LUXCHEM

LUXCHEM CORPORATION BERHAD

(Company No.: 224414-D)

THE TRUSTED NAME
IN INDUSTRIAL
CHEMICAL SUPPLIES

ANNUAL REPORT 2016

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Dato' Haji Mokhtar Bin Haji Samad
Independent Non-Executive Chairman

Tang Ying See
Managing Director/Chief Executive Officer

Chin Song Mooi
Executive Director

Chen Moi Kew
Executive Director/Chief Financial Officer

Chan Wan Siew
Senior Independent Non-Executive Director

Au Chun Choong
Independent Non-Executive Director

COMPANY SECRETARIES

Wong Wai Foong *(MAICSA 7001358)*
Chen Moi Kew *(MIA 6359)*
Ng Harn Shin *(MIA 22427)*

AUDIT COMMITTEE

Au Chun Choong
Chairman

Dato' Haji Mokhtar Bin Haji Samad
Member

Chan Wan Siew
Member

NOMINATING COMMITTEE

Chan Wan Siew
Chairman

Dato' Haji Mokhtar Bin Haji Samad
Member

Au Chun Choong
Member

REMUNERATION COMMITTEE

Dato' Haji Mokhtar Bin Haji Samad
Chairman

Tang Ying See
Member

Au Chun Choong
Member

SHARE REGISTRAR

Tricor Investor & Issuing House Services Sdn. Bhd. (11324-H)
Unit 32-01, Level 32
Tower A, Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur
Telephone No. : (03) 2783 9299
Facsimile No. : (03) 2783 9222

CORPORATE OFFICE

No. 6, Jalan SS21/58
Damansara Utama
47400 Petaling Jaya
Selangor Darul Ehsan
Telephone No. : (03) 7728 2155
Facsimile No. : (03) 7729 9782
Website : http://www.luxchem.com.my

PRINCIPAL BANKERS

AmBank (M) Berhad (8515-D)
AmIslamic Bank Berhad (295576-U)
CIMB Bank Berhad (13491-P)
Citibank Berhad (297089-M)
HSBC Bank Malaysia Berhad (127776-V)
Malayan Banking Berhad (3813-K)
United Overseas Bank (Malaysia) Berhad (271809-K)

REGISTERED OFFICE

Unit 30-01, Level 30
Tower A, Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur
Telephone No. : (03) 2783 9191
Facsimile No. : (03) 2783 9111

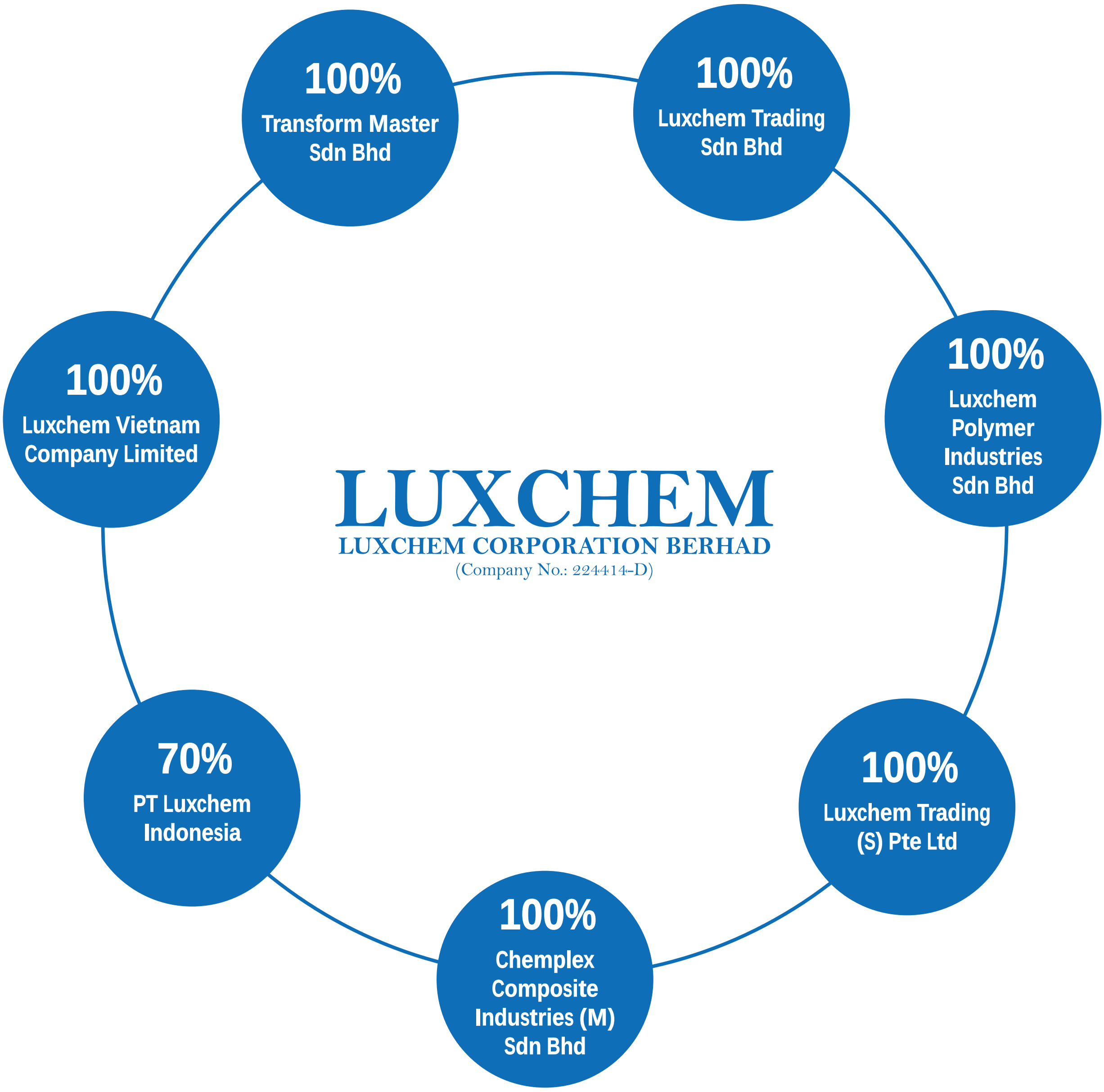
AUDITORS

Folks DFK & Co (AF 0502)
12th Floor, Wisma Tun Sambanthan
No. 2, Jalan Sultan Sulaiman
50000 Kuala Lumpur
Telephone No. : (03) 2273 2688
Facsimile No. : (03) 2274 2688

STOCK EXCHANGE LISTING

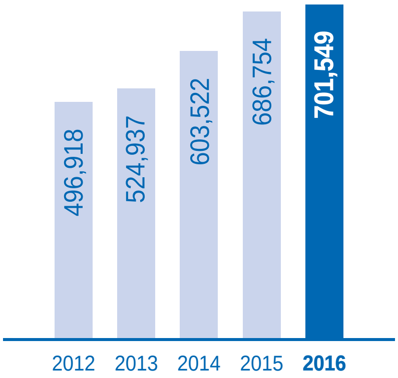
The Main Market of Bursa Malaysia
Securities Berhad
Stock Name : LUXCHEM
Stock Code : 5143
Date of listing : 27 June 2008

Corporate Structure

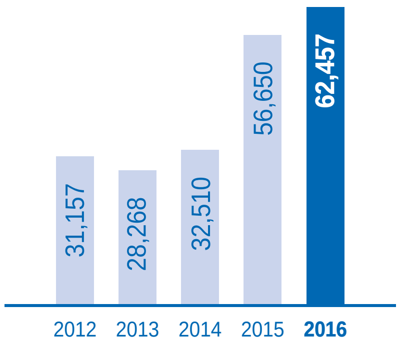


Financial Highlights

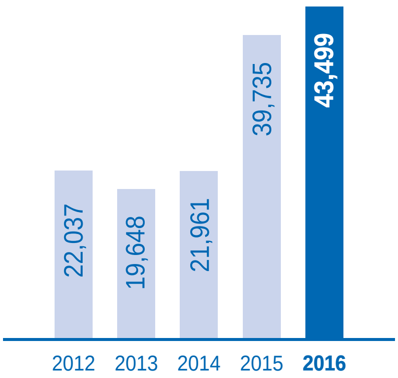
REVENUE (RM'000)



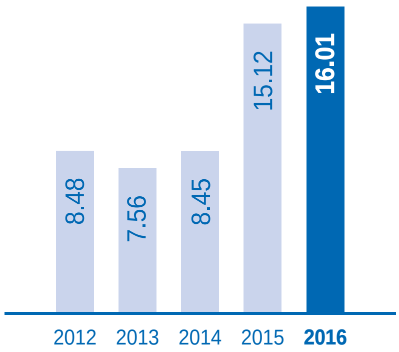
EBITDA (RM'000)



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY (RM'000)



EARNINGS PER SHARE (SEN)



	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000
Revenue	496,918	524,937	603,522	686,754	701,549
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	31,157	28,268	32,510	56,650	62,457
Profit Before Taxation ("PBT")	29,243	26,169	29,578	54,397	59,078
Profit Attributable to Owners of the Company	22,037	19,648	21,961	39,735	43,499
Earnings Per Share - Basic (sen) *	8.48	7.56	8.45	15.12	16.01
Earnings Per Share - Diluted (sen) *	-	-	-	14.65	15.33

* **FYE 2016:**

Earnings Per Share - Basic

Computed based on Profit Attributable to Owners of the Company and divided by the weighted average number of shares in issue during the financial year ended 31 December 2016 of 271,630,711.

Earnings Per Share - Diluted

Computed based on Profit Attributable to Owners of the Company and divided by the adjusted weighted average number of shares in issue during the financial year ended 31 December 2016 of 283,727,983.

* **FYE 2015:**

Earnings Per Share - Basic

Computed based on Profit Attributable to Owners of the Company and divided by the weighted average number of shares in issue during the financial year ended 31 December 2015 of 262,805,603.

Earnings Per Share - Diluted

Computed based on Profit Attributable to Owners of the Company and divided by the adjusted weighted average number of shares in issue during the financial year ended 31 December 2015 of 271,198,843.

* **FYE 2012 to 2014:**

Computed based on Profit Attributable to Owners of the Company and divided by the weighted average number of shares in issue during the respective financial years of 260,000,000.

Directors' Profile

DATO' HAJI MOKHTAR BIN HAJI SAMAD
Independent Non-Executive Chairman

Dato' Haji Mokhtar Bin Haji Samad, a Malaysian aged 69, was appointed as an Independent Non-Executive Director of the Company on 15 May 2008.

He is currently the Chairman of the Remuneration Committee and a member of the Audit Committee and Nominating Committee.

Currently, he is the Executive Chairman of the Malay Contractor Consortium Malaysia, a Director of the Malay Contractor Consortium Wilayah Persekutuan and the Executive Chairman of Minat Megah Sdn. Bhd., a company principally involved in construction.

He is also the President of the Malay Contractors Association Malaysia, the Vice President of the Entrepreneur Development Agency Wilayah Persekutuan, a Board Director of Construction Industry Development Board Malaysia, a member of the Advisory Committee of Dewan Perniagaan Melayu Kuala Lumpur and a committee member of the Ministry of Domestic Trade and Consumer Affairs, Wilayah Persekutuan.

He was previously a Non-Executive Chairman of Kossan Rubber Industries Berhad.

He does not have any family relationship with any Director and/or substantial shareholder of the Company, nor does he have any conflict of interest with the Company and its subsidiaries.

He attended all the six (6) Board meetings of the Company held during the financial year ended 31 December 2016.

MR TANG YING SEE
Managing Director/Chief Executive Officer

Mr Tang Ying See, a Malaysian aged 65, is the Managing Director/Chief Executive Officer of the Company. He is one of the First Directors appointed to the Board of the Company on 4 September 1991.

He is currently a member of the Remuneration Committee.

As the founder of the Company, he has been instrumental in our development, growth and success. He brings with him approximately 38 years of experience in the industrial chemicals industry and is mainly responsible for the overall strategic business direction of the Group.

He obtained a Bachelor of Science Degree majoring in Physics from Nanyang University, Singapore in 1975 and has been a member of the Malaysian Institute of Management since 1990. Upon graduation, he joined a chemical trading company as a Sales Representative and was promoted to Senior Manager in 1983.

In 1984, he left and established Lux Trading, a sole proprietorship, which business was taken over by Luxchem Trading Sdn Bhd in 1987. He currently holds several directorships in a number of private limited companies but does not hold any other directorships in other listed entities.

He is the husband of Madam Chin Song Mooi. He does not have any conflict of interest with the Company and its subsidiaries.

He attended all the six (6) Board meetings of the Company held during the financial year ended 31 December 2016.

MADAM CHIN SONG MOOI
Executive Director

Madam Chin Song Mooi, a Malaysian aged 65, is an Executive Director of the Company. She is one of the First Directors appointed to the Board of the Company on 4 September 1991.

She graduated in 1976 with a Bachelor of Commerce Degree in Accountancy from Nanyang University, Singapore. Her career began upon her graduation in 1976 when she joined Khoo, Junus & Co., an accounting firm located in Kuala Lumpur as an Auditor. In 1978, she left and joined Universal Cable (M) Bhd as an Accountant in the Johor Bahru branch. In 1979, she left and joined Syarikat Pembinaan Beng Teck Sdn Bhd, a building and construction company, as an Accountant.

In 1988, she left to take up the position as Director of Finance and Administration with Luxchem Trading Sdn Bhd. She is mainly responsible for overseeing all aspects of finance and administration functions of the Group. She currently holds several directorships in a number of private limited companies but does not hold any other directorships in other listed entities.

She is the wife of Mr Tang Ying See. She does not have any conflict of interest with the Company and its subsidiaries.

She attended five (5) out of six (6) Board meetings held during the financial year ended 31 December 2016.

MADAM CHEN MOI KEW
Executive Director/Chief Financial Officer

Madam Chen Moi Kew, a Malaysian aged 54, was appointed as an Executive Director/Chief Financial Officer of the Company on 2 January 2008.

She obtained her Bachelor of Accounting Degree with First-Class Honours from the University of Malaya, Kuala Lumpur in 1987. She has been a member of both the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants since 1990 and a Member of the Financial Planning Association of Malaysia since 2003.

She began her career in 1987 when she joined Arthur Andersen & Co as an Audit Staff Assistant. In 1991, she left and joined United Malayan Banking Corporation Berhad as an Assistant Manager. In 1993, she left and took up the position as Deputy Manager in Southern Bank Berhad. In 1996, she left and was appointed Financial Controller at the Weld Centre (M) Sdn Bhd.

She left in 1997 to join Luxchem Trading Sdn Bhd. She is currently responsible for overseeing the accounting and finance functions as well as formulating financial strategies for the Group.

She does not have any family relationship with any Director and/or substantial shareholder of the Company, nor does she have any conflict of interest with the Company and its subsidiaries. She does not hold any other directorships in other listed entities.

She attended all the six (6) Board meetings held during the financial year ended 31 December 2016.

Directors' Profile

Cont'd

MR CHAN WAN SIEW

Senior Independent Non-Executive Director

Mr Chan Wan Siew, a Malaysian aged 66, was appointed as an Independent Non-Executive Director of the Company on 15 May 2008.

He is currently a member of the Audit Committee, the Chairman of the Nominating Committee and a Senior Independent Director.

He is also an Independent Non-Executive Director of Prestariang Berhad.

He is a Chartered Accountant, Certified Financial Planner®, Chartered Financial Consultant (US), a Fellow Member of the Association of Chartered Certified Accountants (UK), CPA Australia and Chartered Secretaries (UK). He is the President of Business Transitions Asia Sdn Bhd, offering business and financial advisory services, serving the business-owners community and selected market segments. He has been in public accounting, corporate and financial advisory practices for almost four (4) decades.

Mr Chan is the President and Founding Board Member of Malaysian Alliance of Corporate Directors, an EXCO Member of Federations of Public Listed Companies and Global Network of Director Institutes respectively. He is an NACD Governance Fellow and an NACD Board Leadership Fellow of the National Association of Corporate Directors, US. He had served as the President of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA), the President of the Association of Chartered Certified Accountants (ACCA) Malaysia, a Founding Board Member and Vice President of Financial Planning Association of Malaysia (FPAM), and a Global Advisory Council Member of Financial Planning Association, US.

He does not have any family relationship with any Director and/or substantial shareholder of the Company, nor does he have any conflict of interest with the Company and its subsidiaries.

He attended all the six (6) Board meetings held during the financial year ended 31 December 2016.

MR AU CHUN CHOONG

Independent Non-Executive Director

Mr Au Chun Choong, a Malaysian aged 65, was appointed as an Independent Non-Executive Director of the Company on 15 May 2008.

He is currently the Chairman of the Audit Committee, a member of the Remuneration Committee and Nominating Committee.

He obtained his Diploma in Commerce from Tunku Abdul Rahman College in 1976. He is a Fellow of the Association of Chartered Certified Accountants (UK) since 1985, and a member of the Malaysian Institute of Accountants since 1980.

He has vast experience in tax and finance in public accounting firms. He was attached to the Inland Revenue Department in Perak for several years. He left public service in 1980 and joined several public accounting firms as a tax manager and financial consultant.

He is an Independent Non-Executive Director of Willowglen MSC Berhad, an integrated provider of customized Supervisory Control and Data Acquisition (SCADA) systems.

He does not have any family relationship with any Director and/or substantial shareholder of the Company, nor does he have any conflict of interest with the Company and its subsidiaries.

He attended all the six (6) Board meetings held during the financial year ended 31 December 2016.

Notes:
Conviction of offences
All the Directors have not been convicted of any offences within the past five (5) years and have not been subjected to any public sanctions and/or penalties imposed by any relevant regulatory bodies during the financial year ended 31 December 2016.

Key Senior Management Profile

MR TEOH KAR WAI
Director/Commercial Director, PVC Division of Luxchem Trading Sdn Bhd ("LTSB")

Mr Teoh Kar Wai, a Malaysian aged 55, was appointed as a Director of LTSB since 1 March 2010.

He joined LTSB in 1991. He is currently responsible for overseeing and managing the sales performance and operations of PVC Division of LTSB including its two (2) branches located in Penang and Ipoh.

He is also a director of PT. Luxchem Indonesia.

He does not have any family relationship with any Director and/or substantial shareholder of the Company, nor does he have any conflict of interest with the Company. He does not hold any other directorships in other listed entities.

MR FAN KOCK KEONG
Director/General Manager of Luxchem Polymer Industries Sdn Bhd ("LPI")

Mr Fan Kock Keong, a Malaysian aged 50, was appointed as a Director of LPI since 1 March 2010.

He obtained his Bachelor of Engineering (Honours) – Chemical from the University of Malaya, Kuala Lumpur in 1991. He has been a member of the Board of Engineers, Malaysia since 1994 and a Member of the Institution of Engineers Malaysia since 2001.

He began his career in 1991 when he joined Toray Plastic (M) Sdn Bhd as a Chemical Engineer. In 1996, he left and joined Hypak Sdn Bhd as an Assistant Production Manager. In 1997, he left and took up the position of Production Manager in Olympic Cable Co. Sdn Bhd.

He left in 2003 to join LPI as a Plant Manager. He is currently responsible for leading, overseeing and managing LPI.

He does not have any family relationship with any Director and/or substantial shareholder of the Company, nor does he have any conflict of interest with the Company. He does not hold any other directorships in other listed entities.

Key Senior Management Profile

Cont'd

MR NG CHAI TEIK

Director/Commercial Director, Latex Division of Luxchem Trading Sdn Bhd ("LTSB")

Mr Ng Chai Teik, a Malaysian aged 44, was appointed as a Director of LTSB on 26 April 2016.

He obtained his Bachelor Degree in Polymer Technology [B. Tech] with First-Class Honours from the University Science Malaysia (USM) in 1997. In 2003, he obtained the Master of Business Administration (MBA) from University Utara Malaysia (UUM).

He began his career in 1997 when he joined Asia Pacific Latex Sdn Bhd as a Production Executive. In 1999, he left and joined Allegiance Healthcare Sdn Bhd as a Process Engineer. In 2002, he left and took up the position as a Technical Service Manager in LTSB. He is currently responsible for overseeing and managing the sales performance and operations of the Latex Division.

He has also been appointed as a director of Transform Master Sdn Bhd on 29 April 2016.

He does not have any family relationship with any Director and/or substantial shareholder of the Company, nor does he have any conflict of interest with the Company. He does not hold any other directorships in other listed entities.

MR STEPHEN POK JIUN LIM

Director of Transform Master Sdn Bhd ("TMSB")

Mr Stephen Pok Jiun Lim, a Malaysian aged 32, was appointed as a Director of TMSB since 8 March 2011.

He obtained his Bachelor of Science in Applied Chemistry (Honours) from the University of Malaya, Kuala Lumpur in 2008.

After graduating, he began his career as a Sales Executive with Multi-Optochem Sdn Bhd, a Singapore branch chemical trading company, focusing on sales of chemicals for the coating, paint, ink and cosmetic industries in Malaysia. In 2009, he joined Centre West Industrial Supplies Sdn Bhd as a Head of Department and was responsible in overseeing the latex industry. He was also actively involved in the running of a manufacturing plant which produced chemicals applicable to the rubber latex industry.

Subsequently in 2011, he took up the position of an Operation Manager Cum Director in TMSB. He is one of the co-founders of TMSB and is responsible for developing products (R&D) and process technologies, setting up TMSB's Quality Management System and production, managing TMSB's financials and developing its marketing strategy.

He does not have any family relationship with any Director and/or substantial shareholder of the Company, nor does he have any conflict of interest with the Company. He does not hold any other directorships in other listed entities.

Key Senior Management Profile
Cont'd

MR JOSEPH TJENDRA
Marketing Director of PT. Luxchem Indonesia ("PTLI")

Mr Joseph Tjendra, an Indonesian aged 43, was appointed as a Director of PTLI since 2 January 2012.

He obtained his Bachelor of Business – Management from the University of Tarumanagara, Jakarta in 1997 and also active as a Student Council member and University Radio broadcaster until he graduated.

He began his career in 1997 when he joined MITSUI & CO., LTD. as a Sales Executive of First Plastic Division. In July 2000, he left and decided to take care of family business in food industry. In 2003, due to his passion in the chemical industrial business, he took up the position in PT. USTRADA SAKTI SUPPLIES as a Sales Manager of PVC Division and under the same group company, he was also assigned as a Sales Manager of PT. INDO LYSAGHT until the end of 2011. In 2012, he decided to join PTLI as a Marketing Director.

He is currently responsible for leading, directing, overseeing and managing sales and marketing of PTLI.

He is the husband of Ms Trisia Claudia. He does not have any conflict of interest with the Company nor hold any other directorships in other listed entities.

MS TRISIA CLAUDIA
Finance Director of PT. Luxchem Indonesia ("PTLI")

Ms Trisia Claudia, an Indonesian aged 44, was appointed as a Director of PTLI since 11 October 2011.

She obtained her Bachelor of Business – Management from the University of Atma Jaya, Jakarta in 1995 and was also active as a Student Senate member until she graduated.

She began her career in 1995 when she joined MITSUI & CO., LTD. as a Secretary to the General Manager of Chemical Division. She continued her position as a Secretary and Marketing Assistant when MITSUI & CO., LTD changed its status from Representative Office to Foreign Investment Company called PT. MITSUI INDONESIA in 2000. She left in 2007 and established a new company called PT. ATRACO MAJU SEJAHTERA as a Finance Director.

In October 2011, PT. ATRACO MAJU SEJAHTERA and LUXCHEM CORPORATION BERHAD agreed to establish Joint Venture company called PTLI and she still remains her position as a Finance Director in the company.

She is currently responsible for leading, directing, overseeing and managing finance and administrative matters of PTLI.

She is the wife of Mr Joseph Tjendra. She does not have any conflict of interest with the Company nor hold any other directorships in other listed entities.

Notes:
Conviction of offences
All the key Senior Management Officers have not been convicted of any offences within the past five (5) years and have not been subjected to any public sanctions and/or penalties imposed by any relevant regulatory bodies during the financial year ended 31 December 2016.

Management Discussion and Analysis

ON BEHALF OF THE BOARD OF DIRECTORS OF LUXCHEM CORPORATION BERHAD, IT IS MY PLEASURE TO PRESENT TO YOU THE MANAGEMENT DISCUSSION AND ANALYSIS ("MDA") ON THE GROUP. THE OBJECTIVE OF THIS MDA IS TO PROVIDE SHAREHOLDERS WITH A BETTER UNDERSTANDING AND AN OVERVIEW OF THE GROUP'S BUSINESS, OPERATIONS, FINANCIAL POSITION IN THE YEAR 2016 AND OUTLOOK FOR THE YEAR 2017.

A. GROUP STRUCTURE

Luxchem Corporation Berhad ("LCB") is an investment holding company, with the following subsidiaries:

- Luxchem Trading Sdn Bhd ("LTSB")
- Luxchem Polymer Industries Sdn Bhd ("LPI")
- Luxchem Vietnam Company Limited ("LVCL")
- Luxchem Trading (S) Pte Ltd ("LTSPL")
- Transform Master Sdn Bhd ("TMSB")
- Chemplex Composite Industries (M) Sdn Bhd ("CCI")
- PT Luxchem Indonesia ("PTLI")

In line with the Group's business expansion objectives and growth strategy, LCB has added the following members to its family during the financial year 2016 ("FYE 2016"):

1. LVCL which was established in January 2016 with a total capital of USD500,000. LVCL is involved in import and distribution of industrial chemicals; and

2. TMSB which was acquired on 29 April 2016. TMSB is principally involved in the manufacturing of industrial chemical products including amongst others, latex chemical dispersions, latex processing chemicals and related products.

B. OVERVIEW OF LCB BUSINESS ACTIVITIES

The Group has two reportable business segments comprising:-

1. Trading

Trading activities comprising mainly of import, export and distribution of petrochemical and other related products and these activities are carried out by LTSB, LVCL, LTSPL and PTLI.

Our products are mainly sold to manufacturers in the Rubber, Latex, Fibreglass Reinforced Plastic ("FRP"), Coating, Ceramic and Polyvinyl Chloride ("PVC") industries.

15% of trading segment revenue for FYE 2016 was contributed by export sales. This was mainly to Indonesia, through our subsidiary, PTLI.

Our objectives are to remain focused on the Rubber, Latex, FRP, Coating, Ceramic and PVC industries. Within these industries, we will expand our product range, to continuously source for reliable suppliers for higher quality products and to increase our customer base, both locally and overseas.

2. **Manufacturing**

Manufacturing activities comprised the following:

(i) Manufacturing and trading of Unsaturated Polyester Resin ("UPR") and related products; and

(ii) Manufacturing and trading of latex chemical dispersions, latex processing chemicals and related products for the latex industry.

These activities are carried out by LPI and TMSB respectively.

84% of our manufacturing segment revenue for FYE 2016 was contributed by export sales. Our major exporting countries are Vietnam, Thailand, Bangladesh, Australia and Singapore.

Our objectives are to improve our plant efficiencies and to improve our margins through close monitoring of raw material price trends. We will study market carefully and expand our capacity if it is justified.

C. GROUP FINANCIAL PERFORMANCE

Financial performance of the Group

	2016 RM	2015 RM	VARIANCE RM
Revenue	701,549,200	686,753,694	14,795,506
Cost of sales	(618,348,223)	(613,624,791)	(4,723,432)
Gross profit	83,200,977	73,128,903	10,072,074
Other operating income	5,455,934	8,797,963	(3,342,029)
Selling and distribution costs	(6,049,512)	(5,920,469)	(129,043)
Administrative expenses	(17,648,917)	(14,200,394)	(3,448,523)
Administrative expenses - Share Option Expense	(2,579,568)	(4,432,101)	1,852,533
Other operating expenses	(745,414)	(585,442)	(159,972)
Operating profit	61,633,500	56,788,460	4,845,040
Finance costs	(2,555,362)	(2,391,878)	(163,484)
Profit before Tax	59,078,138	54,396,582	4,681,556
Taxation	(15,392,362)	(14,801,414)	(590,948)
Profit for the period	**43,685,776**	**39,595,168**	**4,090,608**

Revenue

The Group's revenue for FYE 2016 has increased by RM14.80 million or 2.15% as compared to financial year 2015 ("FYE 2015"). This revenue growth was mainly contributed by:

1) Revenue from TMSB

   As LCB completed its acquisition of TMSB on 29 April 2016, the revenue of TMSB was consolidated to the Group's revenue since then with a total contribution of RM16.55 million.

2) Higher revenue from PTLI, LTSPL and LPI

   While sales to the local market have suffered a drop of RM12.93 million as compared to FYE 2015 due to the softening of the local market and stiffer competition, we have managed to increase our exports by RM27.72 million. This factor together with the contribution from TMSB has cushioned up the drop in local sales with an overall net increase of RM14.80 million for FYE 2016.

Gross profit

Gross profit increased by RM10.07 million to reach at RM83.20 million for FYE 2016. This increase was from the manufacturing segment which contributed RM7.28 million as compared to RM2.79 million by the trading segment.

Other operating income

Major items included under Other Operating Income are unrealised and realised gain on foreign exchange amounting to RM2.80 million and interest income from deposits with financial institutions amounting to RM1.37 million.

The Group's Other Operating Income in FYE 2016 has dropped to RM5.46 million from RM8.80 million in FYE 2015 mainly due to lower foreign exchange gain in FYE 2016.

Selling and distribution costs

Selling and distribution costs remain fairly constant in FYE 2016 as compared to FYE 2015.

Administrative expenses

Administrative expenses increased by RM3.45 million in FYE 2016 due to higher expenses in both the Trading and Manufacturing segments which are mainly contributed by the increase in rental expenses, staff costs and depreciation charge.

Administrative expenses – Share option expenses

The Group implements an Employees' Share Option Scheme ("ESOS") under which the Group receives services from employees as consideration for the share options over the Company's unissued ordinary shares granted to eligible Directors and employees of the Group. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense in the profit or loss (Administrative expenses – Share option expenses) over the vesting period of the share options granted with a corresponding increase in equity.

The ESOS was implemented on 1 December 2014 and will expire on 30 November 2019.

The first grant of 31,986,000 options was granted on 22 January 2015, followed by second grant of 1,446,000 options on 22 June 2015 and the third grant 2,540,000 options on 22 June 2016.

The share-option expenses in FYE 2016 of RM2.58 million is lower than the share-option expenses in FYE 2015 of RM4.43 million due to:

- The lower number of options granted in FYE 2016 as compared to FYE 2015; and
- A significant amount of share-option expenses had been recognised in FYE 2015 given that the vesting period for the 31,986,000 and 1,446,000 options started in FYE 2015.

Profit after tax

The Group achieved Profit after Tax of RM43.69 million, an increase of RM4.09 million from FYE 2015.

This increase was due to higher Gross Profit, which was, partly offset by a lower Other Operating Income and higher Administrative Expenses.

