the first annual financial statements prepared in accordance with MPERS. The date of transition to MPERS is 1 January 2015.

In preparing the first annual financial statements in accordance with MPERS, the Company has applied all the mandatory exceptions and certain optional exemptions to the retrospective application of MPERS.

Reconciliation of Equity and Profit or Loss

		Profit for the year	Equity	
		2015	31.12.2015	1.1.2015
		RM'000	RM'000	RM'000
Amounts reported under PERS		271,972	873,324	612,152
Reclassification of redeemable preference shares	(a)	(500)	(10,000)	(9,500)
Finance costs recognised as an expense	(b)	(1,000)	(5,000)	(4,000)
Restatement of debt instruments	(c)	200	1,200	1,000
Restatement of investments in associates	(d)	(800)	(4,000)	(3,200)
Restatement of investments in quoted shares	(e)	400	7,400	7,000
Amortisation of goodwill	(f)	(600)	(3,200)	(2,600)
Fair value adjustment of investment properties	(g)	1,000	1,000	-
Deferred tax	(h)	240	3,576	3,336
Amounts reported under MPERS		271,212	862,000	601,588

(a) In prior years, redeemable preference shares were classified as equity. Upon adoption of MPERS, redeemable preference shares are classified as liability and the dividend is recognised as an expense.

(b) In prior years, finance costs incurred on qualifying assets were capitalised. Upon adoption of MPERS, all borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

(c) In prior years, debt instruments were measured at cost less impairment losses. Upon adoption of MPERS, debt instruments are measured at amortised cost using the effective interest method.

(d) In prior years, investments in associates were measured using equity method. Upon adoption of MPERS, the Company has elected to measure its investments in associates at cost less accumulated impairment losses.

(e) In prior years, investments in quoted shares were measured at cost less accumulated impairment losses. Upon adoption of MPERS, investments in quoted shares are measured at fair value.

(f) In prior years, goodwill was measured at cost less accumulated impairment losses. Upon adoption of MPERS, goodwill is measured at cost less accumulated amortisation and impairment losses.

(g) In prior years, investment properties were measured at cost less accumulated depreciation and impairment losses. Upon adoption of MPERS, investment properties are measured at fair value.

(h) The cumulative adjustments to deferred tax arising from the effects of transition to MPERS, as stated above.

The classification of certain items in the comparative information is changed in conformity with the current period presentation and classification.

39. AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements were authorised for issue by the board of directors on 31 May 2017.

Mazars is present in 5 continents.

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