D. OPERATIONS & FINANCIAL PERFORMANCE BY BUSINESS SEGMENTS

1. SEGMENT: MANUFACTURING

Overview - Manufacturing

The performance of the Manufacturing segment in FYE 2016 as compared to FYE 2015 is summarised below:

	MANUFACTURING SEGMENT		
	2016	2015	VARIANCE
	RM	RM	RM
Total revenue	206,695,966	177,108,292	29,587,674
Inter-segment revenue	(63,706,722)	(61,254,394)	(2,452,328)
External sales	142,989,244	115,853,898	27,135,346
Results			
Segment results	30,928,359	27,255,312	3,673,047
Dividend, interest and rental income	348,090	318,176	29,914
Operating profit	31,276,449	27,573,488	3,702,961
Finance costs	(99,470)	(83,180)	(16,290)
Profit before taxation	31,176,979	27,490,308	3,686,671
Taxation	(7,672,117)	(6,732,474)	(939,643)
Profit for the year	23,504,862	20,757,834	2,747,028

During FYE 2015, LPI was the only subsidiary which was categorised under Manufacturing segment.

During FYE 2016, the Group has added TMSB to its family members as it was acquired by the Group on 29 April 2016 and allocated it to the Manufacturing segment.

Manufacturing revenue, net of inter-company transactions, increased to RM142.99 million in FYE 2016, an increase of RM27.14 million or 23.42% as compared to FYE 2015. This increase was attributable to:-

(i) Increase in LPI exports.
(ii) Contribution by TMSB.

(As TMSB was acquired by LCB on 29 April 2016, only eight (8) months results were consolidated into the Group's financial statements)

Profit before tax from the Manufacturing segment for FYE 2016 increased by RM3.69 million as compared to FYE 2015 mainly due to increase in revenue.

Manufacturing of Unsaturated Polyester Resin ("UPR")

This manufacturing activity including the marketing of UPR are carried out by LPI, under the brand name POLYMAL.

Our products are used in a wide range of consumer and industrial applications such as in electrical, housing, sports, industrial equipment, constructions, buses, ships or boats, furniture, plywood and automobile industries.

LPI started operations in 1997 and is located in Cheng Industrial Estate, Malacca. The current annual capacity is 30,000 metric ton and we are currently operating close to this capacity. Our operations have obtained the following certifications:

- ISO9001: 2008
- ISO14001:2004
- OHSAS18001:2007

Our products are sold locally and they are also exported.

For sales to domestic markets, LPI's distribution channel is through LTSB. For exports to Indonesia, LPI's distributes through PTLI whereas sales to other countries are directly exported by LPI.

In order to sustain our business growth, LPI strategies include the following:

- Product development
- Development of overseas markets
- Close monitoring of USD/RM exchange rates
- Prompt collection of export proceeds

Manufacturing and trading of latex chemical dispersions, latex processing chemicals and related products for the latex industry

This manufacturing activity including the marketing of latex chemical dispersions, latex processing chemicals and other related products for the latex industry are carried out by TMSB.

TMSB started its operations in 2011 and is located in Sitiawan, Perak. It has an annual capacity of 9,600 metric ton and is currently operating at about 75% of its annual capacity. Our operations have obtained the following certification:

- ISO9001: 2008

In FYE 2016, TMSB's customers were mainly of local customers.

For financial year 2017 ("FYE 2017"), TMSB's objective is to increase its revenue by increasing its customer base locally and abroad. To achieve this objective, TMSB will focus on product development to meet new customers' requirements. Capital expenditure and expansion will be considered once production reaches full capacity.

2. SEGMENT: TRADING

Marketing and distribution of industrial chemicals and materials

This activity is carried out by LTSB, PTLI, LTSPL and LVCL.

FYE 2016 continued to be a challenging year as we faced fluctuations in USD exchange rates, fluctuations in raw material pricing, keen competition and pressure on pricing.

The performance of Trading segment in FYE 2016 as compared to FYE 2015 is summarised below:

	TRADING SEGMENT		
	2016	2015	VARIANCE
	RM	RM	RM
Total revenue	565,271,230	571,520,061	(6,248,831)
Inter-segment revenue	(6,711,274)	(620,265)	(6,091,009)
External sales	558,559,956	570,899,796	(12,339,840)
Results			
Segment results	30,467,574	28,394,425	2,073,149
Dividend, interest and rental income	907,872	1,316,799	(408,927)
Operating profit	31,375,446	29,711,224	1,664,222
Finance costs	(2,455,892)	(2,308,698)	(147,194)
Profit before taxation	28,919,554	27,402,526	1,517,028
Taxation	(7,661,771)	(8,020,631)	358,860
Profit for the year	21,257,783	19,381,895	1,875,888

Under this Trading segment, our activities are import, export and distribution of petrochemical and other related products to the Rubber, Latex, FRP, Coating, Ceramic and PVC industries.

The major products are as follows:

- Synthetic latex
- Latex chemical
- Synthetic rubber
- Rubber chemicals
- Polymer resins and fibreglass materials
- PVC resins, plasticizers and additives

In FYE 2016, revenue from Trading segment was lower by RM12.34 million or 2.16% as compared to FYE 2015.

The reduction was mainly due to the drop in local sales quantities, which was however, partly offset by higher sales quantities in Indonesia through PTLI. Reasons for the lower local sales quantities include slowdown in customers' demand as well as stiffer competition.

Revenue contributed by PTLI in FYE 2016 increased by RM24.28 million, an increase of 67.28% as compared to FYE 2015 to reach to the level of RM60.38 million for FYE 2016. This was attributable to the increase in sales to the PVC industry.

Although revenue was lower, Profit after Tax increased by RM1.88 million, due to higher margins.

Strategies

In order to remain competitive, our strategies include the following:-

- Keeping stocks at optimum levels
- Ensuring prompt collection from customers
- Close monitoring of foreign currency exposures and exchange rates

E. REVENUE BY GEOGRAPHICAL SEGMENTS

In FYE 2016, LCB derived export revenue of RM206.35 million, an increase of RM27.72 million as compared to FYE 2015. The increase came from exports to Indonesia and Vietnam.

Countries	2016 RM	2015 RM	VARIANCE RM
Malaysia	**495,203,477**	**508,128,801**	**(12,925,324)**
Vietnam	96,922,272	78,699,435	18,222,837
Indonesia	70,429,422	51,890,496	18,538,926
Thailand	18,848,001	25,160,136	(6,312,135)
Australia	6,167,329	4,434,214	1,733,115
Singapore	4,777,653	6,913,914	(2,136,261)
Bangladesh	4,232,297	5,025,961	(793,664)
New Zealand	2,349,605	2,053,065	296,540
Myanmar	243,139	2,031,937	(1,788,798)
Others	2,376,005	2,415,735	(39,730)
Total Export	**206,345,723**	**178,624,893**	**27,720,830**
Total Sales	**701,549,200**	**686,753,694**	**14,795,506**
Export	29.41%	26.01%	
Local	70.59%	73.99%	
Total	**100.00%**	**100.00%**	

F. OUTLOOK

For FYE 2017, we expect similar challenging factors to continue to affect our operations - USD/RM fluctuations, raw material price fluctuations, raw material demand and supply situations and keen competition.

Given these external uncontrollable factors, we will need to improve our own productivity and efficiency to achieve better results. In our trading segment, we will strive to improve our quality of service to our customers – providing technical advice to our customers, sourcing higher quality raw materials and keeping up-to-date on raw materials price and supply/demand trends. In our manufacturing segment, we will emphasise on product development to increase our product range to existing customers as well as to increase our customer base.

In summary, the prospect for LCB in FYE 2017 will remain to be challenging however, we are optimistic that our Group will be able to grow steadily.

CHEN MOI KEW
Executive Director/Chief Financial Officer

Statement on Corporate Governance

The Board of Directors ("the Board") of Luxchem Corporation Berhad ("the Company") recognises the importance of corporate governance and is committed to practise it throughout the Company and its subsidiaries ("the Group") to protect and enhance shareholders' value and the financial performance of the Group.

The Board is pleased to provide a Statement that explains the manner in which the Company has applied the Principles and Recommendations as set out in the Malaysian Code on Corporate Governance 2012 ("the Code") during the financial year ended 31 December 2016 and any non-observation of the Recommendations of the Code, including the reason thereof, has been included in this Statement.

PRINCIPLE 1: ESTABLISH CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

Clear Roles and Responsibilities

The statutory duties, powers and functions of the Board are governed by the Constitution of the Company, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR") and other regulatory guidelines and requirements that are in force. The Board representing the shareholders, ensures proper management of the Group by:

i. Ensuring that the Group's objectives are clearly established;

ii. Balancing the interest of customers, employees, suppliers, environment, governance and communities where it operates in order to achieve long-term financial returns;

iii. Ensuring the solvency of the Group and the ability of the Group to meet its contractual obligations and to safeguard its assets and approve major funding proposals, investments, acquisitions and divestment proposals;

iv. Ensuring that the Group has appropriate business risk management process, including adequate control environment, internal control systems and risk management and management information systems;

v. Appointing Board Committees to address specific issues, considering recommendations of the various Board Committees and discussing issues and findings arising from these committees' deliberations and reports;

vi. Ensuring that the statutory accounts of the Company and of the Group are fairly stated and otherwise conform with the relevant regulations including acceptable accounting policies that result in balanced and understandable financial statements; and

vii. Ensuring proper corporate disclosure policy and procedures are well established for effective dissemination of information which is comprehensive, accurate and timely manner.

The Board recognises the importance for reviewing and adopting a strategic plan and overseeing the conduct of the business in order to ensure that the business is being properly managed. The periodic performance of the Group is reviewed by the Board based on the quarterly financial results and operational information and explanations provided by the Management.

A Schedule of Matters reserved for collective decision of the Board is defined. This Schedule of Matters is attached together with the Board Charter of the Company and it could be found in "Corporate Governance" section in the Company's website at www.luxchem.com.my.

Board discussions are open and constructive, recognising that differences of opinion, in such circumstances, bring greater clarity and lead to better decisions. The Chairman will, nevertheless, seek a consensus in the Board but may, where considered necessary, call for a vote.

PRINCIPLE 1: ESTABLISH CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT *cont'd*

Directors' Code of Best Practice

The Board has in place a Directors' Code of Best Practice, setting out the standards of ethics and conduct that are expected to create a good corporate behaviour. The Directors' Code of Best Practice also can be found at the Company's website at www.luxchem.com.my.

The Board recognises the importance on adherence to the Directors' Code of Best Practice by all personnel in the Group and takes measures to put in place a process to ensure its compliance.

Access to Independent Professional Advice

For the purpose of this section, independent professional advice shall include advice sought from legal experts, accountants or other professional advisors and consultants. Independent professional advice shall exclude advice concerning personal interests of the Directors such as with respect to their contracts or disputes with the Group, unless these are matters affecting the Board as a whole.

When external advices are necessary, the Director would provide proper notice to the Company Secretaries of the intention to seek independent advice and the name(s) of the professional advisors that he or she intends to contact, together with a brief summary of the subject matter for which professional advice is sought. In the event that one or more Directors seek to appoint one or more advisors, the Chairman should take steps to facilitate discussions to arrive at a consensus.

Fees for the independent professional advice will be payable by the Company but approval of the Chairman will be required before engaging a professional advice.

For avoidance of doubt, the above restriction shall not apply to Executive Directors in furtherance their executive responsibilities and within the Board's delegated powers.

Qualified and Competent Company Secretaries

The Board is assisted by three (3) qualified and competent Company Secretaries. Two (2) of them are members of Malaysian Institute of Accountants whilst the other is a member of Malaysian Institute of Chartered Secretaries and Administrators. The Company Secretaries provide support to the Board in carrying out its fiduciary duties and stewardship role in shaping the standard of corporate governance of the Group. In this respect, they play an advisory role to the Board, particularly with regards to the Company's Constitution, Board's policies and procedures as well as its compliance with regulatory requirements, codes, guidelines, legislations and the principles of best corporate governance practices.

All Directors have unrestricted access to the advice and services of the Company Secretaries for the purposes of the Board's affairs and the business of the Group. The appointment and removal of Company Secretaries or Secretaries of the Board Committees shall be the prerogative of the Board as a whole.

In addition, the Company Secretaries also attend Board, Board Committees and general meetings, and ensure that deliberations at the meetings are accurately minuted and kept in the minutes books and subsequently communicated to the relevant party for necessary actions. These minutes of meetings record the decisions taken and the views of individual Directors. Such minutes of meetings are confirmed by the respective Board Committees and signed by Chairman of the meeting.

PRINCIPLE 1: ESTABLISH CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT *cont'd*

Qualified and Competent Company Secretaries *cont'd*

The Company Secretaries also carry out the following tasks:

- Ensure proper record and maintenance of the Company's proceedings, resolutions, statutory records, register books and documents;
- Assist the Chairman in the preparation for and conduct of meetings; and
- Keep the Directors and principal officers informed of the closed period for trading in the Company's shares.

Access to Management and Information

The Board understands that the supply, timeliness and quality of the information affect the effectiveness of the Board to oversee the conduct of business and to evaluate the Management's performance of the Group.

Directors have full and unrestricted access to all information pertaining to the Group's business and affairs, including amongst others, major financial, operational and corporate matters as well as activities and performance of the Group to enable them to discharge their duties effectively.

When accessing to Management, the Directors ensure that such access would not distract the business operations of the Group and if such contact is in writing, it will be copied to the Chairman and Managing Director ("MD")/Chief Executive Officer ("CEO").

The Board also encourages the Members of Senior Management to attend Board and Board Committees' meetings by invitation to provide additional insight on the areas of the business within their responsibility, for the Board's decision making.

The Board and/or Board Committees papers are prepared and distributed to the Directors and/or Committee Members prior to the Board and/or Board Committees' meetings to allow the Board and/or Committee Members to receive the information in a timely manner.

Notices of meetings are circulated at least five (5) days before the Board and Board Committees' meetings. Urgent matters falling outside these timing requirements are allowed, subject to the Board Chairman's approval.

Position of the MD/CEO

The Board integrates governance and management functions through MD/CEO. All Board authority conferred on management is delegated to the MD/CEO. The Board reviews the division of governance and execution responsibilities in order to balance the power of the Board and of the Management.

Only decisions of the Board acting as a body are binding on MD/CEO. Decisions or instructions of individual Directors or Board Committees are not binding, except in the instances where specific authorisation is given by the Board.

The positions of Chairman and Group Managing Director ("GMD") are separately held in ensuring balance of power, accountability and division of roles and responsibilities of the Board and the Management of the Group's business and operations. Formal position descriptions for the Chairman and MD/CEO outlining their respective roles and responsibilities are set out in the Board Charter.

In the event of the absence of MD/CEO, the responsibilities and authorities of the MD/CEO shall apply to such other person appointed by the Board unless the Board or a Board Committee decides otherwise that certain responsibilities and authorities are not to apply or are to apply with modification. The Board and Board Committees may also put in place additional rules and guidelines pertaining to this person's role.

PRINCIPLE 1: ESTABLISH CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT *cont'd*

Position of the MD/CEO *cont'd*

The Board has defined and formalised its Board Charter and the same is published in the Company's website at www.luxchem.com.my. Board Charter serves as a reference for the fiduciary duties as a Director of the Company and the functions of the Board Committees.

The Board would review the Board Charter periodically and make necessary amendments to ensure that they remain relevant and consistent with the Board's objective, current law and best practices to enable the Board to discharge its responsibilities in good governance. The Board reviewed and updated the Board Charter on 16 February 2017.

The Board is provided with appropriate and timely information to enable it to discharge its duties effectively. The Management is invited to attend the Board and Board Committee meetings and to provide explanations to the Board on the operation matters of the Group. In addition, the Board is also briefed progressively by the Company Secretaries, External Auditors and the Internal Auditors on new or changes in corporate regulatory requirements.

Monthly management meetings are called and used by the Executive Directors as a means of communication and feedback channel which facilitate whistleblowing. Going forward, apart from reviewing, monitoring and deciding on the business development, changes and actions to ensure businesses are under control, at these meetings, the Executive Directors would also seek feedbacks and comments from heads of department on any symptoms of irregularities and fraud.

Sustainability of Business

The Board is mindful of the importance of business sustainability and, in developing the corporate strategy of the Group, its impact on the environmental, social and governance aspects are taken into consideration. Based on the business, industry, and regulatory environment in which the Group's businesses operate in, the Board considers and requires its business units to comply with statutory regulations on safety and health and promote appropriate environmental friendly practices in the Group.

As part of the Group's commitment to environmental protection, the Group has implemented Environmental Management System ISO14001 since 2009 in the manufacturing operation of the Group. This framework provides the Management with a systematic approach to identify, control and monitor segment of operations that have potential impact on the environment.

The Group has no immediate plan to implement a diversity policy as it is of the view that employment is dependent on each candidate's skills, experience, core competencies and other qualities, regardless of gender and age. However, the Group is committed to diversity and have had an equal employment opportunity policy in promoting diversity in the Group. There are no barriers to employment or development in the Group because of an individual's gender, race, religion and age. As the Company believes that employees with diverse cultural backgrounds bring unique experiences and perceptions to the work team and would benefit the Group by strengthening productivity and responsiveness to changing conditions.

The Group's workforce statistics in terms of age, ethnic, gender and nationality as at 31 December 2016 are disclosed under "Additional Compliance Information" as stated in page 42 of this Annual Report.

PRINCIPLE 2: STRENGTHENING BOARD COMPOSITION

The Code emphasises the importance of right board composition in enhancing the Board decision making process and the transparency of policies and procedures in selection and evaluation of Directors.

The Board consists of Executive and Non-Executive Directors with a mix of suitably qualified and experienced professionals. The Board comprises six (6) members, where three (3) of the Directors are Independent Non-Executive Directors which exceed the prescribed one-third (1/3) of the Board or at least two (2) Directors, whichever is the higher as set out under the MMLR. Out of three (3) Executive Directors, two (2) of them are female directors. The appointment of Madam Chin Song Mooi and Madam Chen Moi Kew to the Board is an evidence that the Board does not consider gender as a prerequisite to the directorship although the Board has no plan to implement a diversity policy. The directorship is dependent on each candidate's skills, experience, core competencies and other qualities.

The Board is satisfied with the current composition of the Board as this provides a check and balance in the Board, with appropriate representations of minority interest through the Independent Non-Executive Directors to govern the Company effectively.

Profiles of Directors remain substantially unchanged and these are published on pages 6 to 8 of this Annual Report. They are also published in the Company's website at www.luxchem.com.my for shareholders' reference.

Nominating Committee

The Nominating Committee is responsible for overseeing and reviewing, on an annual basis, the skills, experience, knowledge, time commitment, integrity, and characteristics required of the Directors and the Board's effectiveness in considering the needs of the Group and its business. The terms of reference of the Nominating Committee can be found on the Company's website at www.luxchem.com.my.

In order to ensure that the selection and evaluation of Directors are done objectively, the Nominating Committee members are solely made up of Independent Directors and the said Committee is chaired by the Senior Independent Non-Executive Director. Mr Chan Wan Siew is the Senior Independent Non-Executive Director to whom concerns on matters relating to Corporate Governance of the Company could be conveyed. As at the date of this Statement, the members are as follows:

Chairman
- Mr Chan Wan Siew (Senior Independent Non-Executive Director)

Members
- Mr Au Chun Choong (Independent Non-Executive Director)
- Dato' Haji Mokhtar Bin Haji Samad (Independent Non-Executive Chairman)

In addition, the Nominating Committee is also responsible for making recommendations of the appointments to the Board based on size of the Board, the mix of skills, gender, knowledge and experience and other qualities of a Director should bring to the Board. New nomination is assessed and recommended to the whole Board for appointment.

The Nominating Committee meets at least once in a year with additional meetings to be convened, if necessary. During the financial year under review, the Nominating Committee had met once to review and assess the mix of skills, expertise, composition, size and experience of the Board, including the core-competencies of both Executive and Non-Executive Directors, the contribution of each individual Director, the effectiveness of the Board as a whole and the Board Committees.

PRINCIPLE 2: STRENGTHENING BOARD COMPOSITION *cont'd*

Nominating Committee *cont'd*

Results of the assessment were summarised and discussed at the Nominating Committee meeting held in 16 February 2017 and reported to the Board by the Chairman of the Nominating Committee. These results form the basis of the Nominating Committee's recommendations to the Board for the re-election and re-appointment of Directors at the Annual General Meeting. All assessments and evaluations carried out by the Nominating Committee in the discharge of its functions are properly documented.

The Board delegates the screening and evaluation process of candidates for nomination to the Board and the Directors to be nominated for re-election to the Nominating Committee. Upon selection and appointment of its members, a formal invitation to join the Company as a Director would be extended by the Chairman. As at the date of reporting, there is no additional Director appointed to the Board.

The Board takes cognisance of the importance of independence and objectivity in relation to the decision-making process and effectiveness of the Board's function. The Board therefore has adopted the same criteria of "Independence" used in the definition of "independent directors" prescribed by the MMLR. Nominating Committee also carries out the evaluation on the independence of each independent Director on an annual basis.

The Board was satisfied with the results of the annual assessment and the current size and composition of the Board is appropriate and well-balanced with the right mix of skills, comprising individuals of high calibre, credibility and with the necessary skills and qualifications to enable the Board to discharge its duties and responsibilities effectively.

Review of Proposed Directors for Re-election/Re-appointment

In accordance with Article 77 of the Company's Articles of Association, all Directors of the Company shall retire from office at the first annual general meeting and at the annual general meeting in every subsequent year, one-third (1/3) of the Directors for the time being, or if their number is not three or a multiple of three (3), then the number nearest one-third (1/3) shall retire from office.

In accordance with Article 79 of the Company's Articles of Association, the Directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who become Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

Based on the results of the assessment undertaken for the financial year ended 31 December 2016, the Nominating Committee resolved to recommend to the Board that:

- Mr Tang Ying See, who is due to retire pursuant to Article 77 of the Company's Articles of Association, stands for re-election; and
- Dato' Haji Mokhtar Bin Haji Samad, who is due to retire pursuant to Article 77 of the Company's Articles of Association, stands for re-election.

PRINCIPLE 2: STRENGTHENING BOARD COMPOSITION *cont'd*

Retention of Independent Non-Executive Directors of the Company

The Nominating Committee had assessed Dato' Haji Mokhtar Bin Haji Samad, Mr Chan Wan Siew and Mr Au Chun Choong, who had each served the Company for a cumulative term of nearly nine (9) years and concluded that:

- They have fulfilled the criteria under the definition of Independent Director as stated in the MMLR, and thus, they would be able to function as check and balance, bring an element of objectivity to the Board;
- They have devoted sufficient time and attention to their professional obligations for informed and balanced decision making; and
- They have exercised their due care and diligence during their tenure as Independent Non-Executive Directors of the Company and carried out their professional duties in the best interest of the Company and shareholders.

The Board agreed with the above proposed re-appointment of Dato' Haji Mokhtar Bin Haji Samad, Mr Chan Wan Siew and Mr Au Chun Choong as Independent Directors of the Company, subject to approval of shareholders at the forthcoming Annual General Meeting ("AGM").

Directors' Remunerations

The Board determines the level of remuneration of its Director which enables the Group to attract, retain and motivate Directors with relevant experience and expertise needed after considering the recommendations of the Remuneration Committee to assist in managing the Group effectively.

All Executive Directors are remunerated based on the Group's performance, market conditions and their responsibilities whilst the remuneration of the Non-Executive Directors is determined in accordance with their experience, level of responsibilities assumed in the Board Committees and the Board, their attendance and/or special skills and expertise they bring to the Board. Directors do not participate in decisions regarding their own remuneration packages.

The number of Directors whose income fall within the following bands is set out as follows:

Remuneration Bands	Executive Directors	Non-Executive Directors
RM50,000 and below	-	3
RM150,000 – RM200,000	1	-
RM650,000 – RM700,000	1	-
RM1,800,000 – RM1,850,000	1	-

The aggregate remuneration paid or payable to all Directors of the Company during the financial year ended 31 December 2016 is further categorised into the following components:

PRINCIPLE 2: STRENGTHENING BOARD COMPOSITION *cont'd*

Directors' Remunerations *cont'd*

	Fees (RM)	Salaries and other emoluments (RM)	Bonuses (RM)	Benefit-in-kind (RM)	EPF and SOCSO (RM)	Total (RM)
Group						
Executive Directors	*10,000	1,481,000	867,352	29,848	296,296	2,684,496
Non-Executive Directors	**96,000	18,000	-	-	5,760	119,760
Company						
Executive Directors	-	-	-	-	-	-
Non-Executive Directors	**96,000	18,000	-	-	5,760	119,760

* *Fees for Executive Directors are paid by subsidiary company.*
** *Subject to the approval by shareholders at the AGM.*

The above remuneration excludes Directors' entitlement in Employees' Share Option Scheme ("ESOS"). Further details of ESOS are reported on page 45 to 47 of this Annual Report.

PRINCIPLE 3: REINFORCE INDEPENDENCE OF THE BOARD

The Board is mindful on the importance of independence for ensuring objectivity and fairness in Board's decision making. The roles and responsibilities of the Chairman and MD/CEO continue to be separated and the Chairman of the Board is an Independent Director.

The Chairman is responsible for ensuring the integrity and effectiveness of the governance process of the Board, maintaining dialogue with MD/CEO on operational matters and consulting the Board over matters that gives him cause of concern.

The Chairman will act as a facilitator at meetings of the Board to ensure that appropriate discussion takes place, relevant opinion among Directors are forthcoming and the Board's discussions produce logical and constructive outcomes.

Shareholders are encouraged to express their concerns and to seek clarification from the Chairman and MD/CEO of the Board. Alternatively, they could also direct their concerns to Mr Chan Wan Siew who is the Senior Independent Non-Executive Director, by emailing to PWChan@luxchem.com.my.

Provision of Business or Professional Services by Board Members

To avoid conflict of interest be it actual or perceived, the Directors should not, generally provide business or professional services of an ongoing nature to the Group.

Notwithstanding the general rule, the Company and/or Group is at liberty to:

- for the purpose of a special assignment, engage the services of any Director having special expertise in the particular field; or

- engage the services of a firm or company of which the Director is a partner, director or major shareholder so long as the terms of engagement are competitive, clearly recorded and all regulatory and legal requirements of the engagement are properly observed.

PRINCIPLE 3: REINFORCE INDEPENDENCE OF THE BOARD *cont'd*

Provision of Business or Professional Services by Board Members *cont'd*

In order to uphold independence of Independent Directors, the Board has adopted the following recommendations of the Code:

i. Subject to Board's justification and shareholders' approval, tenure of Independent Directors should not exceed a cumulative nine (9) years; and

ii. Board to undertake an annual assessment of independence of its Independent Directors focusing on events that would affect the ability of Independent Directors to continue bringing independent and objective judgement to the Board's deliberation and the regulatory definition of Independent Directors.

In justifying the decision, the Nominating Committee undertakes the candidate's suitability to continue as an Independent Non-Executive Director based on the criteria on independence. Following an assessment by the Board through the Nominating Committee, the Board is satisfied with the level of independence of Dato' Haji Mokhtar Bin Haji Samad, Mr Chan Wan Siew and Mr Au Chun Choong, who have served the Company for a cumulative term of nearly nine (9) years, and recommended for them to continue in office as Independent Non-Executive Directors subject to shareholders' approval at this AGM.

PRINCIPLE 4: FOSTER COMMITMENT OF DIRECTORS

The fundamental of Directors' commitment is devotion of time and continuous improvement of knowledge and skillsets.

The Board undertakes to meet at least four (4) times a year, which are scheduled in advanced to facilitate the Directors in planning their meeting schedule for the year. During the financial year ended 31 December 2016, six (6) Board meetings were held and the details of the attendance of the Directors are set out as below:

Name of Director/Designation	Number of Meetings Attended
Dato' Haji Mokhtar Bin Haji Samad *Independent Non-Executive Chairman*	6/6
Mr Tang Ying See *Managing Director/Chief Executive Officer*	6/6
Madam Chin Song Mooi *Executive Director*	5/6
Madam Chen Moi Kew *Executive Director/Chief Financial Officer*	6/6
Mr Au Chun Choong *Independent Non-Executive Director*	6/6
Mr Chan Wan Siew *Senior Independent Non-Executive Director*	6/6

In accordance with the MMLR, each Director should not hold more than five (5) directorships in public listed companies. In order to further strenghten the Directors' commitment, internally, the Board sets the maximum executive directorship of each Director in public listed companies shall not be more than two (2). This enables their commitment, resources and time are focused on the business affairs of the Group thereby enabling them to discharge their duties effectively.

PRINCIPLE 4: FOSTER COMMITMENT OF DIRECTORS *cont'd*

Any Director, while holding office, is at liberty to accept other Board appointments (outside the Group) so long the appointment is not in conflict of interest with the business of the Group and that it would not detrimentally affect his/her performance as a Director of the Company. Before accepting an offer of appointment of other directorships, the Director must notify the Chairman of the Board. The notification should include an indication of time that he/she will be spent on the new appointment of directorship in other companies.

Directors' Training

The Board recognises the need and importance of continuous training for its Directors. Attending relevant corporate trainings and seminars would enable them to discharge their duties more effectively during their tenure. The Board, via the Nominating Committee would continue to identify and assess the training needs of the Directors from time to time.

During the financial year under review, the Directors have participated in various relevant training programmes to enhance their skills and knowledge and to keep abreast with the relevant changes in laws, regulations and business environment. Additionally, the Directors continue to broaden their industry and professional knowledge through their association with the business and corporate stakeholders of the Group and participation in the events conducted by these stakeholders.

The details of the trainings/seminars/conferences attended by Directors during the financial year ended 31 December 2016 are as below:

Course Title	Name of Director
• TPPA Summit (9 January 2016) • Statistics, Indices on Construction and Automation (SICA 2016) (14 November 2016)	Dato' Haji Mokhtar Bin Haji Samad
• Product Introduction, Technical Knowledge and Safety Briefing on Special Peroxides (28 June 2016) • China Composites Expo 2016 (6 September 2016)	Mr Tang Ying See
• Annual Seminar on Year 2017 Budget & Other Tax Developments (15 November 2016)	Madam Chin Song Mooi
• HSBC Economic & FX Outlook 2016 (19 January 2016) • Management Discussion and Analysis – What and How to Disclose? (17 October 2016) • Annual Seminar on Year 2017 Budget & Other Tax Developments (15 November 2016) • Companies Act 2016 (6 December 2016)	Madam Chen Moi Kew

PRINCIPLE 4: FOSTER COMMITMENT OF DIRECTORS *cont'd*

Directors' Training *cont'd*

Course Title	Name of Director
• FIDE (Financial Institutes Directors' Education): New & Revised Auditors Reporting Standard (20 January 2016) • FIDE Cyber-Risk Oversight (16 March 2016) • Asian World Summit (AWS) – 7th Annual Corporate Governance Summit (21 & 22 March 2016) • MSWG-Inst'l Investor Council CG Wk – Stewardship Matters for Long Term Sustainability 30 March to 1 April 2016) • KPMG Audit Committee Institute - Sustainability Reporting (26 April 2016) • Audit Committee Seminar (17 May 2016) • ABFER (Asian Bureau of Finance & Economic Research) 4th Annual Conference (23 & 24 May 2016) • MIA–SMP (Small Medium Practitioners) Mergers & Acquisitions Seminar (2 June 2016) • NACD (National Association of Corporate Directors) Cyber Summit (15 June 2016) • NACD Advance Director Professionalism Program (16 & 17 June 2016) • MAICSA Annual Conference 2016 – Sustainability Shaping the Future (8 & 9 August 2016) • IAASB-MIA Seminar – International Audit Assurance Standard Board (15 September 2016) • NACD Global Board Leaders' Summit 2016 17 to 20 September 2016) • MIA-IIRC (International Integrated Reporting Council) Conference (10 October 2016) • IODSA (Institute of Directors, Southern Africa) Conference – Launch of KING IV on CG (1 November 2016) • Marcus Evans' 2nd Annual Conference - The Boardroom Agenda (21 & 23 November 2016)	Mr Chan Wan Siew
• Advanced Corporate Valuation: Beyond Traditional Valuation Methods (22 & 23 August 2016)	Mr Au Chun Choong

PRINCIPLE 5: UPHOLD INTEGRITY IN FINANCIAL REPORTING

The Company has established an Audit Committee which comprises three (3) Independent Non-Executive Directors, in compliance with the MMLR which require all the members of the Audit Committee to be Non-Executive Directors, with a majority of them being Independent Directors and the Chairman of the Audit Committee is an Independent Non-Executive Director.

The Audit Committee met five (5) times during the financial year ended 31 December 2016. Full details of the composition of the Audit Committee, including its roles and responsibilities, number of meetings and attendance by the Audit Committee, a summary of the work carried out by the Audit Committee and Internal Auditors' activities during the financial year ended 31 December 2016 and its Terms of Reference can be found in the Audit Committee Report of this Annual Report.

PRINCIPLE 5: UPHOLD INTEGRITY IN FINANCIAL REPORTING *cont'd*

The Audit Committee is responsible to ensure the Group's financial statements are complied with applicable financial reporting standards. The factors that will influence the integrity of financial reporting include the competency, quality and integrity of management in charge of the preparation of financial reports and the competency, suitability and independence of External Auditors. The Audit Committee has obtained written assurance from:

i. External Auditors confirming that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements; and

ii. Chief Financial Officer confirming that all relevant approved accounting standards and policies have been adopted, applied and followed in the financial statement with reasonable and prudent judgments and estimates.

The Audit Committee also reviews the independence, performance and remuneration of the External Auditors before recommending them to the shareholders for re-appointment in the AGM on an annual basis. The External Auditors would provide written assurance to the Board in respect of its independence to act as the External Auditors of the Group. The Audit Committee would convene private session with the External Auditors and Internal Auditors without the presence of the Executive Directors and Management. During the financial year ended 31 December 2016, the Audit Committee conducted private sessions with the External Auditors without the presence of the Executive Directors and Management.

Details of the audit and non-audit fees paid/payable to Messrs Folks DFK & Co. ("Folks DFK & Co.") for the financial year ended 31 December 2016 are as follows:

	Company RM'000	Group RM'000
Statutory audit fees paid/payable to Folks DFK & Co.	66.0	207.0
Non-audit fees paid/payable to:		
- Folks DFK & Co.		
- Due diligence review	60.0	60.0
- Others	13.0	18.0
- Affiliates of Folks DFK & Co.	3.7	26.2
	76.7	104.2

PRINCIPLE 6: RECOGNISE AND MANAGE RISKS

The Board acknowledges that risk management and internal control systems are an integral part of effective management practice. As risk is inherent in all business activities, hence it is not the Group's objective to eliminate risk totally. The underlying risk management principle of the Group is to balance the cost and benefit of managing and treating risks. There is an on-going process in place to identify, evaluate, monitor and manage the key risks faced by the Group and the Board reviews the key risks highlighted on a regular basis to ensure the relevant action is taken to mitigate the risk of the Group to safeguard shareholders' investment and Group's assets.

The Board has established an Internal Audit Function which is currently outsourced to a professional firm. Functionally, the Internal Auditors report to the Audit Committee directly and they are responsible for conducting periodic reviews and appraisals of the effectiveness of the governance, risk management and internal controls process within the Group.

The Board is assisted by the Risk Management Committee to ensure the risk and control framework is embedded into the culture, processes and structures of the Group.

PRINCIPLE 6: RECOGNISE AND MANAGE RISKS *cont'd*

The Group has a formalised the Risk Management System Manual to manage the key risk areas of the Group. Further details of the Group's state of risk management and internal control systems are reported in the Statement on Risk Management and Internal Control on pages 37 to 40 of this Annual Report.

PRINCIPLE 7: ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

Corporate disclosure and information are important for investors and shareholders. The Board is advised by Management, Company Secretaries, the External and Internal Auditors on the contents and timing of disclosure of the financial results and various announcements in accordance with the MMLR. The Management is invited to attend the Board and Audit Committee meetings and to provide explanations to the Board on the operations of the Group.

The Group's information is disseminated through various disclosures and announcements made to Bursa Malaysia Securities Berhad ("Bursa Securities"). This information is also published at Bursa Securities's website at http://www.bursamalaysia.com. Furthermore, the Group also maintains its website at www.luxchem.com.my to communicate and disseminate information to shareholders and investors. The publication of principal governance information such as Board Charter and Board Committees' Terms of Reference are included in its corporate website. Investor information, financial information and corporate announcements can be accessed on the website as well.

PRINCIPLE 8: STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

The Board will familiarise itself with issues of shareholders' concern and will conduct poll voting and electronic polling as and when is required at the Company's Annual or Extraordinary General Meetings.

The Board empowers MD/CEO to speak for the Group. Other Directors may, from time to time subject to the Board's decision, meet or otherwise communicate with various constituencies that are involved with the Group. Comments from the Board when appropriate shall come from the Chairman.

General meeting is an important avenue through which shareholders can exercise their rights. Effective 1st July 2016, Paragraph 8.29A of the MMLR provides that any resolution set out in the notice of any general meeting, or in any notice of resolution which may properly be moved and is intended to be moved at any general meeting, shall be voted by poll. Furthermore, at least one (1) scrutineer will be appointed to validate the votes cast at the General Meeting who must not be an officer of the Company or its related corporation, and must be independent of the person undertaking the polling process.

The Board recognises the rights of shareholders. In order to continue encouraging shareholders participation in the general meetings, the Board would ensure that the Notice of the AGM is sent to shareholders at least twenty-one (21) days ahead of the date of general meeting and to provide sufficient time and opportunities for shareholders to seek clarifications during general meetings on any matters pertaining to the issues in the Annual Report, corporate developments in the Group, the resolutions being proposed and the operational and financial performance of the Company.

Items of special business included in the Notice of AGM will be accompanied by a full explanation of the effects of a proposed resolution. Separate resolutions are proposed for separate issues at the meeting and the Chairman declares the number of proxy votes received both for and against each separate resolution where appropriate.

All the resolutions set out in the Notice of the Twenty-Fourth AGM were put to vote by show of hands and duly passed. The shareholders were informed of their rights to demand for a poll. The outcome of the AGM was announced to Bursa Securities on the same meeting day.

This Statement was approved by the Board on 6 March 2017.

Statement of Directors' Responsibility

In Respect of the Preparation of the Financial Statements

The Directors are required to prepare financial statements for each financial year which have been made out in accordance with the approved accounting standards so as to give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and of their results and cash flows for that financial year.

In preparing the financial statements of the Group and of the Company for the financial year ended 31 December 2016, the Directors have:

- adopted appropriate accounting policies and applied them consistently;
- made judgments and estimates that are reasonable and prudent;
- ensured applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepared the financial statements on a going concern basis as the Directors have a reasonable expectation, having made enquiries, that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future.

The Directors are responsible for ensuring that proper accounting and other records are kept which enable the preparation of the financial statements with reasonable accuracy and in compliance with the Companies Act, 1965.

The Directors are also responsible for taking reasonable steps to ensure that appropriate systems are in place to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Audit Committee Report

The Board of Directors ("the Board") of Luxchem Corporation Berhad ("the Company") is pleased to present the Audit Committee ("AC") Report for the financial year ended 31 December 2016 in accordance with Paragraph 15.15 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR").

1. COMPOSITION OF AUDIT COMMITTEE

The AC comprises three (3) Independent Non-Executive Directors. Mr Au Chun Choong, the AC Chairman and Mr Chan Wan Siew, are fellow members of the Association of Chartered Certified Accountants (United Kingdom). Accordingly, the Company has complied with Paragraphs 15.09 (1)(c) and 15.10 of MMLR, which require all the AC members to be Non-Executive Directors, with a majority of them being Independent Directors and the Chairman of AC is an Independent Non-Executive Director. There are no alternate directors on the Board as well as the AC.

As at the date of this report, the composition of the AC is as follows:

Mr Au Chun Choong
Chairman
(Independent Non-Executive Director)

Mr Chan Wan Siew
Member
(Senior Independent Non-Executive Director)

Dato' Haji Mokhtar Bin Haji Samad
Member
(Independent Non-Executive Chairman)

2. TERMS OF REFERENCE

The Terms of Reference of the AC is made available on the Company's website (www.luxchem.com.my) for shareholders' reference.

The Board is satisfied that the AC and its members discharged their functions, duties and responsibilities in accordance with its Terms of Reference in ensuring the Company upholds appropriate Corporate Governance standards.

3. AUDIT COMMITTEE MEETING ATTENDANCE

During the financial year ended 31 December 2016, the AC of the Company held a total of five (5) meetings. The details of attendance of each member at the AC meetings are as follows:

Name of Committee Members	Designation	Attendance
Mr Au Chun Choong	*Chairman* *(Independent Non-Executive Director)*	5/5
Mr Chan Wan Siew	*Member* *(Senior Independent Non-Executive Director)*	5/5
Dato' Haji Mokhtar Bin Haji Samad	*Member* *(Independent Non-Executive Director)*	5/5

4. SUMMARY OF WORK OF THE AUDIT COMMITTEE

During the financial year ended 31 December 2016, the AC had worked closely with the External Auditors, Internal Auditors and Management to carry out its duties and functions in line with its Terms of Reference and the activities are summarised as follows:

i. Ensuring Financial Statements Comply with Applicable Financial Reporting Standards

a) Reviewed all interim financial statements and results of the Group rigorously with the Management before recommending the same for the Board's approval and release to Bursa Securities and Securities Commission. When reviewing the interim financial results in the quarterly meetings, the Group Managing Director, Group Executive Director and Chief Financial Officer were invited to present these statements to the AC. During the presentation, these chief officers had responded to the AC and provided their explanations for any material changes in financial performance and compliance with accounting standards and treatments.

b) Reviewed the annual audited financial statements of the Group, Directors' and Auditors' Reports and other significant accounting issues together with the External Auditors. The External Auditors were invited to present their findings to the AC. The key considerations in the deliberation of these financial statements were whether the financial statements prepared by the Management complied with the financial reporting standards and the audit opinion to be rendered by the External Auditors, including key audit matters to be reported.

ii. Reviewing the Audit Findings of the External Auditors and Assessing their Performance, Suitability and Independence of External Auditors

a) Reviewed the audit plan of the Group prepared by the External Auditors in relation to their scope of audit, audit methodology and timetable, audit materiality, areas of focus and fraud risk assessment prior to the commencement of their annual audit. The External Auditors also updated the AC on audit related matters, including but not limited to new financial reporting standards, changes to the new auditor's report format and changes to the auditor's responsibilities regarding other information.

b) Conducted a private session with the External Auditors without the presence of the Executive Directors and the Management. This review process ensures that critical issues, if any, are being objectively brought up to the attention of the AC.

c) Evaluated the performance of Messrs. Folks DFK & Co, including assessment of their independence, technical competency, adequacy of resources and reasonableness of their audit fees and non-audit fees. The AC recommended to the Board for approval on the re-appointment of Messrs. Folks DFK & Co for the financial year ending 31 December 2017 and the same was duly approved by the Board on 6 March 2017, subject to the shareholders' approval to be sought at the forthcoming 25th Annual General Meeting. As part of this review process, the AC had sought and reviewed the Management's comments and feedbacks on the performance of the External Auditors.

iii. Overseeing the Governance Practices in the Company

a) Reviewed the Corporate Governance Statement, Audit Committee Report and Statement on Risk Management and Internal Control and recommended to the Board for consideration and approval.

b) Reviewed the related party transactions entered into by the Group on a quarterly basis, if any, to ensure that they were not detrimental to the interests of the minority shareholders.

c) Reviewed the adequacy and effectiveness of the Group's risk management and internal control systems and report to the Board.

4. SUMMARY OF WORK OF THE AUDIT COMMITTEE *cont'd*

iv. Reviewing the Audit Findings of the Internal Auditors and Assisting the Board in Reviewing the Effectiveness and Adequacy of Systems of Internal Control in the Key Operation Processes

a) Reviewed and approved the internal audit plan to ensure adequate scope and comprehensive coverage over the activities of the Group.

b) Reviewed the internal audit reports of the Group, which outlined the audit issues, recommendations for improvements on reported weaknesses to ensure that management action plans are taken to improve the systems of internal control based on the Internal Auditors' recommendations.

c) Reviewed the adequacy of the scope, functions, competency and resources of the internal audit function, internal audit programme and results of the internal audit process to ensure that appropriate actions are taken by the Management on the recommendations of the internal audit function.

5. SUMMARY OF WORK OF THE INTERNAL AUDIT FUNCTION

The MMLR provides that a listed company must establish an internal audit function, which is independent of the activities it audits and reports directly to the AC.

The Company outsourced its internal audit function to a professional internal audit service provider to assist the Board in the discharge of its duties and responsibilities. The Internal Auditors are independent of the activities audited by them. They are responsible in assisting the Board and the AC in reviewing and assessing the effectiveness and adequacy of the systems of internal control of the Group.

The Internal Audit Function has organised its work in accordance to the principles of the internal auditing standards covering the conduct of the audit planning, execution, documentations, communication of findings and consultation with key stakeholders on the audit concerns.

Before the commencement of audit reviews, an internal audit plan is presented to the AC for review and approval. This is to ensure that the audit direction is in line with the AC's expectations.

Comments from the Management were obtained and incorporated into the internal audit findings and reports before presenting to the AC. The internal audit reports also covered the follow-up reviews by the Management on the implementation of recommendations for improvements on the reported weaknesses.

The Internal Auditors had attended five (5) AC meetings during the financial year ended 31 December 2016 and had conducted internal control reviews for the following key functions:

i. Warehouse and Inventory;
ii. Human Resource and Administration;
iii. Supplier Management; and
iv. Follow-up Audit.

The fee incurred for the internal audit function in respect of the financial year ended 31 December 2016 was RM80,000 (2015:RM80,000).

This Audit Committee Report was made in accordance with the approval of the Board on 6 March 2017.

Statement on Risk Management and Internal Control

The Malaysian Code on Corporate Governance 2012 requires listed companies to maintain a sound risk management framework and internal control system to safeguard shareholders' investment and the Group's assets pursuant to paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR"). The Board of Directors ("the Board") of Luxchem Corporation Berhad ("the Company") is pleased to present its Statement on Risk Management and Internal Control, which outlines the nature and scope of risk management and internal control of the Company and its subsidiaries ("the Group") during the financial year ended 31 December 2016 as guided by the "Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers" ("the Guidelines") endorsed by Bursa Malaysia Securities Berhad.

BOARD RESPONSIBILITIES

As the Group operates in a dynamic business environment, the Board recognises that the risk management and internal control system should be continuously improved so that the risk management and internal control of the Group can continuously adapt to the current changing and the evolving business development. Therefore, the Board remains committed towards maintaining a sound system of risk management and internal control and believe that a balanced achievement of its business objectives and operational efficiency can be attained.

The Board acknowledges its overall responsibility for reviewing the adequacy and integrity of the Group's risk management and internal control system, identifying principal risks and establishing an appropriate control environment and framework to manage risks in order to safeguard shareholders' interests and the Group's assets. The Board derives its comfort of the state of internal control and risk management of the Group from the following processes and information:

- Periodic review of financial information covering financial performance, quarterly financial results and key business indicators;
- Financial performance analysis against business objectives and targets;
- Audit Committee's review and consultation with the management on the integrity of the financial results, annual report and audited financial statements;
- Audit findings and reports on the review of the system of internal control from the Internal Auditors; and
- Management assurance that the Group's risk management and internal control systems have been operating adequately and effectively, in all material respects.

KEY FEATURES OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Key elements of the Group's risk management and internal control system that have been established to facilitate the proper conduct of the Group's businesses are summarised as follows:

1. Risk Management

Risk Management is regarded by the Board as an integral part of the business operations. Therefore, the Board acknowledges that the Group's activities involve some degree of risk and has taken necessary measures throughout the year to ensure that the Group has an on-going process for identifying, evaluating, monitoring and managing its principal risks faced by the Group and to maintain adequacy and effectiveness of risk management and internal control system by conducting regular audits and continuous assessment. The Group has formalised a Risk Management System Manual and was approved by the Risk Management Committee's Chairman.

Statement on Risk Management and Internal Control
Cont'd

KEY FEATURES OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM *cont'd*

1. Risk Management *cont'd*

The Board is assisted by the Risk Management Committee ("RMC") to review the effectiveness of risk management in the Group. RMC is driven by Managing Director and assisted by Heads of Department to undertake the following:

i. To formulate and carry out strategies and actions needed to manage risks;

ii. To promote risk awareness culture within the organisation which will be embedded in the operation process;

iii. To ensure adequate resources in terms of knowledge, infrastructure, resources and systems are in place for risk management; and

iv. To report to the Board periodically on the emerging risks and their impacts on operations, profitability and business plan and the status of management actions to manage these risks.

Risk management is part of the agenda to be discussed in the monthly meeting which is chaired by the Managing Director. The discussions in these meetings are recorded in the monthly management minutes for reference in the future. During the year, key risks such as - credit risk and inventory management were identified and documented in the key risk register which then presented to RMC.

Furthermore, as part of the Business Continuity Plan ("BCP"), the Group has in place an offsite back up procedures, daily backup and discussion at monthly management meeting to address any issue related to BCP.

2. Internal Audit Function

The Group has currently outsourced its Internal Audit Function to a professional internal audit service provider to assist the Audit Committee and the Board in providing an independent assessment and objective assurance on the internal control system of the Group.

The Internal Audit Function has organised its work in accordance to the principles of the internal auditing standards covering the conduct of the audit planning, execution, documentations, communication of findings and consultation with key stakeholders on the audit concerns.

The Internal Audit Function reports directly to the Audit Committee on the outcome of its appraisal of risk management activities. The internal audit plan is reviewed and approved by the Audit Committee. The internal audit reports were presented to the Audit Committee on quarterly basis to review the audit findings and action plans taken by the Management to address the audit findings and issues raised in the internal audit reports, subsequently reported upward to the Board. The outsourced Internal Audit Function also follows up on the status of the Management's action plans on internal audit observations.

KEY FEATURES OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM *cont'd*

3. Key Element of Internal Control

Apart from the above, the Board is committed to maintain a strong control structure where internal control system is designed to facilitate the achievement of the Group's business objectives. The internal control framework is structured in such a manner that it provides reasonable assurance that the likelihood of a significant adverse impact on business objectives arising from an event is at a level acceptable to the Group. The other fundamental elements of internal control system are as follows:

i. The Group maintains a clear organisation structure defining the management responsibilities and hierarchy structure of reporting lines and accountability to the Board Committees;

ii. The Board Committees such as Audit Committee, Nominating Committee and Remuneration Committee are established with written Terms of Reference to discharge their respective responsibilities;

iii. Limit of authority is imposed and approval facilitating delegation of authority and management succession;

iv. Performance reporting covering periodic reporting from the Heads of Management to the Executive Directors. This management reporting is intended to assure that business operations are progressed in accordance with the desirable objectives and targets;

v. Monthly management and credit meetings with the Heads of Department. These meetings enable the Management to share, monitor and decide on the business development, changes and actions to be taken to ensure businesses are under control and the key risks are highlighted to the Board;

vi. Provision of training and development programmes to enhance the competitiveness and capability of the staff to carry out their respective duties in achieving the Group's objectives;

vii. The effectiveness of the internal control system is also reviewed through the ISO 9001:2008 Quality Management System in Luxchem Trading Sdn Bhd and Transform Master Sdn Bhd;ISO 9001:2008, ISO14001:2004 and OHSAS18001:2007 management systems in Luxchem Polymer Industries Sdn Bhd, forming the basis of production, operational and management procedures;

viii. The Group maintains open communication with all staff members, whereby employees are encouraged to report genuine concerns about unethical behaviour or malpractices to Management and Senior Management appropriately;

ix. The Audit Committee reviews the quarterly financial reports, annual financial statements, quarterly group risk management reports and the internal audit reports. Discussions with Management were held to deliberate on the actions to be taken to address any internal control matters identified by the outsourced Internal Audit Function; and

x. To disclose what are the focus areas for internal audit during the financial year and areas that were reviewed – report submitted and reviewed by the Audit Committee, corrective actions or feedback to be undertaken by management, monitored and verified by Internal Auditor.

Statement on Risk Management and Internal Control

Cont'd

MANAGEMENT RESPONSIBILITIES AND ASSURANCE

Management is responsible to the Board for:

- Identifying risks relevant to the Group's business objectives and strategies implementation;
- Designing, implementing and monitoring the implementation of the risk management framework to be in line with the Group's strategic direction and risk appetite; and
- Reporting to the Board on the changes to risks or emerging risks and action taken to mitigate these risks.

To be in line with the Guidelines, the Board has received assurance from the Managing Director and Chief Financial Officer that, to the best of their knowledge, the Group's risk management and internal control system are operating adequately and effectively, in all material respects based on the framework adopted by the Group for the financial year under review and up to the date of issuance of this Statement.

CONCLUSION

In accordance with the assessment of the Group's risk management and internal control system, the Board is satisfied that the existing on-going process for identifying, evaluating, monitoring and managing the significant risks faced by the Group and the existing level of risk management and internal control system are adequate and effective to help the Group to achieve its business objectives and strategies throughout the period. Management has diligently reviewed and monitored closely all risk areas on daily basis. During the financial year ended 31 December 2016, there were no material losses, contingencies or uncertainties that have resulted from any inadequacy or failure of the Group's risk management and internal control system that would require separate disclosure in the 2016 Annual Report. Notwithstanding this, the Board will continue to take measures to strengthen the risk management and internal control system of the Group to prevail in its current challenging business environment.

REVIEW OF STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL BY EXTERNAL AUDITORS

Pursuant to Paragraph 15.23 of the MMLR, the External Auditors have reviewed this Statement on Risk Management and Internal Control for inclusion in the 2016 Annual Report. Their limited assurance review was performed in accordance with Recommended Practice Guide ("RPG") 5 (Revised 2015) issued by the Malaysian Institute of Accountants, which does not require the External Auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control system of the Group. Based on their review, the External Auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of the risk management and internal control system of the Group.

This Statement on Risk Management and Internal Control was made in accordance with the approval of the Board on 6 March 2017.

Additional Compliance Information

- **UTILISATION OF PROCEEDS**

  There were no proceeds raised from corporate proposals during the financial year ended 31 December 2016.

- **MATERIAL CONTRACTS INVOLVING DIRECTORS' OR MAJOR SHARE HOLDERS' INTEREST**

  There were no material contracts entered into by the Company and its subsidiaries which involved directors' and major shareholders' interest subsisting as at the end of the financial year ended 31 December 2016.

- **RECURRENT RELATED PARTY TRANSACTION OF A REVENUE OF TRADING NATURE ("RRPT")**

  The Company did not enter into any RRPT during financial year ended 31 December 2016.

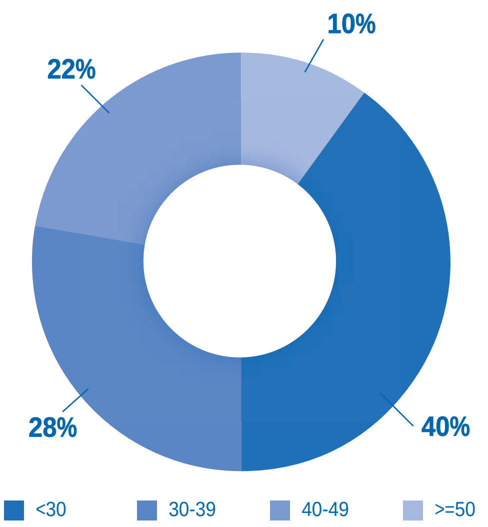
Additional Compliance Information

Cont'd

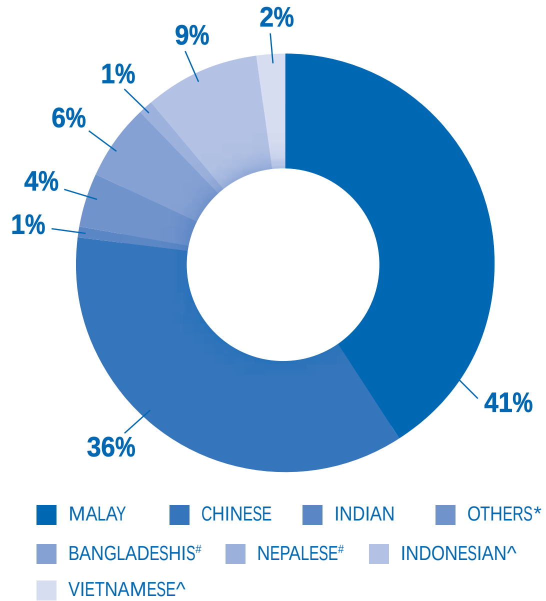
- **WORKFORCE DIVERSITY**

The Group's workforce statistics in terms of age, ethnicity, gender and nationality as at 31 December 2016 are disclosed below:

i) AGE GROUP

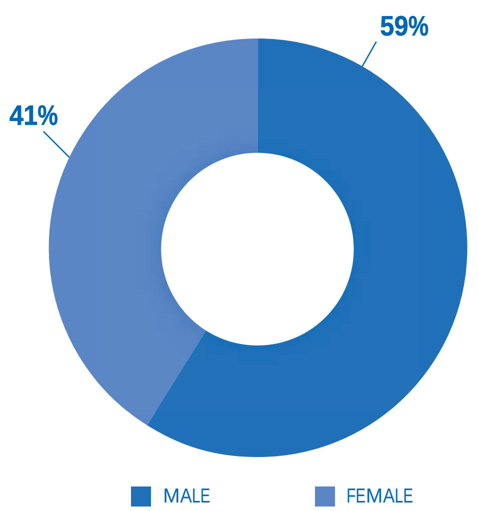


ii) ETHNICITY

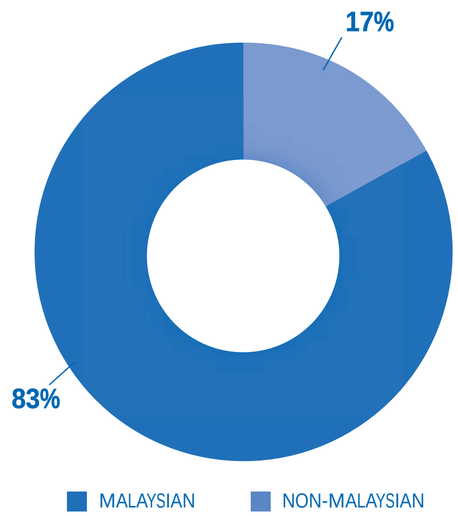


* Other races in Malaysia
\# Foreign workers in Malaysia
^ Employees outside of Malaysia

iii) GENDER



iv) NATIONALITY



FINANCIAL STATEMENTS

Directors' Report

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 7(a) to the financial statements.

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

RESULTS

	Group RM	Company RM
Profit for the year	**43,685,776**	**18,805,131**
Profit for the year attributable to:-		
- Owners of the Company	**43,498,730**	**18,805,131**
- Non-controlling interests	**187,046**	**-**
	43,685,776	**18,805,131**

RESERVES AND PROVISIONS

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

DIVIDENDS

Dividends paid, declared or proposed since the end of the Company's previous financial year were as follows:-

(a) In respect of the financial year ended 31 December 2015, a single tier final dividend of 4.5 sen per ordinary share amounting to RM12,338,170 was declared on 18 May 2016 and paid on 30 June 2016 and of which RM11,962,539 has been dealt with in the Directors' Report for that financial year.

The additional dividend of RM375,631 was in respect of new ordinary shares issued by virtue of the exercise of the Company's Employees' Share Options subsequent to that financial year but before the book closure date for dividend entitlement.

DIVIDENDS *cont'd*

(b) In respect of the financial year ended 31 December 2016, a first single tier interim dividend of 2.5 sen per ordinary share amounting to RM6,881,463 was declared by the Board of Directors of the Company on 29 July 2016 and paid on 30 September 2016.

On 16 February 2017, the Directors further declared a second single tier interim dividend of 4.5 sen per ordinary share amounting to RM12,396,985 based on the issued share capital of 275,488,551 shares as of that date for the financial year ended 31 December 2016 and is payable on 15 May 2017. The amount payable will be adjusted for the issued share capital as at the book closure date on 21 April 2017 arising from exercise of the Company's Employees' Share Options, if any. The financial statements for the current financial year do not reflect this dividend since it was declared subsequent to the financial year end.

(c) The Directors do not recommend the payment of any final dividend in respect of the current financial year.

SHARE CAPITAL

During the financial year, the issued and paid-up share capital of the Company was increased from RM132,537,200 to RM137,660,776 through the issue of 10,247,151 new ordinary shares by way of:-

(a) an issue of 5,184,851 new ordinary shares of RM0.50 each at an issue price of RM1.7744 per share for the satisfaction of part of the consideration payable in respect of the acquisition of a new subsidiary as disclosed in Note 7(c) to the financial statements; and

(b) issues of 5,062,300 new ordinary shares of RM0.50 each for cash pursuant to the exercise of the Company's share options granted to eligible Directors and employees of the Group.

The movements in the issued and paid-up share capital of the Company arising from the new issue of shares are disclosed in Note 16(b) to the financial statements.

All the new ordinary shares issued during the financial year rank pari passu in all respects with the existing ordinary shares of the Company.

Subsequent to the financial year end, the issued and paid-up share capital of the Company was increased from RM137,660,776 to RM137,744,276 through the issue of 167,000 new ordinary shares of RM0.50 each pursuant to the exercise of the Company's Employees' Share Options.

EMPLOYEES' SHARE OPTION SCHEME

The Company's Employees' Share Option Scheme ("ESOS" or "the Scheme") is governed by the By-Laws which were approved by the shareholders on 24 November 2014. This ESOS was implemented on 1 December 2014 and will expire on 30 November 2019 ("the Option Period"). The movements of options over unissued ordinary shares granted to eligible Directors and employees of the Group during the financial year are as follows:-

		Number of options over ordinary shares of RM0.50 each				
Grant date	Exercise price	As at 01.01.2016	Granted	Exercised	Forfeited	As at 31.12.2016
22.01.2015	RM0.71	25,662,600	-	(4,886,300)	(80,000)	**20,696,300**
22.06.2015	RM1.02	1,251,000	-	(146,000)	-	**1,105,000**
22.06.2016	RM1.47	-	2,540,000	(30,000)	(60,000)	**2,450,000**

EMPLOYEES' SHARE OPTION SCHEME *cont'd*

The salient features of the ESOS as contained in the By-Laws are as follows:-

(a) The Scheme is set up for employees' participation in the ordinary share capital of the Company only.

The aggregate number of ESOS Options to be offered under the Scheme shall not in aggregate exceed fifteen percent (15%) of the issued and paid-up share capital of the Company (excluding treasury shares, if any) at any point of time during the duration the Scheme and shall be offered to eligible Directors and employees of the Group ("Eligible Persons").

Each Option shall be exercisable into one (1) new share, fully issued and paid-up. At the commencement of the Scheme, the total number of shares available for offer was 39,000,000 ordinary shares of RM0.50 each.

(b) Eligible Persons must be a Malaysian citizen and he is employed (1) full time by and on the payroll of any company in the Group and his/her employment has been confirmed by any company in the Group or (2) under an employment contract for a fixed duration and has been in the employment of the Group for a period of at least one (1) year of continuous service prior to and up to the date of offer.

(c) There are no performance targets to be achieved by the Grantee before the ESOS Options can be exercised, unless otherwise stated in the Offer as determined by the ESOS Committee from time to time.

(d) Not more than ten percent (10%) of the new ESOS Options available under the Scheme shall be allocated to any individual Eligible Person who, either singly or collectively through persons connected with the Eligible Person, holds twenty percent (20%) or more of the issued and paid-up share capital of the Company (excluding treasury shares, if any).

(e) The Company shall ensure that allocation of ESOS Options pursuant to the Scheme is verified by the Audit Committee of the Company at the end of each financial year as being in compliance with the criteria for allocation of ESOS Options as set out in the By-Laws. A statement by the Audit Committee of the Company verifying such allocations shall be included in the annual report of the Company.

(f) An Offer shall be accepted by an Eligible Person within the Offer Period by written notice to the Company accompanied by a payment to the Company of a nominal non-refundable consideration of RM1.00 for the grant of the ESOS Options (regardless of the number of shares comprised therein).

(g) A Grantee shall be allowed to exercise the ESOS Options granted to him during the Scheme whilst he is in the employment of the Group and within the Option Period. Upon acceptance of the Offer, the Grantee may during the Option Period and unless otherwise provided in these By-Laws, exercise the Options in the following manner:-

Maximum percentage of Options exercisable in each year commencing from the Acceptance Date				
Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
20%	20%	20%	20%	20%

Eligible Persons who become eligible after commencement of the Scheme may exercise the Options in equal percentage for each of the remaining years of the Scheme.

(h) The Exercise Price of each Share comprised in any ESOS Option shall be based on the higher of a price to be determined by the Board upon recommendation of the ESOS Committee based on the volume weighted average market price of the Shares for the five (5) Market Days immediately preceding the Date of Offer with a discount of not more than ten percent (10%) or the par value of the Shares.

EMPLOYEES' SHARE OPTION SCHEME *cont'd*

(i) The new Shares to be allotted and issued upon the exercise of any ESOS Options granted under the Scheme will, upon allotment and issuance, rank pari passu in all respects with the then existing issued and paid-up shares of the Company, save and except that the new Shares so allotted and issued will not be entitled to any dividends, rights, allotments or other distributions, which may be declared, made or paid, the entitlement date of which precedes the date of allotment and issuance of such new Shares.

(j) The new Shares to be allotted and issued to a Grantee pursuant to the exercise of an Option under the Scheme will not be subject to any retention period or restriction on transfer. Notwithstanding, a Grantee who is a non-executive Director must not sell, transfer or assign their Shares obtained through the exercise of their ESOS Options offered to them pursuant to the Scheme within one (1) year from the Date of Offer of such ESOS Options.

(k) An option granted under the ESOS shall cease with immediate effect where the Grantee ceases his employment or appointment with the Group by reason of resignation or termination of employment with the Group other than by reason of retirement before attaining the normal retirement age with the consent of the ESOS Committee, ill-health, injury or disability, redundancy and/or any other circumstances which may be approved by the ESOS Committee in writing. In addition, the Options shall immediately become void and of no effect upon the bankruptcy of the Grantee.

A Grantee will be allowed to continue to hold and to exercise any unexercised Options held by him upon retirement on or after attaining normal retirement age for a period of one (1) year after the last day of his employment provided that the Options are exercised within the Option Period.

(l) An option does not confer on the Grantee any right to participate in any share issue of any other company.

The Company has been granted a conditional exemption by the Companies Commission of Malaysia from the disclosure requirements pursuant to Section 169(11) of the Companies Act,1965 to that of only disclosing options granted to employees of 100,000 or more under the ESOS.

The employees granted with 100,000 or more options under the ESOS during the financial year were as follows:-

Names	Grant date	Exercise price	Number of options over ordinary shares of RM0.50 each
Ng Chai Teik	22.06.2016	RM1.47	300,000
Pang Tee King	22.06.2016	RM1.47	100,000
Lee Shu Yau	22.06.2016	RM1.47	150,000
Ng Harn Shin	22.06.2016	RM1.47	113,000
Tang Boon Siang	22.06.2016	RM1.47	100,000
Chan Sook Mun	22.06.2016	RM1.47	150,000
Lee Thiam Ping @ Gan Seng Huat	22.06.2016	RM1.47	175,000
Lui Kim Shiun	22.06.2016	RM1.47	150,000
Choo Ping How	22.06.2016	RM1.47	100,000
Sarifah Binti Bakarim	22.06.2016	RM1.47	127,000
Noremylyia Binti Kamirulzaman	22.06.2016	RM1.47	100,000

The options granted shall expire on 30 November 2019.

IMMEDIATE AND ULTIMATE HOLDING COMPANY

The Directors regard Chemplex Resources Sdn Bhd, a company incorporated in Malaysia as the Company's immediate and ultimate holding company.

DIRECTORS

The names of the Directors in office since the date of the last Directors' Report on 23 March 2016 and at the date of this report are as follows:-

Dato' Haji Mokhtar Bin Haji Samad
Tang Ying See
Chin Song Mooi
Chen Moi Kew
Chan Wan Siew
Au Chun Choong

In accordance with Article 77 of the Company's Articles of Association, Tang Ying See and Dato' Haji Mokhtar Bin Haji Samad are retiring by rotation at the forthcoming Annual General Meeting of the Company and being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings, the interests of the Directors in office at the end of the financial year in shares and options to subscribe for ordinary shares under ESOS in the Company and interests in shares of the holding company during the financial year were as follows:-

Shareholdings in the Company

	Number of ordinary shares of RM0.50 each			
	As at 01.01.2016	During the financial year Acquired	Disposed	As at 31.12.2016
Tang Ying See				
- Direct	1,000,000	400,000	-	**1,400,000**
- Indirect*	142,955,500	380,000	-	**143,335,500**
Chin Song Mooi				
- Direct	1,263,900	250,000	-	**1,513,900**
- Indirect**	142,691,600	530,000	-	**143,221,600**
Au Chun Choong				
- Direct	1,194,200	100,000	-	**1,294,200**
Dato' Haji Mokhtar Bin Haji Samad				
- Direct	220,000	200,000	-	**420,000**
Chen Moi Kew				
- Direct	495,000	50,000	-	**545,000**
Chan Wan Siew				
- Direct	50,000	200,000	-	**250,000**

* *Deemed interested by virtue of his substantial shareholdings in Chemplex Resources Sdn Bhd, his spouse, Chin Song Mooi's shareholding and his son, Tang Chii Shyan's shareholding in the Company.*

** *Deemed interested by virtue of her substantial shareholdings in Chemplex Resources Sdn Bhd, her spouse, Tang Ying See's shareholding and her son, Tang Chii Shyan's shareholding in the Company.*

DIRECTORS' INTERESTS *cont'd*

Interest in options over ordinary shares of the Company

		Number of options over ordinary shares of RM0.50 each			
	Exercise price	As at 01.01.2016	During the financial year Granted	During the financial year Exercised	As at 31.12.2016
Tang Ying See	RM0.71	1,600,000	-	(400,000)	**1,200,000**
Chin Song Mooi	RM0.71	1,000,000	-	(250,000)	**750,000**
Au Chun Choong	RM0.71	400,000	-	(100,000)	**300,000**
Dato' Haji Mokhtar Bin Haji Samad	RM0.71	500,000	-	(200,000)	**300,000**
Chen Moi Kew	RM0.71	1,900,000	-	(50,000)	**1,850,000**
Chan Wan Siew	RM0.71	500,000	-	(200,000)	**300,000**

Shareholdings in holding company, Chemplex Resources Sdn Bhd

	Number of ordinary shares of RM1.00 each			
	As at 01.01.2016	During the financial year Acquired	During the financial year Disposed	As at 31.12.2016
Tang Ying See - Direct	782	-	-	**782**
Chin Song Mooi - Direct	218	-	-	**218**

By virtue of their interests in shares in the holding company, Tang Ying See and Chin Song Mooi are also deemed to be interested in shares in the Company and its subsidiaries to the extent of interests held by the holding company and for which there were no movements in their interests in the shares held during the financial year.

Other than as disclosed above, no other Directors in office at the end of the financial year held any interests, direct or indirect, in shares and debentures of the Company and its subsidiaries.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive any benefits (other than those disclosed as directors' remuneration in the financial statements) by reason of a contract made by the Company or a related corporation with the Director or his nominees or with a firm of which he is a member or with a company in which he has a substantial financial interest other than by virtue of transactions entered into in the ordinary course of business.

As at the end of the financial year and during the year, there did not subsist any arrangement to which the Company was a party, whereby the Directors or their nominees might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than any benefits which may be derived from the share options granted under the Company's ESOS as disclosed in the section of Directors' Interests above.

OTHER STATUTORY INFORMATION

(a) Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps:-

  (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and adequate allowance had been made for doubtful debts; and

  (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business have been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the Directors are not aware of any circumstances:-

  (i) which would render the amount written off for bad debts and the amount of allowance made for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent;

  (ii) which would render the values of current assets in the financial statements of the Group and of the Company misleading;

  (iii) which have arisen which render adherence to the existing method of valuation of assets and liabilities of the Group and of the Company misleading or inappropriate; and

  (iv) not otherwise dealt with in this report or the financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

(c) As at the date of this report, there does not exist:-

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

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

(d) In the opinion of the directors:-

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

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

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

AUDITORS

The auditors, Messrs. Folks DFK & Co., have expressed their willingness to continue in office.

On behalf of the Board of Directors,

TANG YING SEE
Director

CHEN MOI KEW
Director

This report is made pursuant to the directors' resolution passed on 10 March 2017

Date: 10 March 2017

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	2016 RM	2015 RM
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	**39,020,581**	27,699,521
Investment property	5	**-**	116,979
Intangible assets	6	**293,340**	376,351
Other investments	8	**957,179**	1,160,021
Goodwill	9	**35,802,888**	-
Deferred tax assets	10	**222,310**	236,101
		76,296,298	29,588,973
Current Assets			
Inventories	11	**72,656,622**	51,207,773
Trade and other receivables	12	**130,310,365**	127,650,410
Tax recoverable		**1,766,750**	1,206,810
Deposits, cash and bank balances	15	**88,494,750**	113,253,287
		293,228,487	293,318,280
Total Assets		**369,524,785**	322,907,253

The notes set out on pages 63 to 136 form an integral part of these financial statements

Consolidated Statement of Financial Position

As at 31 December 2016

Cont'd

	Note	2016 RM	2015 RM
EQUITY AND LIABILITIES			
Equity			
Share capital	16	**137,660,776**	132,537,200
Reserves	17	**93,122,482**	58,748,630
Total equity attributable to owners of the Company		**230,783,258**	191,285,830
Non-controlling interests	7(e)	**321,964**	(294,780)
Total Equity		**231,105,222**	190,991,050
Non-Current Liabilities			
Hire purchase payables	18	**508,881**	177,229
Retirement benefits	19	**307,354**	222,043
Deferred tax liabilities	10	**1,267,986**	689,850
		2,084,221	1,089,122
Current Liabilities			
Trade and other payables	20	**77,211,586**	61,402,920
Hire purchase payables	18	**323,908**	62,306
Derivative financial liabilities	13	**3,754**	21,752
Bank borrowings	21	**55,649,498**	61,733,393
Taxation		**3,146,596**	7,606,710
		136,335,342	130,827,081
Total Liabilities		**138,419,563**	131,916,203
Total Equity and Liabilities		**369,524,785**	322,907,253

The notes set out on pages 63 to 136 form an integral part of these financial statements

Consolidated Statement of Profit or Loss
and Other Comprehensive Income
For the year ended 31 December 2016

	Note	2016 RM	2015 RM
Revenue - Sales of goods		**701,549,200**	686,753,694
Cost of sales		**(618,348,223)**	(613,624,791)
Gross profit		**83,200,977**	73,128,903
Other income		**5,455,934**	8,797,963
Selling and distribution costs		**(6,049,512)**	(5,920,469)
Administrative expenses		**(20,228,485)**	(18,632,495)
Other expenses		**(745,414)**	(585,442)
Operating profit		**61,633,500**	56,788,460
Finance costs	22	**(2,555,362)**	(2,391,878)
Profit before taxation	23	**59,078,138**	54,396,582
Taxation	24	**(15,392,362)**	(14,801,414)
Profit for the year		**43,685,776**	39,595,168
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss, net of tax effects:			
Remeasurement of defined benefit obligations	10,19	**(12,911)**	6,593
Items that will be reclassified subsequently to profit or loss, net of tax effects:			
Exchange loss on translation of foreign operations		**(30,628)**	(169,126)
(Loss)/Gain on changes in fair value of available-for-sale financial assets		**(202,843)**	417,393
Reclassification adjustment relating to available-for-sale financial assets disposed of during the year		**-**	15,750
		(233,471)	264,017
Total other comprehensive (loss)/income for the year		**(246,382)**	270,610
Total comprehensive income for the year		**43,439,394**	39,865,778
Profit/(Loss) attributable to:			
Owners of the Company		**43,498,730**	39,735,148
Non-controlling interests		**187,046**	(139,980)
		43,685,776	39,595,168
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**43,275,200**	40,061,783
Non-controlling interests		**164,194**	(196,005)
		43,439,394	39,865,778
Earnings per share attributable to owners of the Company (sen)			
Basic, from profit for the year	25(a)	**16.01**	15.12
Diluted, from profit for the year	25(b)	**15.33**	14.65

The notes set out on pages 63 to 136 form an integral part of these financial statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to Owners of the Company								
	Non - distributable					Distributable			
	Share capital	Share premium	Exchange translation reserve	Fair value adjustment reserve	Share option reserve	Retained profits	Total	Non-controlling interests	Total
2016	**RM**	**RM**	**RM**	**RM**	**RM**	**RM**	**RM**	**RM**	**RM**
Balance at 1 January 2016	**132,537,200**	**2,689,578**	**121,430**	**864,679**	**3,095,284**	**51,977,659**	**191,285,830**	**(294,780)**	**190,991,050**
Profit for the year	-	-	-	-	-	43,498,730	43,498,730	187,046	43,685,776
Exchange loss on translation of foreign operations	-	-	(11,649)	-	-	-	(11,649)	(18,979)	(30,628)
Loss on changes in fair value of available-for-sale financial assets	-	-	-	(202,843)	-	-	(202,843)	-	(202,843)
Remeasurement of defined benefit obligations	-	-	-	-	-	(9,038)	(9,038)	(3,873)	(12,911)
Total comprehensive (loss)/ income for the year	-	-	(11,649)	(202,843)	-	43,489,692	43,275,200	164,194	43,439,394
Subscription to additional shares in a subsidiary	-	-	-	-	-	-	-	452,550	452,550
Share options granted	-	-	-	-	2,579,568	-	2,579,568	-	2,579,568
Issue of shares pursuant to exercise of share options:									
- shares issued and premium arising	2,531,150	1,131,143	-	-	-	-	3,662,293	-	3,662,293
- attributable option reserve transferred	-	1,331,368	-	-	(1,331,368)	-	-	-	-
Shares issued for acquisition of a subsidiary (Note 7(c))	2,592,426	6,607,574	-	-	-	-	9,200,000	-	9,200,000
Share options forfeited	-	-	-	-	(14,465)	14,465	-	-	-
Dividends paid (Note 26)	-	-	-	-	-	(19,219,633)	(19,219,633)	-	(19,219,633)
Balance at 31 December 2016	**137,660,776**	**11,759,663**	**109,781**	**661,836**	**4,329,019**	**76,262,183**	**230,783,258**	**321,964**	**231,105,222**

The notes set out on pages 63 to 136 form an integral part of these financial statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016
Cont'd

	Attributable to Owners of the Company								
	Non - distributable					Distributable			
	Share capital	Share premium	Exchange translation reserve	Fair value adjustment reserve	Share option reserve	Retained profits	Total	Non-controlling interests	Total
2015	RM	RM	RM	RM	RM	RM	RM	RM	RM
Balance at 1 January 2015	130,000,000	250,483	232,554	431,536	-	25,429,399	156,343,972	(98,775)	156,245,197
Profit/(Loss) for the year	-	-	-	-	-	39,735,148	39,735,148	(139,980)	39,595,168
Exchange loss on translation of foreign operations	-	-	(111,124)	-	-	-	(111,124)	(58,002)	(169,126)
Gain on changes in fair value of available-for-sale financial assets	-	-	-	433,143	-	-	433,143	-	433,143
Remeasurement of defined benefit obligations	-	-	-	-	-	4,616	4,616	1,977	6,593
Total comprehensive (loss)/ income for the year	-	-	(111,124)	433,143	-	39,739,764	40,061,783	(196,005)	39,865,778
Share options granted	-	-	-	-	4,432,101	-	4,432,101	-	4,432,101
Issue of shares pursuant to exercise of share options:									
- shares issued and premium arising	2,537,200	1,107,474	-	-	-	-	3,644,674	-	3,644,674
- attributable option reserve transferred	-	1,331,621	-	-	(1,331,621)	-	-	-	-
Share options forfeited	-	-	-	-	(5,196)	5,196	-	-	-
Dividends paid (Note 26)	-	-	-	-	-	(13,196,700)	(13,196,700)	-	(13,196,700)
Balance at 31 December 2015	132,537,200	2,689,578	121,430	864,679	3,095,284	51,977,659	191,285,830	(294,780)	190,991,050

The notes set out on pages 63 to 136 form an integral part of these financial statements

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 RM	2015 RM
Cash flows from operating activities		
Profit before taxation	**59,078,138**	54,396,582
Adjustments for:-		
Amortisation of intangible assets	**141,706**	104,978
Bad debts written off	**6,975**	-
Depreciation of property, plant and equipment	**2,015,361**	1,566,704
Amortisation of investment property	**1,955**	2,607
Defined benefit obligations	**84,489**	70,049
Dividend income	**(129,519)**	(12,286)
Loss on disposal of quoted investments	**-**	16,325
Net (gain)/loss on changes in fair value of forward exchange contracts	**(17,998)**	50,432
Net gain on disposal of property, plant and equipment	**(194,163)**	-
Net gain on disposal of investment property	**(84,976)**	-
Impairment losses on trade receivables	**222,151**	551,501
Interest income	**(1,368,645)**	(1,812,442)
Interest expense	**2,555,362**	2,391,878
Inventories written off	**44,250**	691,806
Inventories written down	**607,825**	527,369
Property, plant and equipment written off	**46,371**	3,362
Net unrealised gain on foreign exchange	**(659,346)**	(334,807)
Reversal of impairment loss on trade receivables	**(660,090)**	(938,743)
Reversal of inventories written down	**(405,962)**	-
Share options expense	**2,579,568**	4,432,101
Operating profit before working capital changes	**63,863,452**	61,707,416
Increase in inventories	**(17,398,236)**	(16,683,991)
Decrease/(Increase) in trade and other receivables	**5,526,835**	(10,919,331)
Increase in trade and other payables	**10,891,358**	21,462,596
Cash generated from operations	**62,883,409**	55,566,690
Tax paid	**(20,389,506)**	(9,380,237)
Interest received	**1,368,645**	1,812,442
Interest paid	**(2,555,362)**	(2,391,878)
Retirement benefits paid (Note 19)	**(36,490)**	(681)
Net cash from operating activities	**41,270,696**	45,606,336

The notes set out on pages 63 to 136 form an integral part of these financial statements

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

Cont'd

	2016 RM	2015 RM
Cash flows from investing activities		
Acquisition of a subsidiary (Note 7(c))	**(34,938,968)**	-
Subscription to additional shares in a subsidiary by a non-controlling interest	**452,550**	-
Purchase of property, plant and equipment (Note 27)	**(6,850,512)**	(3,051,361)
Purchase of intangible assets	**(58,695)**	(212,873)
Investment in quoted shares	**-**	(24,840)
Proceeds from disposal of quoted investments	**-**	8,675
Proceeds from disposal of property, plant and equipment	**228,715**	-
Proceeds from disposal of an investment property	**200,000**	-
Dividend received	**129,519**	12,286
Net cash used in investing activities	**(40,837,391)**	(3,268,113)
Cash flows from financing activities		
Proceeds from shares issued pursuant to share options exercised	**3,662,293**	3,644,674
Term loan repaid	**(838,954)**	-
Net bankers' acceptances (repaid)/obtained	**(8,920,063)**	6,194,633
Hire purchase instalments paid	**(221,977)**	(102,881)
Dividend paid	**(19,219,633)**	(13,196,700)
Net cash used in financing activities	**(25,538,334)**	(3,460,274)
Net (decrease)/increase in cash and cash equivalents	**(25,105,029)**	38,877,949
Cash and cash equivalents at beginning of year	**113,253,287**	74,157,347
Net exchange differences	**346,492**	217,991
Cash and cash equivalents at end of year	**88,494,750**	113,253,287

Cash and cash equivalents at end of year comprised:-

	2016 RM	2015 RM
Deposits with financial institutions (Note 15)	**21,454,278**	52,994,934
Cash and bank balances (Note 15)	**67,040,472**	60,258,353
	88,494,750	113,253,287

The notes set out on pages 63 to 136 form an integral part of these financial statements

Statement of Financial Position

As at 31 December 2016

	Note	2016 RM	2015 RM
ASSETS			
Non-Current Assets			
Investments in subsidiaries	7	**149,577,381**	130,667,533
Current Assets			
Other receivables	12	**2,000**	7,591
Amount due by subsidiaries	14	**5,621**	2,760,923
Tax recoverable		**7,527**	6,000
Deposits, cash and bank balances	15	**5,998,651**	7,072,985
		6,013,799	9,847,499
Total Assets		**155,591,180**	140,515,032
EQUITY AND LIABILITIES			
Equity Attributable to Owners of the Company			
Share capital	16	**137,660,776**	132,537,200
Reserves	17	**17,670,035**	7,766,252
Total Equity		**155,330,811**	140,303,452
Current Liabilities			
Other payables and accruals	20	**260,369**	211,580
Total Liabilities		**260,369**	211,580
Total Equity and Liabilities		**155,591,180**	140,515,032

The notes set out on pages 63 to 136 form an integral part of these financial statements

Statement of Profit or Loss
and Other Comprehensive Income
For the year ended 31 December 2016

	Note	2016 RM	2015 RM
Revenue - Dividend income		**19,882,000**	13,600,000
Other income		**242,231**	193,485
Administrative expenses		**(822,635)**	(590,228)
Other expenses		**(437,992)**	(99,508)
Profit before taxation	23	**18,863,604**	13,103,749
Taxation	24	**(58,473)**	(48,309)
Profit for the year		**18,805,131**	13,055,440
Other comprehensive income		**-**	-
Total comprehensive income for the year		**18,805,131**	13,055,440

The notes set out on pages 63 to 136 form an integral part of these financial statements

Statement of Changes in Equity

For the year ended 31 December 2016

	Non - distributable			Distributable	
	Share capital RM	Share premium RM	Share option reserve RM	Retained profits RM	Total RM
2016					
Balance at 1 January 2016	**132,537,200**	**2,689,578**	**3,095,284**	**1,981,390**	**140,303,452**
Profit for the year	**-**	**-**	**-**	**18,805,131**	**18,805,131**
Total comprehensive income for the year	**-**	**-**	**-**	**18,805,131**	**18,805,131**
Share options granted	**-**	**-**	**2,579,568**	**-**	**2,579,568**
Issue of shares pursuant to exercise of share options:					
- shares issued and premium arising	**2,531,150**	**1,131,143**	**-**	**-**	**3,662,293**
- attributable option reserve transferred	**-**	**1,331,368**	**(1,331,368)**	**-**	**-**
Shares issued for acquisition of a subsidiary (Note 7(c))	**2,592,426**	**6,607,574**	**-**	**-**	**9,200,000**
Share options forfeited	**-**	**-**	**(14,465)**	**14,465**	**-**
Dividends paid (Note 26)	**-**	**-**	**-**	**(19,219,633)**	**(19,219,633)**
Balance at 31 December 2016	**137,660,776**	**11,759,663**	**4,329,019**	**1,581,353**	**155,330,811**
2015					
Balance at 1 January 2015	130,000,000	250,483	-	2,117,454	132,367,937
Profit for the year	-	-	-	13,055,440	13,055,440
Total comprehensive income for the year	-	-	-	13,055,440	13,055,440
Share options granted	-	-	4,432,101	-	4,432,101
Issue of shares pursuant to exercise of share options:					
- shares issued and premium arising	2,537,200	1,107,474	-	-	3,644,674
- attributable option reserve transferred	-	1,331,621	(1,331,621)	-	-
Share options forfeited	-	-	(5,196)	5,196	-
Dividends paid (Note 26)	-	-	-	(13,196,700)	(13,196,700)
Balance at 31 December 2015	132,537,200	2,689,578	3,095,284	1,981,390	140,303,452

The notes set out on pages 63 to 136 form an integral part of these financial statements

Statement of Cash Flows

For the year ended 31 December 2016

	2016 RM	2015 RM
Cash flows from operating activities		
Profit before taxation	**18,863,604**	13,103,749
Adjustments for:-		
Interest income	**(242,202)**	(193,393)
Dividend income	**(19,882,000)**	(13,600,000)
Share options expense	**95,643**	223,231
Operating loss before working capital changes	**(1,164,955)**	(466,413)
Decrease/(Increase) in amount due by subsidiaries	**2,755,302**	(1,055,950)
Decrease/(Increase) in other receivables	**5,591**	(5,591)
Increase in other payables and accruals	**48,789**	31,291
Cash generated from/(utilised in) operations	**1,644,727**	(1,496,663)
Interest received	**242,202**	193,393
Tax paid	**(60,000)**	(4,309)
Net cash from/(used in) operating activities	**1,826,929**	(1,307,579)
Cash flows from investing activities		
Incorporation of a subsidiary (Note 7(b))	**(2,165,000)**	-
Acquisition of a subsidiary (Note 7(c))	**(36,300,000)**	-
Subscription to additional shares in a subsidiary (Note 7(d))	**(1,055,950)**	-
Dividend received	**19,882,000**	13,600,000
Repayment of deemed capital contribution by subsidiaries	**32,295,027**	-
	12,656,077	13,600,000
Cash flows from financing activities		
Proceeds from shares issued pursuant to share options exercised	**3,662,293**	3,644,674
Dividend paid	**(19,219,633)**	(13,196,700)
Net cash used in financing activities	**(15,557,340)**	(9,552,026)
Net (decrease)/increase in cash and cash equivalents	**(1,074,334)**	2,740,395
Cash and cash equivalents at beginning of year	**7,072,985**	4,332,590
Cash and cash equivalents at the end of year	**5,998,651**	7,072,985
Cash and cash equivalents at end of year comprised:-		
Deposits with financial institutions (Note 15)	**5,738,739**	4,378,925
Cash and bank balances (Note 15)	**259,912**	2,694,060
	5,998,651	7,072,985

The notes set out on pages 63 to 136 form an integral part of these financial statements

1. GENERAL INFORMATION

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

Its registered office is located at Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur and the principal place of business is located at No. 6, Jalan SS 21/58, Damansara Utama, 47400 Petaling Jaya, Selangor Darul Ehsan.

The immediate and ultimate holding company is Chemplex Resources Sdn Bhd, a company incorporated in Malaysia.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 7(a).

These financial statements comprise the consolidated financial statements and the financial statements of the Company and they are presented in Ringgit Malaysia ("RM").

The financial statements were authorised for issue by the Board of Directors on 10 March 2017.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia.

The financial statements of the Group and of the Company are prepared under the historical cost convention unless otherwise indicated in the summary of significant accounting policies.

The accounting policies applied by the Group and the Company are consistent with those applied in the previous financial year other than the application of a number of amendments to MFRSs as disclosed in Note 2.2 below.

2.2 Application of Amendments to MFRSs

During the financial year, the Group and the Company have applied the following amendments to MFRSs issued by the Malaysian Accounting Standards Board ("MASB") which are effective for accounting period beginning on or after 1 January 2016:-

Amendments to MFRS 10, MFRS 12 and MFRS 128 - Investment Entities: Applying the Consolidation Exception
Amendments to MFRS 101 - Disclosure Initiative
Amendments to MFRS 116 and MFRS 138 - Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 127 - Equity Method in Separate Financial Statements
Amendments to MFRSs Classified as "Annual Improvements to MFRSs 2012 - 2014 Cycle"

The application of the Amendments has no impact on the Group's and on the Company's financial statements.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.3 New MFRSs and IC Interpretation and Amendments to MFRSs That Are In Issue But Not Yet Effective

The Group and the Company have not early adopted the following new MFRSs and IC Interpretation and amendments to MFRSs that have been issued by the MASB but are not yet effective:-

Effective for annual periods beginning on or after 1 January 2017
Amendments to MFRS 107 - Disclosure Initiative
Amendments to MFRS 112 - Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to MFRSs Classified as "Annual Improvements to MFRS Standards 2014 - 2016 Cycle":
- Amendments to MFRS 12, Disclosure of Interests in Other Entities

Effective for annual periods beginning on or after 1 January 2018
MFRS 9, Financial Instruments (IFRS 9 issued in July 2014)
MFRS 15, Revenue from Contracts with Customers
Clarifications to MFRS 15, Revenue from Contracts with Customers
Amendments to MFRS 2 - Classification and Measurement of Share-based Payment Transactions
Amendments to MFRS 4 - Applying MFRS 9, Financial Instruments with MFRS 4, Insurance Contracts
Amendments to MFRS 140 - Transfer of Investment Property
Amendments to MFRSs Classified as "Annual Improvements to MFRS Standards 2014 - 2016 Cycle":
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards
- Amendments to MFRS 128, Investments in Associates and Joint Ventures

IC Interpretation 22, Foreign Currency Transactions and Advance Consideration

Effective for annual periods beginning on or after 1 January 2019
MFRS 16, Leases

Effective for annual periods beginning on or after a date to be determined by the MASB
Amendments to MFRS 10 and MFRS 128 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Group and the Company will apply the above new MFRSs and IC Interpretation and amendments to MFRSs that are applicable once they become effective. Their main features are summarised below.

2.3.1 *Effective for annual periods beginning on or after 1 January 2017*

(a) Amendments to MFRS 107 - Disclosure Initiative

The Amendments to MFRS 107 *Statement of Cash Flows* require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes.

(b) Amendments to MFRS 112 - Recognition of Deferred Tax Assets for Unrealised Losses

The Amendments to MFRS 112 *Income Taxes* clarify that:-

(i) decreases in value of a debt instrument measured at fair value for which the tax base remains at its original cost give rise to a deductible temporary difference. The estimate of probable future taxable profits may include recovery of some of an entity's assets for more than their carrying amounts if sufficient evidence exists that it is probable the entity will achieve this.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.3 New MFRSs and IC Interpretation and Amendments to MFRSs That Are In Issue But Not Yet Effective *cont'd*

2.3.1 Effective for annual periods beginning on or after 1 January 2017 *cont'd*

(b) Amendments to MFRS 112 - Recognition of Deferred Tax Assets for Unrealised Losses *cont'd*

(ii) deductible temporary differences should be compared with the entity's future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences when an entity evaluates whether it has sufficient future taxable profits. In addition, when an entity assesses whether taxable profits will be available, it should consider tax law restrictions with regards to the utilisation of the deduction.

(c) Amendments to MFRSs Classified as "Annual Improvements to MFRS Standards 2014 - 2016 Cycle" - Amendments to MFRS 12, Disclosure of Interests in Other Entities

The Amendments clarify the scope of the Standard by specifying that the disclosure requirements in the Standard apply to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities that are classified as held for sale, as held for distribution or as discontinued operations in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The Amendments also clarify that an entity is not required to disclose summarised financial information when its subsidiary, joint venture or associate is classified as held for sale in accordance with MFRS 5.

The initial application of the above Amendments is not expected to have any significant impact on the financial statements of the Group and of the Company.

2.3.2 Effective for annual periods beginning on or after 1 January 2018

(a) MFRS 9, Financial Instruments (IFRS 9 issued in July 2014)

The Standard replaces earlier versions of MFRS 9 and introduces a package of improvements which includes a classification and measurement model, a single forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

The key enhancements of MFRS 9 are:

- Under MFRS 9, all recognised financial assets are required to be subsequently measured at either amortised cost, fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL") on the basis of both an entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. These requirements improve and simplify the approach for classification and measurement of financial assets as the numerous categories of financial assets under MFRS 139 had been replaced.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.3 New MFRSs and IC Interpretation and Amendments to MFRSs That Are In Issue But Not Yet Effective *cont'd*

2.3.2 Effective for annual periods beginning on or after 1 January 2018 *cont'd*

(a) MFRS 9, Financial Instruments (IFRS 9 issued in July 2014) *cont'd*

- Most of the requirements in MFRS 139 for classification and measurement of financial liabilities were carried forward unchanged to MFRS 9, except for the measurement of financial liabilities designated as at FVTPL. Under MFRS 139, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss. However, MFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's own credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

- In relation to the impairment of financial assets, MFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under MFRS 139. Under MFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in MFRS 139 i.e. fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. MFRS 9 incorporates a new hedge accounting model that aligns the hedge accounting more closely with an entity's risk management activities. The new hedge accounting model has also expanded the scope of eligibility of hedge items and hedging instruments respectively.

(b) MFRS 15, Revenue from Contracts with Customers

MFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 111, MFRS 118 and the related IC Interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:-

Step 1	Identify the contract(s) with a customer
Step 2	Identify the performance obligations in the contract
Step 3	Determine the transaction price
Step 4	Allocate the transaction price to the performance obligations in the contract
Step 5	Recognise revenue when (or as) the entity satisfies a performance obligation

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.3 New MFRSs and IC Interpretation and Amendments to MFRSs That Are In Issue But Not Yet Effective *cont'd*

2.3.2 Effective for annual periods beginning on or after 1 January 2018 *cont'd*

(b) *MFRS 15, Revenue from Contracts with Customers* *cont'd*

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. MFRS 15 also requires more extensive disclosures.

(c) *Clarifications to MFRS 15, Revenue from Contracts with Customers*

The Amendments clarifies how certain principles should be applied in:-

(i) identifying whether performance obligations are distinct;

(ii) determining whether an entity is a principal or an agent; and

(iii) assessing whether revenue from a licence of intellectual property is recognised over time or at a point in time.

(d) *Amendments to MFRS 2 - Classification and Measurement of Share-based Payment Transactions*

The Amendments to MFRS 2 *Share-based Payment* provide specific guidance on how to account for the following situations:-

(i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;

(ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and

(iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

(e) *Amendments to MFRS 4 - Applying MFRS 9, Financial Instruments with MFRS 4, Insurance Contracts*

The Amendments to MFRS 4 *Insurance Contracts* address concerns arising from implementing the new MFRS 9 *Financial Instruments* before the new Standard on insurance contracts i.e. the forthcoming IFRS 17 which the International Accounting Standards Board ("IASB") plans to issue in 2017. These concerns include temporary volatility in reported results.

The IASB has introduced two additional voluntary options, namely an overlay approach and a deferral approach to be applied subject to certain criteria being met, which help to address temporary volatility in reported results of entities dealing with insurance contracts.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.3 New MFRSs and IC Interpretation and Amendments to MFRSs That Are In Issue But Not Yet Effective *cont'd*

2.3.2 Effective for annual periods beginning on or after 1 January 2018 *cont'd*

(e) Amendments to MFRS 4 - Applying MFRS 9, Financial Instruments with MFRS 4, Insurance Contracts *cont'd*

The overlay approach involves option to recognise the possible volatility in other comprehensive income, instead of profit or loss, whilst the deferral approach provides temporary exemption from applying MFRS 9 for entities whose activities are predominantly connected with insurance.

(f) Amendments to MFRS 140 - Transfers of Investment Property

The Amendments to MFRS 140 *Investment Property* clarify that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

(g) Amendments to MFRSs Classified as "Annual Improvements to MFRS Standards 2014 - 2016 Cycle"

The *Annual Improvements to MFRS Standards 2014 - 2016 Cycle* include amendments to the following MFRSs:-

(i) The Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards* have removed certain provisions that have served their intended purposes.

(ii) The Amendments to MFRS 128 *Investments in Associates and Joint Ventures* clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

(h) IC Interpretation 22, Foreign Currency Transactions and Advance Consideration

The IC Interpretation addresses which exchange rate to use in reporting foreign currency transactions that involve advance consideration paid or received.

The initial application of MFRS 9 and MFRS 15 may have an impact on the financial statements of the Group and of the Company. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed. The initial application of other new MFRSs and Interpretation and amendments to MFRSs for reporting periods beginning on or after 1 January 2018 is not expected to have any significant impact on the financial statements of the Group and of the Company.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.3 New MFRSs and IC Interpretation and Amendments to MFRSs That Are In Issue But Not Yet Effective *cont'd*

2.3.3 Effective for annual periods beginning on or after 1 January 2019

MFRS 16, Leases

MFRS 16 will supersede the existing MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease*, IC Interpretation 115 *Operating Leases – Incentives* and IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* and it sets out the principles for the recognition, measurement, presentation and disclosures of leases.

Under the existing MFRS 117, lessees and lessors are required to classify their leases as either finance leases or operating leases and account for those two types of leases differently. It requires a lessee to recognise assets and liabilities arising from finance leases but not from operating leases.

The new MFRS 16 introduces a single accounting model and requires a lessee to recognise assets and liabilities for the rights and obligations arising from all leases and hence eliminates the distinction between finance leases and operating leases. As a consequence, a lessee recognises right-of-use assets and lease liabilities arising from operating leases. The right-of-use asset is depreciated in accordance with the principle in MFRS 116 *Property, Plant and Equipment* and the lease liability is accreted over time with interest expense recognised in the profit or loss.

The financial effects arising from the application of this Standard are still being assessed by the management.

2.4 Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting date as the Company. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group:

- has power over the entity;
- is exposed, or has rights, to variable returns from its involvement with the entity; and
- has the ability to affect those returns through its power over the entity.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of controls listed above.

Consolidation of a subsidiary begins from the date the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.4 Basis of Consolidation *cont'd*

In preparing consolidated financial statements, intra-group balances and transactions and the resulting unrealised profits are eliminated on consolidation. Unrealised losses are eliminated on consolidation and the relevant assets are assessed for impairment. The consolidated financial statements reflect external transactions and balances only. When necessary, adjustments are made to the financial statements of subsidiaries to ensure conformity with the Group's accounting policies. The total comprehensive income of a subsidiary is attributed to the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received by the Group is recognised directly in equity and attributed to owners of the Company. If the Group loses control of a subsidiary, the assets (including any goodwill) and liabilities of the subsidiary and non-controlling interests will be derecognised at their carrying amounts at the date when control is lost. Any investment retained in the former subsidiary is recognised at its fair value at the date when control is lost. The resulting difference between the amounts derecognised and the aggregate of the fair value of consideration received and investment retained is recognised as gain or loss in profit or loss attributable to the Group.

2.5 Business Combinations

Acquisitions of businesses are accounted for using the acquisition method except for combinations of entities or businesses under common control. The consideration transferred for the acquisition of an acquiree is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred, equity interests issued and contingent consideration given. Acquisition-related costs are recognised as an expense in the periods in which the costs are incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their acquisition-date fair values, except for non-current assets (or disposal group) that are classified as held for sale which shall be measured at fair value less costs to sell.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests and the acquisition-date fair value of any previously held equity interest over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. The accounting policy for goodwill is set out in Note 2.6. The excess of the Group's interest in the net amounts of the identifiable assets, liabilities and contingent liabilities over the aggregate of the consideration transferred, the amount of any non-controlling interests and the acquisition-date fair value of any previously held equity interest is recognised immediately in profit or loss.

Subsidiaries arising from common control combinations are consolidated using the principles of merger accounting. The common control combinations are business combinations in which all the combining entities have common ultimate controlling parties prior to and immediately after such combinations. Under the principles of merger accounting, the assets and liabilities of the combining entities are consolidated using the existing book values from the controlling parties' perspective and the results of each of the combining entity are presented as if the combination had been effected throughout the current and previous comparative periods presented. On consolidation, the cost of investment is matched against the nominal value of ordinary shares acquired and any resulting credit difference (merger reserve) is classified under equity as a non distributable reserve and any resulting debit difference (merger deficit) is adjusted against suitable consolidated reserves.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.5 Business Combinations *cont'd*

Non-controlling interests represent that portion of profit or loss and net assets of a subsidiary not attributable, directly or indirectly, to the Group. For each business combination, non-controlling interests are measured either at their fair value at the acquisition date or at the non-controlling interests' proportionate share of the subsidiary's identifiable net assets. Non-controlling interests in the net assets of consolidated subsidiaries comprised the amount of non-controlling interests at the date of original combination and their share of changes in equity since the date of combination.

In a business combination achieved in stages, any previously held equity interest is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in profit or loss.

2.6 Goodwill

Goodwill arising on the acquisitions of subsidiaries is recognised as an asset and carried at cost as established at the acquisition date less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill from acquisition date is allocated to each of the Group's cash-generating unit ("CGU") or groups of CGUs that are expected to benefit from the synergies of the combination in which the goodwill arose. The test for impairment of goodwill on consolidation is in accordance with the Group's accounting policy for impairment of non-financial assets. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a CGU or groups of CGUs and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation and the portion of the CGU retained.

2.7 Foreign Currencies

2.7.1 Functional and presentation currency

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

2.7.2 Foreign currency transactions and balances

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each reporting date, foreign currency monetary assets and liabilities are translated at exchange rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the transactions. 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 from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are recognised in profit or loss.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.7 Foreign Currencies *cont'd*

2.7.2 Foreign currency transactions and balances *cont'd*

Exchange differences arising on the translation of foreign currency non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains or losses are recognised in other comprehensive income. Exchange differences arising from such non-monetary items are recognised to other comprehensive income.

2.7.3 Foreign operations

The results and financial position of foreign operations that have a functional currency different from the presentation currency (RM) of the consolidated financial statements are translated into RM as follows:-

(a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(b) Income and expenses for each statement presenting profit or loss and other comprehensive income are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions; and

(c) All resulting exchange differences are recognised in other comprehensive income and are accumulated in foreign currency translation reserve within equity.

Exchange differences arising from monetary items that form part of the Company's net investment in a foreign operation and that are denominated in the functional currency of the Company or the foreign operation are recognised in profit or loss of the Company or of the foreign operation, as appropriate. In the Group's financial statements, such exchange differences are recognised initially in other comprehensive income and accumulated in equity under foreign currency translation reserve. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income and taken to equity under foreign currency translation reserve will be reclassified to profit or loss.

Goodwill and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the reporting date.

2.8 Investments in Subsidiaries

In the Company's separate financial statements, investments in subsidiairies are accounted for at cost less any accumulated impairment losses. The investments are reviewed for impairment in accordance with the Group's accounting policy for impairment of non-financial assets as disclosed in Note 2.13. On disposal of such investments, the difference between the net disposal proceeds and the net carrying value of the investments is recognised as a gain or loss on disposal in the Company's profit or loss.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.9 Property, Plant and Equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

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

Freehold land and capital work-in-progress are not depreciated. Leasehold land is amortised on a straight-line basis over the period of their respective lease terms ranging from 60 to 906 years. All other property, plant and equipment are depreciated on the straight-line basis so as to write off the cost of the assets to their residual values over their estimated useful lives. Depreciation on capital work-in-progress commences when the assets are ready for their intended use. Assets held under finance leases are depreciated over the shorter of the lease terms and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease terms. The estimated useful lives of the Group's property, plant and equipment are as follows:-

Buildings	50 years
Office renovation	10 to 50 years
Motor vehicles	5 years
Furniture and fittings	5 to 10 years
Office equipment	5 to 10 years
Plant and machinery	5 to 10 years
Electrical fittings	5 years

The residual values and useful lives of assets are reviewed at each financial year end and adjusted prospectively, if appropriate, where expectations differ from previous estimates. Property, plant and equipment are reviewed for impairment in accordance with the Group's accounting policy for impairment of non-financial assets as disclosed in Note 2.13.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in profit or loss.

2.10 Investment Property

Investment properties are land and/or buildings which are held for rental yields or for capital appreciation or for both or land held for a currently undetermined future use. The investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. The depreciation policy adopted for investment properties is similar to property assets under property, plant and equipment as disclosed under Note 2.9. Investment properties are reviewed for impairment in accordance with the Group's accounting policy for impairment of non-financial assets.

An investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in profit or loss in the period of the retirement or disposal.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.11 Intangible Assets - Computer Software

The costs of computer software licences that are acquired separately are capitalised as an intangible asset and are carried at costs less accumulated amortisation and any accumulated impairment losses. Costs include their purchase prices and any directly attributable costs of preparing the assets for their intended use. These costs are amortised on the straight-line basis over the period the assets are expected to generate economic benefits.

Costs associated with developing computer software programs that will generate probable future economic benefits from the use thereof are recognised as intangible assets. Costs comprised all directly attributable development costs including an appropriate portion of relevant overheads. Computer software development cost is amortised when the asset is available for use over the period the asset is expected to generate economic benefits.

The estimated useful life and amortisation method are reviewed at the end of each reporting period with the effect of any changes in estimates being accounted for on a prospective basis.

2.12 Non-current Assets (or Disposal Groups) Classified as Held for Sale

Non-current assets (or disposal groups) are classified as assets held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary.

On initial classification as held for sale, non-current assets or disposal groups (other than deferred tax assets, financial assets and inventories) are measured at the lower of their carrying amount and fair value less costs to sell. Any differences are included in profit or loss.

2.13 Impairment of Non-Financial Assets

The carrying amounts of non-financial assets (other than inventories, deferred tax assets and non-current assets or disposal groups held for sale) are reviewed for impairment at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss. For goodwill recognised in a business combination and that has an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated annually or more frequently when indicators of impairment are identified.

An impairment loss is recognised if the carrying amount of an asset or a cash generating unit ("CGU") exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Impairment losses recognised in respect of CGUs (or groups of CGUs) are allocated first to reduce the carrying amount of any goodwill arising from a business combination allocated to the units (or groups of units) and then to reduce the carrying amount of the other assets in the units (or groups of units) on a pro rata basis.

The recoverable amount of an asset or CGU is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.13 Impairment of Non-Financial Assets *cont'd*

An impairment loss is recognised in profit or loss in the period in which it arises.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss.

2.14 Inventories

Inventories are measured at the lower of cost and net realisable value.

Cost of trading goods is determined on the weighted average cost method except for certain items purchased under specific arrangements for which the specific identification method is used. For manufacturing division, cost of raw materials and finished goods is determined on first-in, first-out basis. Cost of finished goods consists of materials, direct labour and an appropriate proportion of production overheads.

Net realisable value represents the estimated selling price in the ordinary course of business less selling and distribution costs and all other estimated costs to completion.

2.15 Financial Assets

The Group recognises all financial assets in its statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instruments. All regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting. A regular way purchase or sale is a purchase or sale of a financial asset that requires delivery of asset within the time frame established generally by regulation or convention in the marketplace concerned. Trade date accounting refers to:-

- the recognition of an asset to be received and the liability to pay for it on the trade date i.e. the date the Group commits itself to purchase or sell an asset; and
- derecognition of an asset that is sold, the recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

2.15.1 Classsification and measurement

Financial assets are initially measured at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Financial assets are classified into the following specified categories depending on the nature and purpose of the financial assets and is determined at the time of initial recognition.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.15 Financial Assets *cont'd*

2.15.1 Classsification and measurement *cont'd*

(a) Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when the financial assets are either held for trading or designated as such upon initial recognition.

A financial asset is classified as held for trading if:-

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

After initial recognition, financial assets at fair value through profit or loss are measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss. The net gains or losses do not include any exchange differences, dividend or interest earned on the financial asset. Exchange differences, dividend and interest earned on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other income or other expenses.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair value cannot be reliably measured are measured at cost less any impairment losses.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest rate method less any impairment losses. A gain or loss is recognised in profit or loss when the held-to-maturity investment is derecognised or impaired, and through the amortisation process.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables, loans and other receivables are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method less any impairment losses. Gains and losses are recognised in profit or loss when loans and receivables are derecognised or impaired, and through the amortisation process.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.15 Financial Assets *cont'd*

2.15.1 Classsification and measurement *cont'd*

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or at fair value through profit or loss. Available-for-sale financial assets comprise quoted and unquoted equity and debt instruments that are not held for trading.

Subsequent to initial recognition, quoted equity and debt instruments are measured at fair value and investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. A gain or loss from changes in fair value is recognised in other comprehensive income, except that impairment losses, foreign exchange gains or losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Dividends on an equity instrument are recognised in profit or loss when the Group's right to receive payment is established.

2.15.2 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset, other than financial assets at fair value through profit or loss, is impaired. Financial assets are considered to be impaired when objective evidence indicates that a loss event has occurred after the initial recognition of the assets and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised. For quoted equity instrument, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment.

An amount of impairment loss in respect of financial assets measured at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate i.e. the effective rate computed at initial recognition. The carrying amount of the asset is reduced through an allowance account. The amount of loss is recognised in profit or loss.

If in a subsequent period the amount of the impairment loss on financial assets measured at amortised cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account to the extent that the carrying amount of the financial asset does not exceed its amortised cost had the impairment not been recognised at the date the impairment is reversed. The amount of reversal is recognised in profit or loss.

When an available-for-sale financial asset is impaired, the cumulative loss in relation to decline in fair value previously recognised in other comprehensive income is reclassified from equity and recognised in profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. The amount of cumulative loss that is reclassified is the difference between the acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.15 Financial Assets *cont'd*

2.15.2 Impairment of financial assets cont'd

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. Increase in fair value, if any, subsequent to the impairment loss, is recognised in other comprehensive income.

If the fair value of a debt instrument classified as available-for-sale, increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed with the amount of the reversal is recognised in profit or loss.

An amount of impairment loss in respect of financial assets carried at cost is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

2.15.3 Derecognition of financial assets

The Group derecognises a financial asset when, and only when, the contractual rights to the cash flows from the financial asset expires or it transfers the financial asset without retaining control or transfers substantially all the risks and rewards of ownership of the financial asset to another party.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

2.16 Cash and Cash Equivalents

Cash and cash equivalents include cash and bank balances, deposits and short term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, reduced by bank overdrafts. The statements of cash flows are prepared using the indirect method.

Cash and cash equivalents (other than bank overdrafts) are categorised and measured as loans and receivables in accordance with policy Note 2.15.1(c).

2.17 Share Capital

Ordinary shares are classified as equity. Distributions to holders of ordinary shares are debited directly to equity and dividends declared on or before the end of the reporting period are recognised as liabilities. Costs directly attributable to equity transactions are accounted for as a deduction, net of tax, from equity.

2.18 Financial Liabilities

The Group recognises all financial liabilities in its statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instruments.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.18 Financial Liabilities *cont'd*

2.18.1 Classsification and measurement

Financial liabilities are initially measured at fair value plus, in the case of other financial liabilities, directly attributable transaction costs.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if:-

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

After initial recognition, financial liabilities at fair value through profit or loss are measured at fair value with any gains or losses arising from changes in fair value recognised in profit or loss. The net gains or losses recognised in profit or loss do not include any exchange differences or interest paid on the financial liability. Exchange differences and interest expense on financial liabilities at fair value through profit or loss are recognised separately in profit or loss as part of other income or other expenses.

Derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured is measured at cost.

(b) Other financial liabilities

All financial liabilities, other than those categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Other financial liabilities of the Group include trade and other payables, loans and borrowings.

A gain or loss on other financial liabilities is recognised in profit or loss when the liabilities are derecognised and through the amortisation process.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.18 Financial Liabilities *cont'd*

2.18.2 Derecognition of financial liabilities

A financial liability is derecognised when, and only when, the obligation specified in the contract is extinguished. When an existing financial liability is exchanged with the same lender on substantially different terms or the terms of an existing liability are substantially modified, they are accounted for as an extinguishment of the original financial liability and a new financial liability is recognised. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

2.19 Offsetting Financial Instruments

Financial assets and financial liabilities are offset when the Group has a legally enforceable right to offset and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.20 Financial Guarantee Contracts

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

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs. Subsequent to initial recognition, financial guarantee contracts are amortised in profit or loss using the straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made in accordance with MFRS 137, Provisions, Contingent Liabilities and Contingent Assets. If the carrying amount of the financial guarantee is lower than the obligation estimated, the carrying value is adjusted to the obligation amount and accounted for as a provision.

2.21 Derivatives Financial Instruments

The Group enters into derivative financial instruments such as forward foreign currency contracts to manage its exposure to foreign currency risks.

Derivatives are initially recognised at fair value at the date the derivative contract is entered and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

A derivative with a positive fair value is recognised as a financial asset and derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

The Group has not designated any derivatives as hedging instruments.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.22 Hire Purchase and Finance Lease Arrangements and Operating Leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership of the leased assets. All other leases are classified as operating leases.

Assets acquired under hire purchase arrangements are recognised and measured in a similar manner as finance leases.

2.22.1 Assets acquired under hire purchase and finance lease arrangements

Assets acquired under hire purchase and finance lease arrangements are stated at the amounts equal at the inception of the arrangement to the lower of the fair values and the present values of the minimum hire purchase or lease payments.

The corresponding obligations are taken up as hire purchase or finance lease liabilities. Hire purchase or lease payments are apportioned between the outstanding liabilities and finance charges which are recognised in profit or loss over the period of the hire purchase/lease term so as to produce a constant periodic rate of interest on the remaining balance of the liabilities for each period.

The depreciation policy of property, plant and equipment acquired under hire purchase and finance lease arrangements are consistent with the Group's depreciation policy as set out in Note 2.9 above.

2.22.2 Operating lease

Operating lease payments are recognised as expenses in profit or loss on a straight-line basis over the period of the relevant leases.

2.23 Employee Benefits

2.23.1 Short-term employee benefits

Wages, salaries and social security contributions, paid annual and sick leave, bonuses and non-monetary benefits are recognised as an expense in profit or loss or included in the costs of assets, where applicable, in the period in which the associated services are rendered by employees of the Group.

2.23.2 Post-employment benefits

Defined contribution plans

The Group provides post-employment benefits by way of contribution to defined contribution plans operated by the relevant authorities at the prescribed rates.

Defined contribution plans are post-employment benefits plans under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The Group's contributions to defined contribution plans are recognised as an expense in profit or loss in the period to which the contributions relate or included in the costs of assets, where applicable.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.23 Employee Benefits *cont'd*

2.23.2 Post-employment benefits *cont'd*

Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans and under which the pension benefits payable to employees are usually determined by reference to employee's earning and/or length of service.

The Group operates an unfunded defined benefit final salary plan for eligible employees.

The liability recognised in the statement of financial position is the present value of the defined benefit obligation at the reporting date together with adjustments for actuarial gains or losses and past service cost. The present value of the defined benefit obligation is determined on an annual basis by independent qualified actuaries using the Projected Unit Credit Method.

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income in the period in which they arise and will not be reclassified to profit or loss.

Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment. Past service cost is recognised as an expense in profit or loss in the period of a plan amendment or curtailment.

2.23.3 Share-based Payments

The Group operates an equity-settled, share-based compensation plan under which the Group receives services from employees as consideration for share options over the Company's unissued ordinary shares granted to eligible employees of the Group. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense in the profit or loss over the vesting period of the share options granted with a corresponding increase in equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted. The fair value of the share options is measured at grant date and does not take into account of vesting conditions other than market vesting conditions, if any, upon which the options were granted. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to the original estimates, if any, in the profit or loss, and a corresponding adjustment to equity. The equity amount is recognised in the share option reserve until the option is exercised, upon which it will be transferred to share premium, or until the option expires, upon which it will be transferred directly to retained profits.

The proceeds received net of any directly attributable transaction costs are credited to equity when the options are exercised.

The grant by the Company of options over its equity instruments to the employees of its subsidiaries is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiaries with a corresponding credit to equity in the Company's financial statements.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.23 Employee Benefits *cont'd*

2.23.4 Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for those benefits. The Group recognises termination benefits at the earlier of (i) when the Group can no longer withdraw the offer of those benefits; and (ii) when the Group recognises costs for a restructuring.

Termination benefits falling over more than twelve (12) months after the end of the reporting period are discounted to present value.

2.24 Income Taxes

Tax expense is the aggregate amount of current and deferred taxes. Current and deferred taxes are recognised as income or expense in profit or loss except to the extent that the taxes relate to items recognised outside profit or loss, either in other comprehensive income or directly in equity or a business combination.

Current tax is the expected tax payable on the taxable profit for the year and is calculated using tax rates enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised, using the liability method, on temporary differences at end of the reporting period between the carrying amounts of assets and liabilities in the financial statements and the amounts attributed to those assets and liabilities for taxation purposes.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unabsorbed tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the assets can be utilised.

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Tax rates enacted or substantively enacted at the end of the reporting period are used to determine deferred tax.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.25 Provisions

Provisions are recognised when the Group has a present legal and constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of time value of money is material, the amount of provision is measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the amount of a provision due to passage of time is recognised as finance cost.

2.26 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction, production or preparation of qualifying assets until they are ready for their intended use or sale are capitalised as part of the cost of those assets. Other borrowing costs are recognised as an expense in the period in which they are incurred.

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

2.27 Fair Value Measurements

Fair value of an asset or a liability, except for share-based payment and leasing transactions, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market. For non-financial assets, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring fair value, the Group maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Fair value measurements are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:-

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.28 Revenue

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services in the ordinary course of the Group's activities. Revenue is recognised when it can be measured reliably and to the extent that it is probable that the economic benefits associated to the transactions will flow to the Group. The following specific recognition criteria must also be met before revenue is recognised:-

(a) Sales of goods

Revenue from sale of goods is recognised upon the transfer of significant risks and rewards of ownership to the buyer of the goods, net of discounts and returns. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) Rendering of services

Revenue from rendering of services is recognised by reference to the stage of completion of the services at the end of the reporting period.

(c) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

(d) Dividend income

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

(e) Rental income

Rental income is recognised on an accrual basis over the period of tenancy.

2.29 Earnings Per Share

Basic earnings per share is calculated by dividing the profit or loss for the financial year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the financial year, net of any treasury shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, net of any treasury shares held, for the effects of all dilutive potential ordinary shares.

2.30 Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the Group. Operating segment results are reviewed by the chief operating decision maker i.e. the Group's Chief Executive Officer who makes decision about resources to be allocated to the segments and to assess their performance and for which discrete financial information is available.

3. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with the Malaysian Financial Reporting Standards requires management to exercise their judgement in the process of applying the Group's accounting policies and which may have significant effects on the amounts recognised in the financial statements. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results reported for the reporting period and that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Although these judgements and estimates are based on the management's best knowledge of current events and actions, actual results may differ.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Significant judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in Note 2, the management are of the opinion that any instances of application of judgement are not expected to have a significant effect on the amounts recognised in the financial statements, apart from those involving estimations which are dealt with below.

(b) Key sources of estimation uncertainty

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

(i) Impairment of property, plant and equipment

The Group assesses impairment of property, plant and equipment when the events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. In assessing such impairment, the recoverable amount of the assets is estimated using the latest available fair value after taking into account the costs to sell or expected value in use of the relevant assets.

(ii) Impairment of goodwill

The Company performs an annual assessment of the carrying value of its goodwill against the recoverable amount of the cash generating unit ("CGU") to which the goodwill has been allocated. The measurement of the recoverable amount of CGU is determined based on the value in use method which requires the management to estimate the future cash flows expected to arise from the CGU's ongoing operations, the growth rate that reflects the management's expected future performance and a suitable discount rate in order to calculate the present value. The relevant information and assumptions are disclosed in Note 9.

(iii) Impairment losses of trade receivables

The Group makes an allowance for impairment losses based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. In assessing the extent of irrecoverable debts, the management has given due consideration to all pertinent information relating to the ability of the debtors to settle debts. Where the expectation is different from the original estimate, such difference will impact the carrying value of the receivables. The carrying amounts of receivables and the cumulative allowances for impairment losses are disclosed in Note 12.

3. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *cont'd*

(b) Key sources of estimation uncertainty *cont'd*

(iv) Retirement benefits

The Group's retirement benefits for eligible employees were measured by an actuarial valuation using the Projected Unit Credit Method. According to this method, several statistical information and assumptions are used to determine the expense and liability. Statistical information is principally related to demographic assumptions such as mortality, employee turnover and early retirement. The assumptions are mainly discount rate and future salary increase rate. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement benefits. All these assumptions are disclosed in Note 19.

(v) Share-based payments

The fair value of the share options granted was measured by using the Trinomial Option Pricing Model. The valuation model uses inputs which are required to be estimated. The fair value of the share options granted is recognised as an expense over the vesting period of the options and this requires the estimate of the number of options that is expected to vest. Any changes in these estimates and assumptions will impact the profit or loss of the Group and of the Company. Details of the inputs used on the valuation model are disclosed in Note 16(c)(iii).

4. PROPERTY, PLANT AND EQUIPMENT

(a) The movements of property, plant and equipment during the financial year are as follows:-

Group

2016

	Freehold land RM	Long term leasehold land RM	Buildings RM	Office renovation RM	Furniture and fittings RM	Plant, equipment and motor vehicles RM	Capital work in progress RM	Total RM
Cost								
Balance at 1 January 2016	2,411,942	4,630,554	14,661,874	1,037,477	919,736	16,129,294	5,134,853	44,925,730
Acquisition of a subsidiary (Note 7(c))		1,960,000	1,940,000	285,292	362,348	4,645,945	-	9,193,585
Additions	-	-	-	106,354	66,086	2,462,947	5,012,679	7,648,066
Disposals	-	-	-	-	-	(1,343,849)	-	(1,343,849)
Write-off	-	-	-	-	(10,870)	(318,318)	-	(329,188)
Net exchange differences	-	-	-	16,313	1,072	56,893	-	74,278
Balance at 31 December 2016	2,411,942	6,590,554	16,601,874	1,445,436	1,338,372	21,632,912	10,147,532	60,168,622
Accumulated depreciation								
Balance at 1 January 2016	-	960,084	3,114,719	663,787	865,146	11,622,473	-	17,226,209
Acquisition of a subsidiary (Note 7(c))	-	28,877	56,232	113,111	114,480	3,150,141	-	3,462,841
Charge for the year	-	65,683	321,309	148,907	41,158	1,438,304	-	2,015,361
Disposals	-	-	-	-	-	(1,309,297)	-	(1,309,297)
Write-off	-	-	-	-	(4,637)	(278,180)	-	(282,817)
Net exchange differences	-	-	-	9,670	183	25,891	-	35,744
Balance at 31 December 2016	-	1,054,644	3,492,260	935,475	1,016,330	14,649,332	-	21,148,041
Net book value as at 31 December 2016	2,411,942	5,535,910	13,109,614	509,961	322,042	6,983,580	10,147,532	39,020,581

4. PROPERTY, PLANT AND EQUIPMENT *cont'd*

(a) The movements of property, plant and equipment during the financial year are as follows:- *cont'd*

Group

2015

	Freehold land RM	Long term leasehold land RM	Buildings RM	Office renovation RM	Furniture and fittings RM	Plant, equipment and motor vehicles RM	Capital work in progress RM	Total RM
Cost								
Balance at 1 January 2015	2,411,942	4,630,554	14,646,874	1,031,080	921,778	15,367,792	2,934,202	41,944,222
Additions	-	-	15,000	3,592	1,498	897,597	2,200,651	3,118,338
Write-off	-	-	-	-	(3,049)	(84,165)	-	(87,214)
Net exchange differences	-	-	-	2,805	(491)	(51,930)	-	(49,616)
Balance at 31 December 2015	2,411,942	4,630,554	14,661,874	1,037,477	919,736	16,129,294	5,134,853	44,925,730
Accumulated depreciation								
Balance at 1 January 2015	-	908,841	2,821,775	440,844	856,056	10,742,484	-	15,770,000
Charge for the year	-	51,243	292,944	219,561	12,139	990,817	-	1,566,704
Write-off	-	-	-	-	(2,905)	(80,947)	-	(83,852)
Net exchange differences	-	-	-	3,382	(144)	(29,881)	-	(26,643)
Balance at 31 December 2015	-	960,084	3,114,719	663,787	865,146	11,622,473	-	17,226,209
Net book value as at 31 December 2015	2,411,942	3,670,470	11,547,155	373,690	54,590	4,506,821	5,134,853	27,699,521

(b) Property, plant and equipment include the following assets acquired under hire purchase arrangements:-

Group	Cost RM	Accumulated depreciation RM	Net book value RM	Current depreciation RM
2016				
Motor vehicles	1,315,684	320,973	994,711	205,050
2015				
Motor vehicles	683,271	309,860	373,411	127,764

(c) On 10 March 2017, a subsidiary of the Company placed an order to purchase a set of manufacturing plant at the price of USD435,000 which is equivalent to approximately RM1,935,750 based on the prevailing exchange rate. The plant is expected to be operational by end of 2017.

5. INVESTMENT PROPERTY

	Group	
	2016	**2015**
	RM	**RM**
Cost		
Balance at 1 January	**130,000**	130,000
Disposal	**(130,000)**	-
Balance at 31 December	**-**	130,000
Accumulated amortisation		
Balance at 1 January	**13,021**	10,414
Amortisation for the year	**1,955**	2,607
Disposal	**(14,976)**	-
Balance at 31 December	**-**	13,021
Net book value as at 31 December	**-**	116,979
Fair value as at 31 December	**-**	217,000

(a) Investment property comprised an apartment unit that was held for the purpose of earning rental income. On 14 July 2016, the investment property was disposed of for a total consideration of RM200,000. The disposal has resulted in a gain of RM84,976 and this has been recognised in the Group's current year profit or loss.

(b) The fair value of the investment property as at the end of the previous reporting period was estimated by the Directors by reference to the market evidence of transaction prices for a similar property. The fair value was within Level 2 of the fair value hierarchy (refer Note 2.27). No valuation by an independent valuer had been performed on the above property.

(c) The amounts of rental income and operating expenses recognised in the profit or loss during the financial year in relation to the investment property are as follows:-

	Group	
	2016	**2015**
	RM	**RM**
Rental income	**-**	3,640
Direct operating expenses	**2,872**	2,288
Amortisation	**1,955**	2,607

6. INTANGIBLE ASSETS

Computer software acquired

	Group	
	2016	**2015**
	RM	**RM**
Cost		
Balance at 1 January	**1,078,613**	865,740
Additions	**58,695**	212,873
Balance at 31 December	**1,137,308**	1,078,613
Accumulated amortisation		
Balance at 1 January	**702,262**	597,284
Amortisation for the year	**141,706**	104,978
Balance at 31 December	**843,968**	702,262
Net carrying amount as at 31 December	**293,340**	376,351

The costs of computer software acquired, including all directly attributable costs of preparing the assets for their intended use, are amortised on the straight line basis to administrative expenses over the estimated useful life of 5 years (2015: 5 years).

7. INVESTMENTS IN SUBSIDIARIES

	Company	
	2016	**2015**
	RM	**RM**
Unquoted shares, at cost	**113,179,613**	64,458,663
Deemed capital contribution:		
- Cash contribution	**29,704,973**	62,000,000
- Share options granted	**6,692,795**	4,208,870
	149,577,381	130,667,533

Capital contribution represents contributions by the Company that form part of its net investment in the subsidiaries and for which settlement is neither planned nor likely in the foreseeable future.

7. INVESTMENTS IN SUBSIDIARIES *cont'd*

(a) Details of the subsidiaries

Details of the subsidiaries are as follows:-

Name of company	Principal activities	Country of incorporation	Effective interest in equity 2016 %	Effective interest in equity 2015 %
Luxchem Trading Sdn Bhd	Importers, exporters and distributors of chemical, industrial and other preparations.	Malaysia	**100**	100
Luxchem Polymer Industries Sdn Bhd	Manufacturing and trading of unsaturated polyester resin and related products.	Malaysia	**100**	100
Luxchem Trading (S) Pte Ltd*	Importers, exporters and distributors of chemical, industrial and other preparations.	Republic of Singapore	**100**	100
Chemplex Composite Industries (M) Sdn Bhd	Importers, exporters and distributors of chemical, industrial and other preparations.	Malaysia	**100**	100
PT Luxchem Indonesia*	Distributor of chemicals and petrochemical products.	Indonesia	**70**	70
Luxchem Vietnam Company Limited*	Distributor of chemicals and petrochemical products.	Vietnam	**100**	-
Transform Master Sdn Bhd	Manufacturer of chemical products.	Malaysia	**100**	-

* *Not audited by Folks DFK & Co.*

(b) Incorporation of a new subsidiary

The Company had obtained an Investment Certificate from the Department of Planning & Investment of Ho Chi Minh City on 8 October 2015 for the establishment of a limited liability enterprise known as Luxchem Vietnam Company Limited ("LVCL").

On 25 November 2015, LVCL obtained a Certificate of Company Registration from the Department of Planning & Investment of Ho Chi Minh City following which, LVCL would be able to commence its business operations.

The charter capital of LVCL is VND10,692,500 or equivalent to USD500,000 or RM2,165,000 and which was fully disbursed by the Company on 4 January 2016.

7. INVESTMENTS IN SUBSIDIARIES *cont'd*

(c) Acquisition of a subsidiary during the financial year

On 29 April 2016, the Company acquired the entire issued and paid-up share capital of Transform Master Sdn Bhd ("TMSB") comprising 3,000,000 ordinary shares of RM1.00 each for total consideration of RM45,500,000. The consideration was satisfied via the issuance of 5,184,851 new ordinary shares of RM0.50 each of the Company at an issue price of RM1.7744 per share determined based on the 5-day volume weighted average market price of the Company's shares and a cash payment of RM36,300,000.

TMSB is in the business of manufacturing and supply of latex chemical dispersions, latex processing chemicals and related products and has been a supplier of the industrial chemical products to the Group since 2014. The purpose of the acquisition is to enable the Group to assume control of its supplier's operations and at the same time enlarging the Group's annual production capacity and product range.

The acquisition gave rise to a goodwill of RM35,802,888 and which has been recognised in the current year consolidated statement of financial position. The goodwill arising from the acquisition of TMSB is attributable to gaining control over the operations including control over consistency and quality and timeliness of supply of TMSB's products and adding to the profitability of the Group and widening of the Group's product range.

The acquisition had the following effects on the financial results of the Group during the financial year:-

	TMSB's amounts consolidated from the date of acquisition to 31.12.2016 RM
Revenue	20,667,156
Cost of sales	(17,490,797)
Gross profit	3,176,359
Other income	86,937
Administrative expenses	(943,697)
Other expenses	(42,305)
Operating profit	2,277,294
Finance costs	(46,889)
Profit before taxation	2,230,405
Taxation	(575,717)
Profit for the year	1,654,688

If the acquisition had occurred at the beginning of the financial year, the Group's revenue and profit for the year would have increased by RM11,420,212 and RM1,000,968 respectively.

7. INVESTMENTS IN SUBSIDIARIES *cont'd*

(c) Acquisition of a subsidiary during the financial year *cont'd*

The assets acquired and liabilities recognised as at the date of acquisition are as follows:-

	Fair value recognised on acquisition RM	TMSB's carrying amount RM
Property, plant and equipment	5,730,744	5,730,744
Inventories	3,844,448	3,844,448
Trade receivables	6,010,382	6,010,382
Other receivables	33,713	33,713
Cash and bank balances	1,361,032	1,361,032
Deferred tax liabilities	(453,267)	(453,267)
Trade payables	(3,342,872)	(3,342,872)
Other payables	(553,539)	(553,539)
Bank borrowings	(2,612,726)	(2,612,726)
Taxation	(320,803)	(320,803)
Net identifiable assets acquired	9,697,112	9,697,112
Goodwill on acquisition (Note 9)	35,802,888	
Total purchase consideration	45,500,000	
Total purchase consideration discharged by share issued	(9,200,000)	
Total purchase consideration discharged by cash	36,300,000	
Cash and cash equivalents of subsidiary acquired	(1,361,032)	
Net cash outflow from acquisition	34,938,968	

The acquisition-related costs of RM586,500 have been charged to administrative expenses (RM136,500) and other expenses (RM450,000) in the Group's and the Company's profit or loss for the current financial year.

The fair value of trade and other receivables acquired is equivalent to their gross contractual amount.

The goodwill arising is not deductible for income tax purposes.

(d) Subscription to additional shares issued by a subsidiary

On 26 February 2016, the Company subscribed to an additional 245,000 new ordinary shares in PT Luxchem Indonesia at an issue price of USD1.00 per share and for cash consideration amounting to RM1,055,950 for the subsidiary's working capital purposes.

The subscription of new shares has no financial impact on the financial statements of the Group.

7. INVESTMENTS IN SUBSIDIARIES *cont'd*

(e) Non-controlling interest in a subsidiary

The Company's non-wholly owned subsidiary is PT Luxchem Indonesia where 30% (2015: 30%) equity interest and voting rights are held by non-controlling interest. The details of profit allocated to the non-controlling interest during the financial year and the accumulated non-controlling interest as at the end of the reporting period are as follows:-

	Group	
	2016	**2015**
	RM	**RM**
Allocated to non-controlling interest:		
- Profit/(Loss) for the year	**187,046**	(139,980)
- Other comprehensive loss	**(22,852)**	(56,025)
	164,194	(196,005)
Accumulated non-controlling interest as at 31 December	**321,964**	(294,780)

Summarised financial information of PT Luxchem Indonesia is set out below. The summarised financial information is presented before inter-company eliminations.

Summarised assets and liabilities

	2016	**2015**
	RM	**RM**
Non-current assets	**780,905**	637,445
Current assets	**34,368,040**	23,548,979
	35,148,945	24,186,424
Non-current liabilities	**489,125**	270,611
Current liabilities	**33,586,606**	24,898,412
	34,075,731	25,169,023
Net assets/(liabilities)	**1,073,214**	(982,599)

Summarised profit or loss and other comprehensive income

	2016	**2015**
	RM	**RM**
Revenue	**60,382,317**	36,095,583
Profit/(Loss) for the year	**623,486**	(466,601)
Other comprehensive loss	**(76,174)**	(186,749)
Total comprehensive income/(loss) for the year	**547,312**	(653,350)

7. INVESTMENTS IN SUBSIDIARIES *cont'd*

(e) Non-controlling interest in a subsidiary *cont'd*

Summarised cash flows

	2016 RM	2015 RM
Net cash outflow from operating activities	**(28,509)**	(5,925,335)
Net cash inflow/(outflow) from investing activities	**159,568**	(208,384)
Net cash inflow from financing activities	**989,595**	7,253,852
Net increase in cash and cash equivalents	**1,120,654**	1,120,133

8. OTHER INVESTMENTS

	Group	
	2016 RM	2015 RM
Carrying amount of available-for-sale financial assets		
Shares in Malaysia:		
- Quoted	**847,179**	1,050,021
- Unquoted	**110,000**	110,000
	957,179	1,160,021
Representing investments measured:		
- At cost	**110,000**	110,000
- At fair value	**847,179**	1,050,021
	957,179	1,160,021

Market values of quoted investments as at the end of the reporting period are as follows:-

	Group	
	2016 RM	2015 RM
Quoted shares	**847,179**	1,050,021

Available-for-sale financial assets are initially recognised at their fair values plus directly attributable transaction cost. After initial recognition, the investments are measured at fair values except for investments in equity that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

9. GOODWILL

	Group 2016 RM	Group 2015 RM
Balance at 1 January	**-**	-
Arising from acquisition of a subsidiary (Note 7(c))	**35,802,888**	-
Balance at 31 December	**35,802,888**	-

(a) Impairment assessment on goodwill

For the purpose of impairment assessment, goodwill has been allocated to the Group's cash-generating unit ("CGU") which is the subsidiary itself, namely Transform Master Sdn Bhd ("TMSB"). For segment reporting purposes, TMSB has been allocated to Manufacturing segment.

For annual impairment assessment purposes, the recoverable amount of this CGU is based on value in use calculation. This calculation is based on a discounted future cash flow model using the cash flow forecast and projections covering a five-year period and approved by management. Cash flows beyond the five-year period are extrapolated using an estimated growth rate. The key assumptions for the computation of value in use are further described in Note (9)(b).

(b) Key assumptions used for value in use calculation

The following table sets out the key assumptions for the computation of value in use:-

	Group 2016	Group 2015
Sales volume (annual growth rate)	**5.00%**	-
Earnings before interest, tax, depreciation and amortisation ("EBITDA") margin	**12.70%**	-
Long-term growth rate	**0.00%**	-
Pre-tax discount rate	**10.08%**	-

The management has determined the values assigned to each of the above key assumptions as follows:-

Assumptions	**Approach used in determining values**
Sales volume	Average annual growth rate over the five-year forecast period; based on past performance and management's expectations of market development.
EBITDA margin	Based on past performance and management's expectations for the future.
Long-term growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period.The long-term growth rate beyond year five has been estimated to be NIL as the CGU has reached its maximum production capacity at the end of year five of the projection period.
Pre-tax discount rate	Reflects specific risks relating to the CGU and the country in which the CGU operates.

9. GOODWILL *cont'd*

(c) Impact of possible changes in key assumptions

The management has considered and assessed reasonably possible changes of key assumptions and has not identified any instances that could cause the carrying amount of the goodwill to exceed its recoverable amount.

10. DEFERRED TAX LIABILITIES/(ASSETS)

	Group	
	2016	2015
	RM	RM
Balance at 1 January	**453,749**	517,255
Acquisition of a subsidiary (Note 7(c))	**453,267**	-
Recognised in profit or loss	**157,742**	(44,370)
Recognised in other comprehensive income (Note 19)	**(4,304)**	2,198
Net exchange differences	**(14,778)**	(21,334)
Balance at 31 December	**1,045,676**	453,749

Presented after appropriate offsetting as follows:-

	Group	
	2016	2015
	RM	RM
Deferred tax assets	**(222,310)**	(236,101)
Deferred tax liabilities	**1,267,986**	689,850
	1,045,676	453,749

The components and movements of deferred tax assets and liabilities prior to offsetting are as follows:-

	Group					
2016	As at 01.01.2016	Acquisition of a subsidiary	Recognised in profit or loss	Recognised in other comprehensive income	Net exchange differences	As at 31.12.2016
	RM	RM	RM	RM	RM	RM
Deferred tax liabilities						
Excess of capital allowances over depreciation	**943,383**	**125,000**	**120,029**	**-**	**-**	**1,188,412**
Other taxable temporary differences	**100,582**	**328,267**	**29,751**	**-**	**-**	**458,600**
	1,043,965	**453,267**	**149,780**	**-**	**-**	**1,647,012**
Deferred tax assets						
Other deductible temporary differences	**(590,216)**	**-**	**7,962**	**(4,304)**	**(14,778)**	**(601,336)**

10. DEFERRED TAX LIABILITIES/(ASSETS) *cont'd*

2015	Group As at 01.01.2015 RM	Recognised in profit or loss RM	Recognised in other comprehensive income RM	Net exchange differences RM	As at 31.12.2015 RM
Deferred tax liabilities					
Excess of capital allowances over depreciation	816,657	126,726	-	-	943,383
Other taxable temporary differences	150,117	(49,535)	-	-	100,582
	966,774	77,191	-	-	1,043,965
Deferred tax assets					
Other deductible temporary differences	(449,519)	(121,561)	2,198	(21,334)	(590,216)

11. INVENTORIES

	Group 2016 RM	 2015 RM
At cost		
Raw materials	**17,634,324**	8,576,815
Consumables	**89,436**	154,988
Finished goods	**7,975,517**	5,976,761
Trading goods	**46,957,345**	36,129,229
	72,656,622	50,837,793
At net realisable value		
Raw materials (Cost - RM479,726; 2015 : RM230,713)	**-**	-
Trading goods (Cost - RM301,834; 2015 : RM715,255)	**-**	369,980
	-	369,980
	72,656,622	51,207,773

The amount of inventories recognised as an expense during the financial year was RM597,968,319 (2015 : RM602,147,497) and this has been included in cost of sales in the Group's profit or loss.

The amount of inventories recognised as an expense includes a write-down of RM607,825 (2015 : RM527,369) and a reversal of the previous write-down of RM405,962 (2015 : NIL). The previous write-down has been reversed in view of higher prices achieved.

12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016	2015	2016	2015
	RM	RM	RM	RM
Trade receivables	**128,029,626**	126,501,450	**-**	-
Allowance for impairment losses (Note 12(b))	**(1,661,240)**	(2,072,773)	**-**	-
	126,368,386	124,428,677	**-**	-
Other receivables	**3,673,761**	2,773,039	**2,000**	7,591
Prepayments	**268,218**	448,694	**-**	-
	130,310,365	127,650,410	**2,000**	7,591

The Group's normal trade credit periods of trade receivables range from 0 to 120 days (2015: 0 to 120 days). Other credit periods are assessed and approved on a case by case basis.

(a) Ageing analysis

The ageing analysis of trade receivables as at end of the reporting period is as follows:-

2016

	Group		
	Gross	Individual Impairment	Net
	RM	RM	RM
Not past due	**78,144,430**	**-**	**78,144,430**
0 to 30 days past due	**35,058,364**	**-**	**35,058,364**
31 to 120 days past due	**12,557,496**	**(23,721)**	**12,533,775**
More than 120 days past due	**2,269,336**	**(1,637,519)**	**631,817**
	128,029,626	**(1,661,240)**	**126,368,386**

2015

	Group		
	Gross	Individual Impairment	Net
	RM	RM	RM
Not past due	88,770,428	-	88,770,428
0 to 30 days past due	24,842,939	-	24,842,939
31 to 120 days past due	10,373,985	(126,734)	10,247,251
More than 120 days past due	2,514,098	(1,946,039)	568,059
	126,501,450	(2,072,773)	124,428,677

12. TRADE AND OTHER RECEIVABLES *cont'd*

(a) Ageing analysis *cont'd*

Trade receivables that are individually determined to be impaired comprised those customers who have defaulted on their payments and are considered to have financial difficulties in repaying their debts.

Trade receivables that are not impaired are considered to be creditworthy and are able to settle their debts.

The Group does not hold any collateral as security for the trade receivables as at the end of the reporting period.

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

(b) Allowance for impairment losses

	Group	
	2016	**2015**
	RM	**RM**
Balance at 1 January	**2,072,773**	2,957,872
Additional impairment losses	**222,151**	551,501
Reversal of impairment losses	**(660,090)**	(938,743)
Bad debts written off	**(7,000)**	(553,545)
Net exchange differences	**33,406**	55,688
Balance at 31 December	**1,661,240**	2,072,773

The above allowance for impairment losses is based on individual assessment.

(c) The carrying amounts of the Group's trade receivables are denominated in the following currencies:-

	Group	
	2016	**2015**
	RM	**RM**
Ringgit Malaysia	**78,204,205**	92,091,850
United States Dollar	**33,438,196**	23,318,945
Indonesian Rupiah	**14,478,392**	8,927,733
Singapore Dollar	**246,949**	90,149
Euro	**644**	-
	126,368,386	124,428,677

12. TRADE AND OTHER RECEIVABLES *cont'd*

(d) The carrying amounts of the Group's other receivables are denominated in the following currencies:-

	Group	
	2016	2015
	RM	RM
Ringgit Malaysia	**3,467,244**	1,848,138
Indonesian Rupiah	**201,040**	924,901
Vietnamese Dong	**5,477**	-
	3,673,761	2,773,039

13. DERIVATIVES FINANCIAL LIABILITIES

	Group	
	2016	2015
	RM	RM
Non-hedging derivative		
Current		
Forward foreign currency contracts, at fair value		
- Notional amount: USD1,359,614 (2015: USD913,439)	**(3,754)**	(21,752)

The Group enters into forward foreign currency contracts to manage its exposure to sales and purchases transactions that are denominated in foreign currencies.

Forward foreign currency contracts are recognised as derivatives, categorised as fair value through profit or loss and are measured at their fair values with gains or losses recognised in the profit or loss.

14. AMOUNT DUE BY SUBSIDIARIES

The amount due by subsidiaries is unsecured, interest-free and is repayable on demand.

15. DEPOSITS, CASH AND BANK BALANCES

	Group		Company	
	2016	2015	2016	2015
	RM	RM	RM	RM
Deposits with financial institutions	**21,454,278**	52,994,934	**5,738,739**	4,378,925
Cash and bank balances	**67,040,472**	60,258,353	**259,912**	2,694,060
	88,494,750	113,253,287	**5,998,651**	7,072,985

15. DEPOSITS, CASH AND BANK BALANCES *cont'd*

(a) The Group's and the Company's deposits, cash and bank balances are denominated in the following currencies:-

	Group		Company	
	2016	2015	2016	2015
	RM	RM	RM	RM
Ringgit Malaysia	**41,736,602**	67,905,032	**5,998,651**	7,072,985
United States Dollar	**41,581,114**	41,251,814	**-**	-
Indonesian Rupiah	**4,850,896**	3,450,941	**-**	-
Singapore Dollar	**175,560**	645,500	**-**	-
Vietnamese Dong	**150,578**	-	**-**	-
	88,494,750	113,253,287	**5,998,651**	7,072,985

(b) The effective interest rates of the Group's and the Company's deposits with financial institutions as at the end of the reporting period ranged from 1.05% to 3.60% and 3.15% to 3.60% (2015: from 0.80% to 4.25% and 2.50% to 3.60%) per annum respectively.

16. SHARE CAPITAL

(a) Authorised shares of RM0.50 each

	Group and Company	
	2016	2015
Number of shares		
Balance at 1 January/31 December	**1,000,000,000**	1,000,000,000
Nominal value (RM)		
Balance at 1 January/31 December	**500,000,000**	500,000,000

(b) Issued and fully paid ordinary shares of RM0.50 each

	Group and Company	
	2016	2015
Number of shares		
Balance at 1 January	**265,074,400**	260,000,000
Issued during the year pursuant to:		
- exercise of share options (Note 16(c)(i))	**5,062,300**	5,074,400
- acquisition of a subsidiary (Note 7(c))	**5,184,851**	-
Balance at 31 December	**275,321,551**	265,074,400

16. SHARE CAPITAL *cont'd*

(b) Issued and fully paid ordinary shares of RM0.50 each *cont'd*

	Group and Company 2016	2015
Nominal value (RM)		
Balance at 1 January	**132,537,200**	130,000,000
Issued during the year pursuant to:		
- exercise of share options (Note 16(c)(i))	**2,531,150**	2,537,200
- acquisition of a subsidiary (Note 7(c))	**2,592,426**	-
Balance at 31 December	**137,660,776**	132,537,200

During the financial year, the Company issued a total of 5,062,300 (2015 : 5,074,400) new ordinary shares of RM0.50 each and for cash consideration pursuant to the exercise of share options granted under the Company's Employees' Share Option Scheme as further described in Note 16(c)(i). The issues gave rise to a total share premium of RM1,131,143 (2015 : RM1,107,474) as disclosed in Note 17(a).

As further described in Note 7(c), during the financial year the Company issued a total of 5,184,851 new ordinary shares of RM0.50 each at an issue price of RM1.7744 per share for the satisfaction of part of the consideration payable for the acquisition of a subsidiary. The issue gave rise to a share premium of RM6,607,574 (Note 17(a)).

All the new ordinary shares issued during the financial year rank pari passu in all respects with the existing ordinary shares of the Company.

Subsequent to the financial year end, the issued and paid-up share capital of the Company was increased from RM137,660,776 to RM137,744,276 through the issue of 167,000 new ordinary shares of RM0.50 each pursuant to the exercise of the Company's Employees' Share Options.

(c) Employees' Share Option Scheme ("ESOS")

The ESOS is governed by the By-Laws which were approved by the shareholders on 24 November 2014. The ESOS was implemented on 1 December 2014 and will expire on 30 November 2019.

The salient features of the ESOS as contained in the By-Laws are as follows:-

(i) The Scheme is set up for employees' participation in the ordinary share capital of the Company only.

The aggregate number of ESOS Options to be offered under the Scheme shall not in aggregate exceed fifteen percent (15%) of the issued and paid-up share capital of the Company (excluding treasury shares, if any) at any point of time during the duration the Scheme and shall be offered to eligible directors and employees of the Group ("Eligible Persons").

Each Option shall be exercisable into one (1) new share, fully issued and paid-up. At the commencement of the Scheme, the total number of shares available for offer was 39,000,000 ordinary shares of RM0.50 each.

16. SHARE CAPITAL *cont'd*

(c) Employees' Share Option Scheme ("ESOS") *cont'd*

(ii) Eligible Persons must be a Malaysian citizen and he is employed (1) full time by and on the payroll of any company in the Group and his/her employment has been confirmed by any company in the Group or (2) under an employment contract for a fixed duration and has been in the employment of the Group for a period of at least one (1) year of continuous service prior to and up to the date of offer.

(iii) There are no performance targets to be achieved by the Grantee before the ESOS Options can be exercised, unless otherwise stated in the Offer as determined by the ESOS Committee from time to time.

(iv) Not more than ten percent (10%) of the new ESOS Options available under the Scheme shall be allocated to any individual Eligible Person who, either singly or collectively through persons connected with the Eligible Person, holds twenty percent (20%) or more of the issued and paid-up share capital of the Company (excluding treasury shares, if any).

(v) The Company shall ensure that allocation of ESOS Options pursuant to the Scheme is verified by the Audit Committee of the Company at the end of each financial year as being in compliance with the criteria for allocation of ESOS Options as set out in the By-Laws. A statement by the Audit Committee of the Company verifying such allocations shall be included in the annual report of the Company.

(vi) An Offer shall be accepted by an Eligible Person within the Offer Period by written notice to the Company accompanied by a payment to the Company of a nominal non-refundable consideration of RM1.00 for the grant of the ESOS Options (regardless of the number of shares comprised therein).

(vii) A Grantee shall be allowed to exercise the ESOS Options granted to him during the Scheme whilst he is in the employment of the Group and within the Option Period. Upon acceptance of the Offer, the Grantee may during the Option Period and unless otherwise provided in these By-Laws, exercise the Options in the following manner:-

Maximum percentage of Options exercisable in each year commencing from the Acceptance Date				
Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
20%	20%	20%	20%	20%

Eligible Persons who become eligible after commencement of the Scheme may exercise the Options in equal percentage for each of the remaining years of the Scheme.

(viii) The Exercise Price of each Share comprised in any ESOS Option shall be based on the higher of a price to be determined by the Board upon recommendation of the ESOS Committee based on the volume weighted average market price of the Shares for the five (5) Market Days immediately preceding the Date of Offer with a discount of not more than ten percent (10%) or the par value of the Shares.

16. SHARE CAPITAL *cont'd*

(c) Employees' Share Option Scheme ("ESOS") *cont'd*

(ix) The new Shares to be allotted and issued upon the exercise of any ESOS Options granted under the Scheme will, upon allotment and issuance, rank pari passu in all respects with the then existing issued and paid-up shares of the Company, save and except that the new Shares so allotted and issued will not be entitled to any dividends, rights, allotments or other distributions, which may be declared, made or paid, the entitlement date of which precedes the date of allotment and issuance of such new Shares.

(x) The Exercise Price of each Share comprised in any ESOS Option shall be based on the higher of a price to be determined by the Board upon recommendation of the ESOS Committee based on the volume weighted average market price of the Shares for the five (5) Market Days immediately preceding the Date of Offer with a discount of not more than ten percent (10%) or the par value of the Shares.

(xi) The new Shares to be allotted and issued upon the exercise of any ESOS Options granted under the Scheme will, upon allotment and issuance, rank pari passu in all respects with the then existing issued and paid-up shares of the Company, save and except that the new Shares so allotted and issued will not be entitled to any dividends, rights, allotments or other distributions, which may be declared, made or paid, the entitlement date of which precedes the date of allotment and issuance of such new Shares.

(xii) The new Shares to be allotted and issued to a Grantee pursuant to the exercise of an Option under the Scheme will not be subject to any retention period or restriction on transfer. Notwithstanding, a Grantee who is a non-executive Director must not sell, transfer or assign their Shares obtained through the exercise of their ESOS Options offered to them pursuant to the Scheme within one (1) year from the Date of Offer of such ESOS Options.

(xiii) An option granted under the ESOS shall cease with immediate effect where the Grantee ceases his employment or appointment with the Group by reason of resignation or termination of employment with the Group other than by reason of retirement before attaining the normal retirement age with the consent of the ESOS Committee, ill-health, injury or disability, redundancy and/or any other circumstances which may be approved by the ESOS Committee in writing. In addition, the Options shall immediately become void and of no effect upon the bankruptcy of the Grantee.

A Grantee will be allowed to continue to hold and to exercise any unexercised Options held by him upon retirement on or after attaining normal retirement age for a period of one (1) year after the last day of his employment provided that the Options are exercised within the Option Period.

(xiv) An option does not confer on the Grantee any right to participate in any share issue of any other company.

16. SHARE CAPITAL *cont'd*

(c) Employees' Share Option Scheme ("ESOS") *cont'd*

(i) The movements in the number of options granted during the financial year over unissued ordinary shares and the weighted average exercise prices are as follows:-

2016

		Number of options over unissued ordinary shares of RM0.50 each					
Grant date	Exercise price	Outstanding at beginning of year	Granted	Exercised	Forfeited	Outstanding at end of year	Exercisable at end of year
22.01.2015	RM0.7100	25,662,600	-	(4,886,300)	(80,000)	20,696,300	2,791,700
22.06.2015	RM1.0200	1,251,000	-	(146,000)	-	1,105,000	273,400
22.06.2016	RM1.4700	-	2,540,000	(30,000)	(60,000)	2,450,000	590,000
		26,913,600	2,540,000	(5,062,300)	(140,000)	24,251,300	3,655,100
Weighted average exercise prices		RM0.7244	RM1.4700	RM0.7234	RM1.0357	RM0.8009	RM0.8559

2015

		Number of options over unissued ordinary shares of RM0.50 each					
Grant date	Exercise price	Outstanding at beginning of year	Granted	Exercised	Forfeited	Outstanding at end of year	Exercisable at end of year
22.01.2015	RM0.7100	-	31,986,000	(4,939,400)	(1,384,000)	25,662,600	1,445,800
22.06.2015	RM1.0200	-	1,446,000	(135,000)	(60,000)	1,251,000	142,200
		-	33,432,000	(5,074,400)	(1,444,000)	26,913,600	1,588,000
Weighted average exercise prices		N/A	RM0.7234	RM0.7182	RM0.7229	RM0.7244	RM0.7378

The weighted average remaining contractual life of the options outstanding at the end of the reporting period was 2.92 years (2015 : 3.92 years).

(ii) During the financial year, the exercise of share options has resulted in the issuance of 5,062,300 (2015: 5,074,400) new ordinary shares of RM0.50 each at a weighted average exercise price per share of RM0.72 (2015: RM0.72). The weighted average share price at the dates of exercise was RM1.66 (2015: RM1.17).

16. SHARE CAPITAL *cont'd*

(c) Employees' Share Option Scheme ("ESOS") *cont'd*

(iii) The fair value of the share options granted during the financial year was measured using the Trinomial Option Pricing model. The weighted average fair value of share options granted measured at the grant date and the inputs to that model used to measure the fair value are as follows:-

	2016	2015
Weighted average fair value of share options granted during the year	**RM0.40**	RM0.26
Weighted average share price at grant date	**RM1.47**	RM0.92
Weighted average exercise price of the options	**RM1.47**	RM0.72
Expected volatility of the share price	**61.48%**	30.19%
Expected life of the options	**3.44 years**	4.84 years
Expected dividend on the shares	**4.55%**	5.53%
Annual risk-free interest rate for the life of the options	**3.28%**	3.77%

The expected volatility is a historical volatility calculated using daily closing market prices. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. No other features of the options granted were incorporated in the measurement of the fair value.

17. RESERVES

	Group		Company	
	2016	2015	2016	2015
	RM	RM	RM	RM
Distributable				
Retained profits	**76,262,183**	51,977,659	**1,581,353**	1,981,390
Non-distributable				
Share premium (Note 17(a))	**11,759,663**	2,689,578	**11,759,663**	2,689,578
Exchange translation reserve (Note 17(b))	**109,781**	121,430	**-**	-
Fair value adjustment reserve (Note 17(c))	**661,836**	864,679	**-**	-
Share option reserve (Note 17(d))	**4,329,019**	3,095,284	**4,329,019**	3,095,284
	93,122,482	58,748,630	**17,670,035**	7,766,252

17. RESERVES *cont'd*

(a) Share premium

	Group and Company	
	2016	**2015**
	RM	**RM**
Balance at 1 January	**2,689,578**	250,483
Exercise of share options during the year	**1,131,143**	1,107,474
Transferred from option reserve on the exercise of share options (Note 17(d))	**1,331,368**	1,331,621
Acquisition of a subsidiary	**6,607,574**	-
Balance at 31 December	**11,759,663**	2,689,578

(b) Exchange translation reserve

	Group	
	2016	**2015**
	RM	**RM**
Balance at 1 January	**121,430**	232,554
Foreign currency translation loss	**(11,649)**	(111,124)
Balance at 31 December	**109,781**	121,430

(c) Fair value adjustment reserve

	Group	
	2016	**2015**
	RM	**RM**
Balance at 1 January	**864,679**	431,536
Changes in fair value of available-for-sale financial assets	**(202,843)**	433,143
Balance at 31 December	**661,836**	864,679

17. RESERVES *cont'd*

(d) Share option reserve

	Group and Company	
	2016	**2015**
	RM	**RM**
Balance at 1 January	**3,095,284**	-
Share options granted during the year	**2,579,568**	4,432,101
Transferred to share premium on exercise of share options (Note 17(a))	**(1,331,368)**	(1,331,621)
Share options forfeited	**(14,465)**	(5,196)
Balance at 31 December	**4,329,019**	3,095,284

18. HIRE PURCHASE PAYABLES

	Group	
	2016	**2015**
	RM	**RM**
Future minimum payments:-		
Within 1 year	**345,567**	69,727
Between 2 to 5 years	**564,968**	190,152
	910,535	259,879
Future finance charge on hire purchase	**(77,746)**	(20,344)
Present value	**832,789**	239,535
Payable within 1 year (included under current liabilities)	**(323,908)**	(62,306)
Payable between 2 to 5 years (included under non-current liabilities)	**508,881**	177,229

19. RETIREMENT BENEFITS

	Group	
	2016	**2015**
	RM	**RM**
Present value of unfunded defined benefit obligations	**307,354**	222,043

The Group recognises liabilities for employee benefits in respect of its subsidiary in Indonesia, PT Luxchem Indonesia in accordance with the Indonesian Labour Law No. 13 Year 2003 dated 25 March 2003 ("Labour Law"). Under this Labour Law, the employee benefits are payable upon attaining normal retirement age of 55 years old, death, total and permanent disability or resignation. The actuarial valuation was performed on 25 January 2017.

19. RETIREMENT BENEFITS *cont'd*

The movements in the present value of employee benefits during the financial year are as follows:-

	Group	
	2016	**2015**
	RM	**RM**
Balance at 1 January	**222,043**	142,164
Recognised in profit or loss		
Current service costs	**64,441**	57,538
Interest on obligation	**20,048**	12,511
Past service costs	**-**	-
	84,489	70,049
Recognised in other comprehensive income		
Actuarial loss/(gain) arising from changes in financial assumptions (Tax effects - Note 10)	**17,215**	(8,791)
Benefits paid	**(36,490)**	(681)
Net exchange differences	**20,097**	19,302
	822	9,830
Balance at 31 December	**307,354**	222,043

The amount recognised to the profit or loss has been included in administrative expenses.

The significant actuarial assumptions used to determine the present value of the defined benefit obligations are as follows:-

	Group	
	2016	**2015**
Discount rate	**8.00%**	9.00%
Future average salary increases	**9.00%**	9.00%

19. RETIREMENT BENEFITS *cont'd*

The sensitivity of the defined benefit obligations to changes in the significant actuarial assumptions is shown below.

	Group	
	Increase/(Decrease) in defined benefit obligations	
	2016	2015
	RM	RM
Discount rate increases by 1%	**(256,788)**	(20,865)
Discount rate decreases by 1%	**324,306**	24,075
Future average salary growth increases by 1%	**322,338**	22,942
Future average salary growth decreases by 1%	**(257,778)**	(20,342)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant.

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2016	2015	2016	2015
	RM	RM	RM	RM
Trade payables	**68,063,644**	52,338,693	**-**	-
Other payables and accruals	**9,147,942**	9,064,227	**260,369**	211,580
	77,211,586	61,402,920	**260,369**	211,580

(a) The carrying amounts of the Group's trade payables are denominated in the following currencies:-

	Group	
	2016	2015
	RM	RM
Ringgit Malaysia	**19,494,687**	12,644,783
United States Dollar	**44,990,914**	36,961,495
Indonesian Rupiah	**3,377,082**	2,388,581
Chinese Yuan Renminbi	**200,961**	343,834
	68,063,644	52,338,693

The normal credit periods of trade payables range from 0 to 90 days (2015: 0 to 90 days).

20. TRADE AND OTHER PAYABLES *cont'd*

(b) The carrying amounts of the Group's other payables and accruals are denominated in the following currencies:-

	Group	
	2016	2015
	RM	RM
Ringgit Malaysia	**8,674,971**	8,935,844
Indonesian Rupiah	**419,467**	118,653
Singapore Dollar	**26,427**	9,730
Vietnamese Dong	**27,077**	-
	9,147,942	9,064,227

21. BANK BORROWINGS

	Group	
	2016	2015
	RM	RM
Bankers' acceptances - unsecured	**55,649,498**	61,733,393

The Group's bank borrowings are denominated in the following currencies:-

	Group	
	2016	2015
	RM	RM
Ringgit Malaysia	**35,765,652**	46,714,975
United States Dollar	**13,607,005**	5,966,424
Indonesian Rupiah	**6,276,841**	9,051,994
	55,649,498	61,733,393

The bankers' acceptances of the subsidiaries are guaranteed by the Company.

Bankers' acceptances outstanding as at year end are subject to interest between 1.74% to 11.15% (2015: 2.53% to 4.77%) per annum.

22. FINANCE COSTS

	Group	
	2016	2015
	RM	RM
Hire purchase interest	**49,308**	21,483
Bankers' acceptance interest	**2,506,054**	2,370,395
	2,555,362	2,391,878

23. PROFIT BEFORE TAXATION

	Group		Company	
	2016	2015	2016	2015
	RM	RM	RM	RM
This is stated after charging:-				
Amortisation of intangible assets	**141,706**	104,978	**-**	-
Auditors' remuneration:				
- Annual statutory audit				
Current year	**272,375**	185,282	**66,000**	55,000
- Non-audit fees				
Current year	**105,643**	36,850	**76,700**	11,700
Over provided in prior year	**-**	(4,800)	**-**	-
Depreciation of property, plant and equipment	**2,015,361**	1,566,704	**-**	-
Amortisation of investment property	**1,955**	2,607	**-**	-
Defined benefit obligations	**84,489**	70,049	**-**	-
Share option expense				
- Directors' options	**738,214**	1,451,003	**95,643**	223,231
- Employees' options	**1,841,354**	2,981,098	**-**	-
Directors' remuneration:				
- Executive Directors of the Company				
Fees	**10,000**	10,000	**-**	-
Salaries and other remuneration	**2,644,649**	1,856,124	**-**	-
Benefits-in-kind	**29,848**	19,500	**-**	-
- Non-executive Directors of the Company				
Fees	**96,000**	84,000	**96,000**	84,000
Other remuneration	**23,760**	12,540	**23,760**	12,540
- Executive Directors of subsidiaries				
Fees	**35,603**	20,000	**-**	-
Salaries and other remuneration	**2,289,943**	1,334,189	**-**	-
Benefits-in-kind	**36,948**	26,200	**-**	-

23. PROFIT BEFORE TAXATION *cont'd*

	Group		Company	
	2016	2015	2016	2015
	RM	RM	RM	RM
This is stated after charging:- *cont'd*				
Impairment losses on trade receivables	**222,151**	551,501	**-**	-
Bad debts written off	**6,975**	-	**-**	-
Property, plant and equipment written off	**46,371**	3,362	**-**	-
Rental of premises	**1,212,098**	557,065	**-**	-
Rental of office equipment	**4,591**	-	**-**	-
Rental of factory equipment	**8,400**	-	**-**	-
Inventories written off	**44,250**	691,806	**-**	-
Inventories written down	**607,825**	527,369	**-**	-
Loss on foreign exchange:				
- realised	**4,480**	556,425	**-**	-
- unrealised	**122,499**	143,009	**-**	-
Loss on disposal of quoted investments	**-**	16,325	**-**	-
Royalty	**51,903**	46,763	**-**	-
Interest expense	**2,555,362**	2,391,878	**-**	-
Hire of lorries	**516,240**	534,132	**-**	-
and crediting:-				
Dividend income:				
- quoted investment	**19,519**	12,286	**-**	-
- unquoted investment	**110,000**	-	**-**	-
- subsidiaries	**-**	-	**19,882,000**	13,600,000
Gain on foreign exchange:				
- realised	**2,015,795**	4,948,219	**-**	-
- unrealised	**781,845**	477,816	**-**	-
Net gain on disposal of property, plant and equipment	**194,163**	-	**-**	-
Net gain on disposal of investment property	**84,976**	-	**-**	-
Net gain/(loss) on changes in fair value of forward exchange contracts	**17,998**	(50,432)	**-**	-
Interest income from deposits with financial institutions	**1,368,645**	1,812,442	**242,202**	193,393
Rental income	**-**	3,640	**-**	-
Reversal of inventories written off	**405,962**	-	**-**	-
Reversal of impairment loss on trade receivables	**660,090**	938,743	**-**	-

24. TAXATION

Tax expense for the year comprised:-

	Group 2016 RM	Group 2015 RM	Company 2016 RM	Company 2015 RM
Current year income tax:				
- Malaysian	**15,089,197**	15,149,175	**60,000**	49,000
- Foreign	**146,754**	-	**-**	-
Deferred tax expense/(income) resulting from the origination and reversal of temporary differences	**162,639**	(75,491)	**-**	-
	15,398,590	15,073,684	**60,000**	49,000
(Over)/Under provided in prior years:				
- Income tax	**(1,331)**	(303,391)	**(1,527)**	(691)
- Deferred tax	**(4,897)**	31,121	**-**	-
	15,392,362	14,801,414	**58,473**	48,309

(a) The reconciliation of tax expense applicable to the profit before taxation at the applicable statutory tax rate to the tax expense at the effective tax rate of the Group and Company is as follows:-

	Group 2016 RM	Group 2015 RM	Company 2016 RM	Company 2015 RM
Profit before taxation	**59,078,138**	54,396,582	**18,863,604**	13,103,749
Tax expense at the rate of 24% (2015: 25%)	**14,178,753**	13,599,146	**4,527,265**	3,275,937
Tax effects in respect of:-				
Differences in tax rates of foreign subsidiaries	**1,815**	(829)	**-**	-
Expenses not deductible for taxation purposes	**1,525,264**	1,585,682	**304,415**	173,063
Income not subject to tax	**(59,926)**	(4,311)	**(4,771,680)**	(3,400,000)
Double deduction of expenses	**(6,357)**	(108,236)	**-**	-
Difference in statutory tax rate	**-**	2,232	**-**	-
Tax savings arising from utilisation of previously unrecognised unabsorbed tax losses	**(240,959)**	-	**-**	-
Taxation (over)/under provided in prior years:				
- Income tax	**(1,331)**	(303,391)	**(1,527)**	(691)
- Deferred tax	**(4,897)**	31,121	**-**	-
Total tax expense	**15,392,362**	14,801,414	**58,473**	48,309

24. TAXATION *cont'd*

(b) As at 31 December 2016, a foreign subsidiary has an estimated unabsorbed tax losses amounting to RM360,745 (2015: RM935,928) that can be carried forward for five (5) years to offset against future taxable income.

25. EARNINGS PER SHARE

(a) Basic

The basic earnings per share is calculated based on the Group's profit for the financial year attributable to owners of the Company of RM43,498,730 (2015: RM39,735,148) and on the weighted average number of shares in issue during the financial year of 271,630,711 (2015: 262,805,603).

(b) Diluted

For the purpose of calculating diluted earnings per share, the profit for the financial year attributable to owners of the Company and the weighted average number of ordinary shares in issue during the financial year have been adjusted for the dilutive effects of all potential ordinary shares arising from the assumed exercise of the share options under the Employees' Share Option Scheme.

	Group	
	2016	**2015**
	RM	**RM**
Profit attributable to owners of the Company (profit used to determine diluted earnings per share)	**43,498,730**	39,735,148
Weighted average number of ordinary share in issue	**271,630,711**	262,805,603
Effect of dilution from assumed exercise of share options	**12,097,272**	8,393,240
Adjusted weighted average number of ordinary share in issue	**283,727,983**	271,198,843
Diluted earnings per share (sen)	**15.33**	14.65

26. DIVIDENDS

	Group and Company	
	2016	**2015**
	RM	**RM**
Single tier final dividend of 4.5 sen per ordinary share in respect of the financial year ended 31 December 2015	**12,338,170**	-
First single tier interim dividend dividend of 2.5 sen per ordinary share in respect of the financial year ended 31 December 2016	**6,881,463**	-
Single tier final dividend of 3 sen per ordinary share in respect of the financial year ended 31 December 2014	**-**	7,903,680
Single tier interim dividend of 2 sen per ordinary share in respect of the financial year ended 31 December 2015	**-**	5,293,020
	19,219,633	13,196,700

On 16 February 2017, the Directors further declared a second single tier interim dividend of 4.5 sen per ordinary share amounting to RM12,396,985 based on the issued share capital of 275,488,551 shares as of that date for the financial year ended 31 December 2016 and is payable on 15 May 2017. The amount payable will be adjusted for the issued share capital as at the book closure date on 21 April 2017 arising from exercise of the Company's Employee Share Options, if any. The financial statements for the current financial year do not reflect this dividend since it was declared subsequent to the financial year end.

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

27. NOTE TO STATEMENT OF CASH FLOWS

Purchase of property, plant and equipment

	Group	
	2016	**2015**
	RM	**RM**
Cash purchase	**6,850,512**	3,051,361
Hire purchase financing	**797,554**	66,977
Aggregate cost	**7,648,066**	3,118,338

The principal amount of instalment payments for property, plant and equipment acquired by hire purchase and lease financing are reflected as cash outflows from financing activities.

28. STAFF COSTS AND EMPLOYEES INFORMATION

	Group	
	2016	**2015**
	RM	**RM**
(a) Staff costs comprised:-		
Salaries, wages and bonuses	**14,636,287**	11,857,543
Amount contributed under defined contribution plan:		
- Employees Provident Fund (EPF)	**1,620,037**	1,332,852
Defined benefit obligations (Note 19)	**84,489**	70,049
Share options expense	**2,579,568**	4,432,101
Others	**621,740**	410,230
	19,542,121	18,102,775

(b) The number of employees of the Group at end of the financial year was 194 (2015: 156). Employees include Executive Directors of the Group and of the Company.

29. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party or when both parties are under the common control of another party.

Other than those already disclosed elsewhere in these financial statements, the transactions carried out with related parties during the financial year and balances at end of financial year were as follows:-

(a) Transactions and year-end outstanding balance with a subsidiary, Luxchem Trading Sdn Bhd ("LT")

	Company	
	2016	**2015**
	RM	**RM**
Dividend from LT	**6,000,000**	11,600,000

The year-end outstanding balance with LT is as follows:-

	Company	
	2016	**2015**
	RM	**RM**
Amount due by LT		
- included under amount due by subsidiaries	-	1,005,231

29. RELATED PARTY TRANSACTIONS *cont'd*

(a) Transactions and year-end outstanding balance with a subsidiary, Luxchem Trading Sdn Bhd ("LT") *cont'd*

The amount due by LT was unsecured, interest-free and was repayable on demand and the settlement was expected to be in cash. The amount due by LT has been fully settled during the financial year.

No expense has been recognised during the financial year in respect of bad or doubtful debts due by LT (2015: NIL).

(b) Transactions and year-end outstanding balance with a subsidiary, Luxchem Polymer Industries Sdn Bhd ("LPOLY")

	Company	
	2016	2015
	RM	RM
Dividend from LPOLY	**13,882,000**	2,000,000

The year-end outstanding balance with LPOLY is as follows:-

	Company	
	2016	2015
	RM	RM
Amount due by LPOLY		
- included under amount due by subsidiaries	-	699,742

The amount due by LPOLY was unsecured, interest-free and was repayable on demand and the settlement was expected to be in cash. The amount due by LPOLY has been fully settled during the financial year.

No expense has been recognised during the financial year in respect of bad or doubtful debts due by LPOLY (2015: NIL).

(c) Year-end outstanding balance with a subsidiary, PT Luxchem Indonesia ("PTLI")

The year-end outstanding balance with PTLI is as follows:-

	Company	
	2016	2015
	RM	RM
Amount due by PTLI		
- included under amount due by subsidiaries	-	1,055,950

The amount due by PTLI was unsecured, interest-free and was repayable on demand and the settlement was expected to be in cash. The amount due has been fully capitalised as the Company's additional cost of investment in PTLI for the subscription to additional shares issued by PTLI during the financial year as disclosed in Note 7(d).

29. RELATED PARTY TRANSACTIONS *cont'd*

(c) Year-end outstanding balance with a subsidiary, PT Luxchem Indonesia ("PTLI") *cont'd*

No expense has been recognised during the financial year in respect of bad or doubtful debts due by PTLI (2015: NIL).

(d) Year-end outstanding balance with a subsidiary, Luxchem Vietnam Company Limited ("LVCL")

The year-end outstanding balance with LVCL is as follows:-

	Company	
	2016	**2015**
	RM	**RM**
Amount due by LVCL		
- included under amount due by subsidiaries	**5,621**	-

The amount due by LVCl is unsecured, interest-free and is repayable on demand and the settlement is expected to be in cash.

No expense has been recognised during the financial year in respect of bad or doubtful debts due by LVCL (2015: NIL).

(e) Provision of guarantees

The provision of guarantees between the Company and subsidiaries are disclosed in Note 31.

(f) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel of the Group are the Directors of the Company and executive directors of major subsidiaries and their remuneration for the financial year were as follows:-

	Group	
	2016	**2015**
	RM	**RM**
Short-term employee benefits	**4,583,335**	2,993,735
Post-employment benefits - contribution to Employees Provident Fund	**489,594**	311,294
Defined benefit obligations	**42,860**	32,108
Share options expense	**738,214**	1,451,003
Others	**27,025**	11,825
	5,881,028	4,799,965
Benefits-in-kind	**66,796**	45,700
	5,947,824	4,845,665

29. RELATED PARTY TRANSACTIONS *cont'd*

(f) Key management personnel compensation *cont'd*

The year-end outstanding balance in relation to key management personnel compensation is:-

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RM	**RM**	**RM**	**RM**
Included under other payables and accruals	**1,671,088**	993,771	**101,760**	89,040

(g) Transactions and year-end outstanding balance with other related parties

	Group	
	2016	**2015**
	RM	**RM**
Salaries and other remuneration paid during the financial year to an individual related to certain Directors of the Company	**144,744**	131,972
Share options expense	**41,446**	96,734
	186,190	228,706

The year-end outstanding balance in relation to related party is:-

	Group	
	2016	**2015**
	RM	**RM**
Included under other payables	**20,418**	22,188

30. CAPITAL COMMITMENT

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RM	**RM**	**RM**	**RM**
Approved and contracted for				
Purchase of:				
- property, plant and equipment	**7,919,904**	10,384,669	**-**	-
- intangible assets	**164,618**	-	**-**	-
Investment in a subsidiary namely, Luxchem Vietnam Company Limited (USD500,000) (Note 7(b))	**-**	-	**-**	2,146,750

31. CONTINGENT LIABILITIES (UNSECURED)

	Company	
	2016	**2015**
	RM	**RM**
Corporate guarantees given to banks for credit facilities of subsidiaries:		
- Limit of guarantees	**233,773,260**	223,103,085
- Amount utilised	**55,649,498**	61,733,394
Financial guarantees given to third parties for supply of goods to subsidiaries	**15,925,300**	13,524,525
	71,574,798	75,257,919

32. SEGMENT REPORTING

(a) Operating Segments

The Group has two reportable segments which comprised its major business segments. These business segments are involved in different activities and are managed by segment managers who report directly to the Group's chief executive officer. The reportable segments are as follows:-

(i) Trading — Import, export and distribution of petrochemical and other related products.

(ii) Manufacturing — Manufacturing and trading of unsaturated polyester resin and related products. Latex chemical dispersions, latex processing chemicals and related products were added to this segment upon the acquisition of Transform Master Sdn Bhd as disclosed in Note 7(c).

No other operating segment have been aggregated to form the above reportable segments. Investment holding activities are not considered as a reportable segment and the related financial information has been included under "Adjustments".

The Group's chief executive officer monitors the performance of the business segments through regular discussions held with the segment managers and review of internal management reports. The performance of each business segment is evaluated based on the segment's profit or loss which is measured on a basis not significantly different from the profit or loss included in the consolidated financial statements.

32. SEGMENT REPORTING *cont'd*

(a) Operating Segments *cont'd*

Inter-segment transactions have been accounted for on a basis that is consistent with the Group's accounting policies.

2016	Trading RM	Manufacturing RM	Adjustments RM	Consolidated RM
Revenue				
Total revenue	565,271,230	206,695,966	-	771,967,196
Inter-segment revenue	(6,711,274)	(63,706,722)	-	(70,417,996)
External sales	558,559,956	142,989,244	-	701,549,200
Results				
Segment results	30,467,574	30,928,359	(1,260,598)	60,135,335
Dividend, interest and rental income	907,872	348,090	242,203	1,498,165
Operating profit/(loss)	31,375,446	31,276,449	(1,018,395)	61,633,500
Finance costs	(2,455,892)	(99,470)	-	(2,555,362)
Profit/(Loss) before taxation	28,919,554	31,176,979	(1,018,395)	59,078,138
Taxation	(7,661,771)	(7,672,117)	(58,474)	(15,392,362)
Profit/(Loss) for the year	21,257,783	23,504,862	(1,076,869)	43,685,776
Segment assets	247,654,633	115,861,974	6,008,178	369,524,785
Segment liabilities	113,207,958	24,951,236	260,369	138,419,563
Other Information				
Additions to non-current assets:				
- property, plant and equipment	6,872,925	775,141	-	7,648,066
Depreciation and amortisation	1,032,254	1,126,768	-	2,159,022
Non cash items other than depreciation and amortisation:				
- Impairment losses on trade receivables, net of reversals	(437,939)	-	-	(437,939)
- Bad debts written off	6,975	-	-	6,975
- Property, plant and equipment written off	2,421	43,950	-	46,371
- Inventories written down	218,342	389,483	-	607,825
- Inventories written off	44,250	-	-	44,250
- Reversal of inventories written down	(265,492)	(140,470)	-	(405,962)
- Defined benefit obligations	84,489	-	-	84,489
- Net unrealised gain on foreign exchange	(98,279)	(561,067)	-	(659,346)
- Net (gain)/loss on changes in fair value of forward exchange contracts	(23,404)	5,406	-	(17,998)
- Net gain on disposal of property, plant and equipment	(159,099)	(35,064)	-	(194,163)
- Net gain on disposal of investment property	(84,976)	-	-	(84,976)
- Share options expense	2,149,845	334,080	95,643	2,579,568

32. SEGMENT REPORTING *cont'd*

(a) Operating Segments *cont'd*

2015	Trading RM	Manufacturing RM	Adjustments RM	Consolidated RM
Revenue				
Total revenue	571,520,061	177,108,292	-	748,628,353
Inter-segment revenue	(620,265)	(61,254,394)	-	(61,874,659)
External sales	570,899,796	115,853,898	-	686,753,694
Results				
Segment results	28,394,425	27,255,312	(689,645)	54,960,092
Dividend, interest and rental income	1,316,799	318,176	193,393	1,828,368
Operating profit/(loss)	29,711,224	27,573,488	(496,252)	56,788,460
Finance costs	(2,308,698)	(83,180)	-	(2,391,878)
Profit/(Loss) before taxation	27,402,526	27,490,308	(496,252)	54,396,582
Taxation	(8,020,631)	(6,732,474)	(48,309)	(14,801,414)
Profit/(Loss) for the year	19,381,895	20,757,834	(544,561)	39,595,168
Segment assets	253,011,774	62,808,903	7,086,576	322,907,253
Segment liabilities	114,282,241	17,422,382	211,580	131,916,203
Other Information				
Additions to non-current assets:				
- property, plant and equipment	2,430,068	688,270	-	3,118,338
Depreciation and amortisation	943,660	730,629	-	1,674,289
Non cash items other than depreciation and amortisation:				
- Impairment losses on trade receivables, net of reversals	(387,242)	-	-	(387,242)
- Property, plant and equipment written off	378	2,984	-	3,362
- Inventories written off	-	691,806	-	691,806
- Inventories written down	296,656	230,713	-	527,369
- Defined benefit obligations	70,049	-	-	70,049
- Net unrealised loss/(gain) on foreign exchange	79,600	(414,407)	-	(334,807)
- Net loss on changes in fair value of forward exchange contracts	50,432	-	-	50,432
- Loss on disposal of quoted investment	16,325	-	-	16,325
- Share options expense	3,534,278	674,592	223,231	4,432,101

32. SEGMENT REPORTING *cont'd*

(b) Geographical Segments

In determining geographical segments of the Group, revenue is based on the geographical location of customers and non-current assets are based on the geographical location of the assets. The non-current assets do not include financial instruments and deferred tax assets.

	2016		2015	
	Revenue	Non-current assets	Revenue	Non-current assets
	RM	RM	RM	RM
Malaysia	**495,203,477**	**74,525,093**	508,128,801	27,791,507
Vietnam	**96,922,272**	**33,121**	78,699,435	-
Indonesia	**70,429,422**	**558,595**	51,890,496	401,344
Thailand	**18,848,001**	**-**	25,160,136	-
Singapore	**4,777,653**	**-**	6,913,914	-
Bangladesh	**4,232,297**	**-**	5,025,961	-
Australia	**6,167,329**	**-**	4,434,214	-
New Zealand	**2,349,605**	**-**	2,053,065	-
Myanmar	**243,139**	**-**	2,031,937	-
Others	**2,376,005**	**-**	2,415,735	-
	701,549,200	**75,116,809**	686,753,694	28,192,851

(c) Major Customers

In the previous financial year, the Group had a major customer from trading segment which contributed RM70,534,240 or 10.3% of the Group's total revenue. There was no single customer which contributed more than 10% of the Group's total revenue for the current financial year.

33. FINANCIAL INSTRUMENTS

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

Financial assets of the Group include deposits with financial institutions, cash and bank balances, trade and other receivables, other investments and derivative assets.

Financial liabilities of the Group include trade and other payables, hire purchase payables, bank borrowings and derivative liabilities.

In respect of the Company, financial assets also include amount due by subsidiaries.

33. FINANCIAL INSTRUMENTS *cont'd*

(a) Categories of financial instruments

The Group's and the Company's financial instruments are categorised as follows:-

Financial assets as per statement of financial position

	2016		
	Carrying amount	Loans and receivables	Available-for-sale financial assets
	RM	RM	RM
Group			
Other investments	957,179	-	957,179
Trade receivables	126,368,386	126,368,386	-
Other receivables ^	2,411,908	2,411,908	-
Deposits, cash and bank balances	88,494,750	88,494,750	-
	218,232,223	217,275,044	957,179

^ *Exclude Goods and Services Tax recoverable*

	2016	
	Carrying amount	Loans and receivables
	RM	RM
Company		
Other receivables	2,000	2,000
Amount due by subsidiaries	5,621	5,621
Deposits, cash and bank balances	5,998,651	5,998,651
	6,006,272	6,006,272

33. FINANCIAL INSTRUMENTS *cont'd*

(a) Categories of financial instruments *cont'd*

Financial assets as per statement of financial position *cont'd*

	2015		
	Carrying amount	**Loans and receivables**	**Available-for-sale financial assets**
	RM	**RM**	**RM**
Group			
Other investments	1,160,021	-	1,160,021
Trade receivables	124,428,677	124,428,677	-
Other receivables ^	1,946,896	1,946,896	-
Deposits, cash and bank balances	113,253,287	113,253,287	-
	240,788,881	239,628,860	1,160,021

^ *Exclude Goods and Services Tax recoverable*

	2015	
	Carrying amount	**Loans and receivables**
	RM	**RM**
Company		
Other receivables	7,591	7,591
Amount due by subsidiaries	2,760,923	2,760,923
Deposits, cash and bank balances	7,072,985	7,072,985
	9,841,499	9,841,499

33. FINANCIAL INSTRUMENTS *cont'd*

(a) Categories of financial instruments *cont'd*

Financial liabilities as per statement of financial position

	2016		
	Carrying amount	Fair value through profit or loss	Other financial liabilities measured at amortised cost
	RM	RM	RM
Group			
Trade payables	68,063,644	-	68,063,644
Other payables	9,147,942	-	9,147,942
Derivative liabilities	3,754	3,754	-
Bank borrowings	55,649,498	-	55,649,498
Hire purchase payables	832,789	-	832,789
	133,697,627	3,754	133,693,873

	2016	
	Carrying amount	Other financial liabilities measured at amortised cost
	RM	RM
Company		
Other payables	260,369	260,369

33. FINANCIAL INSTRUMENTS *cont'd*

(a) Categories of financial instruments *cont'd*

Financial liabilities as per statement of financial position *cont'd*

	2015		
	Carrying amount	Fair value through profit or loss	Other financial liabilities measured at amortised cost
	RM	RM	RM
Group			
Trade payables	52,338,693	-	52,338,693
Other payables	9,064,227	-	9,064,227
Derivative liabilities	21,752	21,752	-
Bank borrowings	61,733,393	-	61,733,393
Hire purchase payables	239,535	-	239,535
	123,397,600	21,752	123,375,848

	2015	
	Carrying amount	Other financial liabilities measured at amortised cost
	RM	RM
Company		
Other payables	211,580	211,580

(b) Financial risk management

The Group's financial instruments are subject to a variety of financial risks including credit risk, liquidity and cash flow risks and market risk.

The Group's overall financial risk management objective is to seek to address and control the risks to which the Group is exposed and to minimise or avoid the incidence of loss that may result from its exposure to such risks and to enhance returns where appropriate.

The Board is primarily responsible for the management of these risks and to formulate policies and procedures for the management thereof. The risks are managed by regular risk reviews, internal control systems, on-going formulation and adherence to financial risk policies and mitigated by insurance coverage where appropriate.

33. FINANCIAL INSTRUMENTS *cont'd*

(b) Financial risk management *cont'd*

(i) Credit risk

Credit risk is the risk of financial loss attributable to default on obligations by parties contracting with the Group. The Group's main exposure to credit risk is in respect of its trade receivables, deposits with financial institutions and cash and bank balances. The Company's exposure to credit risk arises principally from amount due from subsidiaries, deposits and cash and bank balances and financial guarantees given to banks for credit facilities of subsidiaries as disclosed in Note 31.

Credit risk is addressed by the application of credit evaluation and close monitoring procedures by the management.

New customers are subject to a credit evaluation process and existing customers' risk profiles are reviewed regularly with a view to setting appropriate terms of trade and credit limits. Where appropriate, further sales are suspended and legal actions are taken to attempt recoveries and mitigate losses.

The Group's maximum exposure to credit risk as at 31 December 2016 is represented by the carrying amount of each class of financial assets recognised in the statement of financial position.

As at the end of the reporting period, the Group has significant concentration of credit risk arising from the exposure to the amounts due by 10 major customers representing approximately 26% (2015: 2 major customers representing approximately 24%) of the total trade receivables. The amounts due and repayments from these customers are closely monitored by the management to ensure that the credit limits and terms agreed with the customers are complied with.

Information on the ageing and impairment of trade receivables is disclosed in Note 12.

(ii) Liquidity and cash flow risks

Liquidity or funding risk is the risk of the inability to meet commitments associated with financial instruments while cash flow risk is the risk of uncertainty of future cash flow amount associated with a monetary financial instrument.

Liquidity and cash flow risks are addressed by annual and continuous review and forward planning of cash flow in relation to business plans to ensure a balanced and prudent portfolio of cash and other liquid assets and credit facilities is maintained. The proper management of currency, interest rate and credit risks have the effect of further minimising the incidence and effects of liquidity and cash flow risks.

33. FINANCIAL INSTRUMENTS *cont'd*

(b) Financial risk management *cont'd*

(ii) Liquidity and cash flow risks *cont'd*

Maturity analysis

The maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments are as follows:-

	Maturity Profile				
	Less than 1 year RM	More than 1 year and less than 5 years RM	More than 5 years RM	Total RM	Effective interest rate %
Group					
2016					
Trade payables	**68,063,644**	**-**	**-**	**68,063,644**	**-**
Other payables	**9,147,942**	**-**	**-**	**9,147,942**	**-**
Hire purchase payables	**345,567**	**564,968**	**-**	**910,535**	**4.83 to 9.31**
Bank borrowings	**55,649,498**	**-**	**-**	**55,649,498**	**1.74 to 11.15**
2015					
Trade payables	52,338,693	-	-	52,338,693	-
Other payables	9,064,227	-	-	9,064,227	-
Hire purchase payables	69,727	190,152	-	259,879	4.83 to 9.31
Bank borrowings	61,733,393	-	-	61,733,393	2.53 to 4.77
Company					
2016					
Other payables	**260,369**	**-**	**-**	**260,369**	**-**
2015					
Other payables	211,580	-	-	211,580	-

(iii) Market risk

Market risk is the risk that the value of the financial instruments will fluctuate due to changes in market prices.

The Group's main market risk exposure are currency and interest rate fluctuations and which are discussed under the respective risk headings.

33. FINANCIAL INSTRUMENTS *cont'd*

(b) Financial risk management *cont'd*

(iv) Currency risk

The Group operates internationally and is exposed to foreign currency risk arising from transactions denominated in currencies other than the functional currencies of the entities within the Group. The carrying amounts of the Group's monetary assets and monetary liabilities that are denominated in foreign currencies as at the end of the reporting period are as follows:-

2016	USD RM	SGD RM	CNY RM	EURO RM	Total RM
Trade and other receivables	**33,438,196**	**246,949**	**-**	**644**	**33,685,789**
Deposits, cash and bank balances	**40,347,493**	**175,560**	**-**	**-**	**40,523,053**
Trade and other payables	**(44,990,914)**	**(10,918)**	**(200,961)**	**-**	**(45,202,793)**
Bank borrowings	**(13,607,005)**	**-**	**-**	**-**	**(13,607,005)**
	15,187,770	**411,591**	**(200,961)**	**644**	**15,399,044**

2015	USD RM	SGD RM	CNY RM	Total RM
Trade and other receivables	23,318,945	90,149	-	23,409,094
Deposits, cash and bank balances	41,251,814	552,475	-	41,804,289
Trade and other payables	(36,961,495)	-	(343,834)	(37,305,329)
Bank borrowings	(5,966,424)	-	-	(5,966,424)
	21,642,840	642,624	(343,834)	21,941,630

The movements in the rates of foreign currencies are monitored by the management and where considered necessary, the Group will enter into forward foreign currency contracts as a means of hedging against such risk.

The Group does not speculate in foreign currency derivatives.

33. FINANCIAL INSTRUMENTS *cont'd*

(b) Financial risk management *cont'd*

(iv) Currency risk *cont'd*

Currency risk sensitivity analysis

A 10 percent strengthening or weakening of the foreign currencies against the functional currencies at the end of the reporting period would have increased or decreased profit or loss by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Group	
	2016	**2015**
	RM	**RM**
USD	**1,518,777**	2,164,284
SGD	**41,159**	64,262
CNY	**(20,096)**	(34,383)
EURO	**64**	-

(v) Interest rate risk

The Group has interest rate risk in respect of its borrowings and deposits with financial institutions.

The Group's bank borrowings, hire purchase financing and interest bearing deposits are based on fixed rates.

Market interest rates movements are monitored with a view to ensuring that the most competitive rates are secured and where appropriate borrowing arrangements and interest bearing deposits are restructured and reduced.

Interest rate risk sensitivity analysis

As all the Group's borrowings and deposits as at 31 December 2016 are based on fixed rates, a change in interest rates at the end of the reporting period would not affect profit or loss or equity.

(vi) Other price risk

The Group is exposed to equity price risk arising from its investment in quoted shares and debt instruments. These instruments are listed in Bursa Malaysia Securities Berhad and classified as available-for-sale financial assets.

The Group does not engage in speculative trading in respect of its quoted debts and equity instruments.

33. FINANCIAL INSTRUMENTS *cont'd*

(b) Financial risk management *cont'd*

(vi) Other price risk *cont'd*

Equity price risk sensitivity analysis

A 10 percent strengthening or weakening in FTSE Bursa Malaysia KLCI at the end of the reporting period would have increased or decreased equity by the amounts shown below. This analysis assumes that all other variables remain constant.

	Group	
	2016	**2015**
	RM	**RM**
Available-for-sale financial assets	**84,718**	105,002

(c) Fair value of financial instruments

(i) The fair values of investments in quoted shares is determined by reference to their market bid price at the end of the reporting period.

(ii) The fair value of forward foreign exchange contracts is based on quotations by licensed financial institutions, if available, or by discounting the difference between the contractual forward price and the current forward price over the remaining maturity of the contract using a risk-free interest rate.

(iii) The carrying amount of hire purchase payables approximates its fair value.

(iv) The carrying amounts of deposits with financial institutions, cash and bank balances, receivables and payables and bank borrowings approximate their fair values due to the relatively short term nature of these financial instruments.

(v) It was not practicable to estimate the fair value of the Group's investment in unquoted shares due to the lack of comparable quoted market prices.

33. FINANCIAL INSTRUMENTS *cont'd*

(c) Fair value of financial instruments *cont'd*

The table below analyses financial instruments at the end of the reporting period which are measured at fair value by the various levels within a fair value hierarchy:-

	Fair value measurement using			
	Level 1	Level 2	Level 3	Total
	RM	RM	RM	RM
2016				
Financial assets				
Available-for-sale investments	**847,179**	**-**	**-**	**847,179**
Financial liabilities				
Derivative financial liabilities	**-**	**(3,754)**	**-**	**(3,754)**
2015				
Financial assets				
Available-for-sale investments	1,050,021	-	-	1,050,021
Financial liabilities				
Derivative financial liabilities	-	(21,752)	-	(21,752)

34. CAPITAL MANAGEMENT

The Group's objectives when managing capital is to maintain a strong capital base and to sustain future development of the business. The Directors monitor and determine to maintain an optimal debt-to-equity ratio that complies with debt covenants.

During 2016, the Group's strategy, which was unchanged from 2015, was to maintain the debt-to-equity ratio below 0.5. The debt-to-equity ratio as at 31 December 2016 and 31 December 2015 were as follows:-

	Group	
	2016	2015
	RM	RM
Trade and other payables	**77,211,586**	61,402,920
Bank borrowings	**55,649,498**	61,733,393
Hire purchase payables	**832,789**	239,535
Less: Deposits, cash and bank balances	**(88,494,750)**	(113,253,287)
Total net debt	**45,199,123**	10,122,561
Total equity	**231,105,222**	190,991,050
Debt-to-equity ratio	**0.20**	0.05

There were no changes in the Group's approach to capital management during the financial year.

35. SUPPLEMENTARY INFORMATION DISCLOSED PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD'S LISTING REQUIREMENTS

Realised and Unrealised Profits/(Loss)

The breakdown of retained profits of the Group and of the Company as at 31 December 2016, into realised and unrealised profits/(loss), pursuant to the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010, is as follows:-

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Total retained profits of Luxchem Corporation Berhad and its subsidiaries:				
- Realised	**152,064,721**	120,719,267	**1,581,353**	1,981,390
- Unrealised	**(390,084)**	(140,694)	**-**	-
	151,674,637	120,578,573	**1,581,353**	1,981,390
Less: Consolidation adjustments	**(75,412,454)**	(68,600,914)	**-**	-
Retained profits as per financial statements	**76,262,183**	51,977,659	**1,581,353**	1,981,390

The determination of realised and unrealised profits/(loss) is based on the Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants.

Statement by Directors

In the opinion of the Directors, the financial statements set out on pages 52 to 136 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2016 and of the results of operations and cash flows of the Group and of the Company for the financial year ended on that date.

The information set out in Note 35 to the financial statements on page 137 have been prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants.

TANG YING SEE
Director

CHEN MOI KEW
Director

Date: 10 March 2017

Statutory Declaration

I, CHEN MOI KEW, being the Director primarily responsible for the financial management of Luxchem Corporation Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 52 to 136 are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed)
CHEN MOI KEW at Petaling Jaya in Selangor Darul Ehsan)
this 10 March 2017)

CHEN MOI KEW
Before me,

Commissioner for Oaths

Independent Auditors' Report
to the Members of Luxchem Corporation Berhad

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Luxchem Corporation Berhad, which comprise the statements of financial position as at 31 December 2016 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 year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 52 to 136.

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

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Key Audit Matters

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *cont'd*

Key Audit Matters *cont'd*

Key audit matters	How our audit addressed the key audit matters
1. Goodwill - assessment of impairment As disclosed in Notes 7(c) and 9 to the financial statements, the Group has a goodwill of RM35,802,888 which arose from the acquisition of Transform Master Sdn Bhd during the financial year. The goodwill has been allocated to Transform Master Sdn Bhd as the cash generating unit ("CGU"). This CGU has been tested for impairment before the end of the financial year to assess the recoverability of the carrying amount of the goodwill. The management assessed the recoverable amount of the goodwill by determining the CGU's value in use using the discounted future cash flows method. As disclosed in Note 3(b)(ii) on Critical Accounting Judgement and Key Sources of Estimation Uncertainty, the determination of value in use is highly subjective as significant judgement is required to determine the appropriate future cash flow forecast and projections, EBITDA margin, discount rate and growth rate. Accordingly, due to the high estimation uncertainty, the impairment assessment of the CGU is considered to be a key audit matter.	Our procedures include the following: ■ We evaluated whether the cash flow forecast and projections prepared by the management are in accordance with the requirements of MFRS 136 *Impairment of Assets*. ■ We assessed the reasonableness of the growth rate used by the management in forecasting and projecting the future cash flows by comparing it against the subsidiary's past performance and also the achievability of future projections against its maximum production capacity. ■ We assessed the management's determination of discount rate by evaluating the appropriateness of the models used and the reasonableness of inputs thereon against other comparable companies. ■ We have performed sensitivity analyses around the key assumptions within the cash flow forecast and projections.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *cont'd*

Key Audit Matters *cont'd*

Key audit matters	How our audit addressed the key audit matters
2. **Share options expense** As explained in Note 3(b)(v) to the financial statements on Critical Accounting Judgement and Key Sources of Estimation Uncertainty, the determination of fair value of share options granted was made using the Trinomial Option Pricing Model. This model uses various inputs some of which are required to be estimated as disclosed in Note 16(c)(iii) to the financial statements. In addition, since there is a service vesting condition attached to the share options granted, the fair value of the options granted is recognised as an expense over the vesting period and this requires an estimate of the number of share options that is expected to vest. Due to the high estimation uncertainty with regard to the determination of the fair value of share options and the number of share options that are expected to vest, we considered this to be a key audit matter.	Our procedures include the following: ■ We evaluated whether the model used complies with the requirements of MFRS 2 *Share-based Payment*. ■ We validated the inputs used against historical information and market available data. ■ We checked whether the inputs obtained by the management were correctly applied to the valuation model. ■ In estimating the number of share options that are expected to vest, the management has estimated the number of employees that would leave over the vesting period based on the Group's historical payroll records over the same length of period. We checked the estimate of the number of employees that would leave against the Group's historical payroll records. We have also checked whether the estimate has been appropriately applied in arriving at the number of share options that are expected to vest.

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 information contained in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:-

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS *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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

(b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 7(a) to the financial statements, being financial statements that have been included in the consolidated financial statements.

(c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 35 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

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

FOLKS DFK & CO.
FIRM NO. : AF 0502
CHARTERED ACCOUNTANTS

OOI CHEE KUN
NO. : 996/03/18(J/PH)
CHARTERED ACCOUNTANT

Kuala Lumpur

Date: 10 March 2017

List of Properties

No.	Postal address/title identification	Approximate age of building/ tenure/date of expiry of lease	Years lease remaining	Description and existing use	Land area/ build up area/ (sq ft)	Cost of investment/ date of transaction	Audited carrying amount @ 31 December 2016 RM
1.	No. 6 Jalan SS21/58, Damansara Utama, 47400 Petaling Jaya, Selangor Darul Ehsan/ H.S (D) 170789, No. P.T. 6012, Bandar Petaling Jaya, Petaling Jaya, Selangor	40 years/ freehold	-	Shoplot (4 storey mid terraced shop-office)/office	1,650/ 5,446	RM611,865/ April 08, 1991	440,954.26
2.	Lot 3385, Jalan Banting Pandamaran, 42000 Port Klang, Selangor Darul Ehsan/ No. G.M 1708, Lot 3385, Mukim Klang, Klang, Selangor	22 years/ freehold	-	Warehouse	80,150/ 32,400	RM2,976,359/ August 30, 1991	2,110,994.28
3.	No. 54, Persiaran Rishah 9, Kawasan Perindustrian Miel Silibin, 30100 Ipoh, Perak Darul Ridzuan/ PN 37744 Lot 128185 Mukim of Hulu Kinta, Kinta, Perak	32 years/ leasehold/ March 22, 2045	29	Office / Store	10,000/ 6,500	RM519,816/ February 06, 1992	290,643.37
4.	No. 3, Jalan TTC 30, Taman Teknologi Cheng, 75250 Fasa 4A, Melaka/ PN 20123, Lot 4819 Mukim Cheng, District of Melaka Tengah, Melaka	19 years/ leasehold August 14, 2096	80	Industrial land/ factory warehouse	190,112/ 74,237	RM8,639,602/ February 04, 1997	8,290,124.94
5.	Plot 129a, Bukit Minyak Industrial Park, 14100 Seberang Perai, Pulau Pinang/ H.S. (D) 42609, P.T. 317, Mukim 13, Seberang Perai Tengah, Pulau Pinang	7 years/ leasehold/ November 03, 2058	42	Industrial land/ factory warehouse	87,120/ 27,610	RM3,856,664/ March 28, 1997	3,152,912.07
6.	No. 4, Jalan Bistari 4, Taman Industri Jaya, 81300 Skudai, Johor Darul Takzim/ PN 13419, Lot 56749, Mukim of Pulai, Johor Bahru, Johor	19 years/ leasehold/ September 03, 2911	895	1 1/2 storey semi-detached factory	21,780/ 17,403	RM1,459,639/ March 28, 2005	1,290,166.71
7.	No. 4 Jalan SS21/58, Damansara Utama, 47400 Petaling Jaya Selangor Darul Ehsan/ H.S. (D) 170791, P.T. 6013, Bandar Petaling Jaya, Petaling Jaya, Selangor Darul Ehsan	40 years/ freehold	-	Shoplot (4 storey mid terraced shop-office)/office	1,650/ 5,446	RM1,800,000/ June 22, 2005	1,709,332.88
8.	Lot P2, Lumut Port Industrial Park, 32000 Sitiwan, Perak Darul Ridzuan/ PN 296183 Lot 15592 Mukim of Lumut District of Manjung, Perak	11 years/ leasehold/ July 09, 2105	89	Industrial land/ factory warehouse office building	67,608/ 45,302	RM2,700,000/ July 15, 2011	3,772,337.25

Analysis of Shareholdings
as at 28 February 2017

Class of Shares	:	Ordinary Shares
Issued Share Capital	:	275,488,551 Ordinary Shares
Amount of Shares issued as fully paid	:	RM137,771,575.50
Voting Rights	:	One vote per share on a poll One vote per share on a show of hands

ANALYSIS BY SIZE OF SHAREHOLDINGS

Analysis by Size of Shareholdings	No. of Holders	%	No. of Shares	%
1 - 99	6	0.197	118	0.000
100 - 1,000	512	16.892	235,582	0.085
1,001 - 10,000	1,535	50.643	8,269,800	3.001
10,001 - 100,000	801	26.426	26,532,700	9.631
100,001 - 13,774,426 (*)	175	5.773	80,332,951	29.160
13,774,427 AND ABOVE (**)	2	0.065	160,117,400	58.121
Total	**3,031**	**100.000**	**275,488,551**	**100.000**

Remarks: * - Less than 5% of Issued Shares
** - 5% and above of Issued Shares

LIST OF SUBSTANTIAL SHAREHOLDERS' SHAREHOLDINGS

	Direct Holdings		Indirect Holdings (excluding bare trustees)	
Names	No.	%	No.	%
CHEMPLEX RESOURCES SDN. BHD.	137,140,000	49.780	-	-
TANG YING SEE	1,400,000	0.508	138,653,900 [(a)]	50.330
CHIN SONG MOOI	1,513,900	0.550	138,540,000 [(a)]	50.289
CHOW CHENG MOEY	22,977,400	8.341	200,000 [(b)]	0.073

Note:

(a) Deemed interested by virtue of their substantial shareholdings in Chemplex Resources Sdn. Bhd. and shares held by spouse pursuant to Section 8 of the Companies Act, 2016.

(b) Deemed interested by virtue of shares held by spouse, Mr Lim Kuang Sia pursuant to Section 59(11)(c) of the Companies Act, 2016.

LIST OF DIRECTORS' SHAREHOLDINGS

	Shareholdings			
Directors	**Direct**	**%**	**Indirect**	**%**
HLB NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR AU CHUN CHOONG*	1,294,200	0.469	-	-
CHAN WAN SIEW	200,000	0.072	-	-
CITIGROUP NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR CHAN WAN SIEW*	50,000	0.018	-	-
CHEN MOI KEW	545,000	0.197	-	-
CHIN SONG MOOI	1,513,900	0.549	143,221,600 [(a)]	51.988
MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR DATO' HAJI MOKHTAR BIN HAJI SAMAD*	420,000	0.152	-	-
TANG YING SEE	1,400,000	0.508	143,335,500 [(b)]	52.029

Notes:

(a) *Deemed interested by virtue of her substantial shareholding in Chemplex Resources Sdn Bhd and her Spouse, Tang Ying See's shareholdings in the Company pursuant to Section 8 of the Companies Act, 2016 and her son, Tang Chii Shyan's shareholdings in the Company pursuant Section 59(11)(c) of the Companies Act,2016.*

b) *Deemed interested by virtue of his substantial shareholdings in Chemplex Resources Sdn. Bhd. and his spouse, Chin Song Mooi's shareholdings in the Company pursuant to Section 8 of the Companies Act, 2016 and his son, Tang Chii Shyan's shareholdings in the Company pursuant to Section 59(11)(c) of the Companies Act, 2016.*

LIST OF TOP 30 HOLDERS AS AT 28 FEBRUARY 2017

Without aggregating securities from different securites accounts belonging to the same registered holder

No	Holder Name	Shares Held	Percentage
1	CHEMPLEX RESOURCES SDN. BHD.	137,140,000	49.780
2	CHOW CHENG MOEY	22,977,400	8.340
3	TANG CHII SHYAN	4,681,600	1.699
4	SYARIKAT NAM AH SDN BHD	3,227,200	1.171
5	OH WEI WAH	3,028,225	1.099
6	LIM LENG BUNG	2,865,000	1.039
7	TABUNG AMANAH MELAKA	2,000,000	0.725
8	LEE CHEE SIAN	1,555,455	0.564
9	CHIN SONG MOOI	1,513,900	0.549
10	AFFIN HWANG NOMINEES (TEMPATAN) SDN. BHD. *PLEDGED SECURITIES ACCOUNT FOR CHEAH LEE SENG (CHE0461C)*	1,400,000	0.508
11	TANG YING SEE	1,400,000	0.508
12	LIM HUI GUAN	1,300,000	0.471

Analysis of Shareholdings

as at 28 February 2017
Cont'd

LIST OF TOP 30 HOLDERS AS AT 28 FEBRUARY 2017 *cont'd*
Without aggregating securities from different securites accounts belonging to the same registered holder

No	Holder Name	Shares Held	Percentage
13	HLB NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR AU CHUN CHOONG*	1,294,200	0.469
14	AMANAH RAYA BERHAD *KUMPULAN WANG BERSAMA*	1,250,000	0.453
15	MISA SDN BHD	1,224,800	0.444
16	FONG AH CHAI	1,100,000	0.399
17	PUBLIC NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR CHONG KHONG SHOONG (E-IMO/JSI)*	1,100,000	0.399
18	LIM JEE SOON	1,060,000	0.384
19	FOO KHON PU	1,000,000	0.362
20	HLB NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR CHONG KHONG SHOONG*	1,000,000	0.362
21	LEE CHOONG ONN	1,000,000	0.362
22	MAYBANK NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR CHONG KHONG SHOONG*	1,000,000	0.362
23	CHEAH SIEW MENG	863,600	0.313
24	KWAN FOH KWAI	820,000	0.297
25	CHANG YOON CHOY	800,000	0.290
26	HLB NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR YEO WHA*	800,000	0.290
27	LEE PEI PEI	777,728	0.282
28	HLB NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR TEH CHEE TONG*	747,900	0.271
29	CHEN TAM CHAI	693,200	0.251
30	LEE HUNG KUEN	680,000	0.246
		200,300,208	72.707

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Twenty-Fifth Annual General Meeting ("AGM") of the Company will be held at Banyan and Casuarina Room, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Friday, 5 May 2017 at 10.00 a.m. to transact the following business:

AGENDA

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 together with the Reports of the Directors and Auditors thereon. ***(Please refer to Explanatory Note 1)***

2. To approve the payment of Directors' fees of RM106,000.00 for the financial year ended 31 December 2016. ***Ordinary Resolution 1***

3. To approve the payment of Directors' remuneration (excluding Directors' fees) to the Non-Executive Chairman and Non-Executive Director up to an amount of RM29,760.00 from 1 January 2017 until the next Annual General Meeting of the Company. ***Ordinary Resolution 2***

4. To re-elect the following Directors who are retiring by rotation in accordance with Article 77 of the Company's Articles of Association of the Company and, who being eligible, offer themselves forre-election:

   (a) Dato' Haji Mokhtar Bin Haji Samad ***Ordinary Resolution 3***
   (b) Tang Ying See ***Ordinary Resolution 4***

5. To re-appoint Messrs Folks DFK & Co. as Auditors of the Company for the financial year ending 31 December 2017 and to authorise the Directors to fix their remuneration. ***Ordinary Resolution 5***

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following ordinary resolutions, with or without modifications:

6. **RETENTION OF DATO' HAJI MOKHTAR BIN HAJI SAMAD AS INDEPENDENT NON-EXECUTIVE DIRECTOR** ***Ordinary Resolution 6***

   "THAT approval be and is hereby given to Dato' Haji Mokhtar bin Haji Samad, who has served as Independent Non-Executive Director of the Company for a cumulative term of nearly nine (9) years, to continue to act as an Independent Non-Executive Director of the Company until the conclusion of the next Annual General Meeting of the Company."

7. **RETENTION OF CHAN WAN SIEW AS INDEPENDENT NON-EXECUTIVE DIRECTOR** ***Ordinary Resolution 7***

   "THAT approval be and is hereby given to Chan Wan Siew, who has served as Independent Non-Executive Director of the Company for a cumulative term of nearly nine (9) years, to continue to act as an Independent Non-Executive Director of the Company until the conclusion of the next Annual General Meeting of the Company."

8. **RETENTION OF AU CHUN CHOONG AS INDEPENDENT NON-EXECUTIVE DIRECTOR** ***Ordinary Resolution 8***

"THAT approval be and is hereby given to Au Chun Choong, who has served as Independent Non-Executive Director of the Company for a cumulative term of nearly nine (9) years, to continue to act as an Independent Non-Executive Director of the Company until the conclusion of the next Annual General Meeting of the Company."

9. **AUTHORITY TO ALLOT SHARES PURSUANT TO SECTIONS 75 AND 76 OF THE COMPANIES ACT 2016 ("THE ACT")** ***Ordinary Resolution 9***

"THAT subject always to the Act, the Articles of Association of the Company and approvals from Bursa Malaysia Securities Berhad and any other governmental/ regulatory authorities, where such approval is necessary, authority be and is hereby given to the Directors of the Company, pursuant to Sections 75 and 76 of the Act, to allot shares in the Company at any time and upon such terms and conditions and for such purposes as the Directors of the Company may, in their absolute discretion, deem fit, provided that the aggregate number of shares to be issued pursuant to this resolution does not exceed 10% of the total number of issued shares (excluding treasury shares) of the Company for the time being AND THAT the Directors of the Company be and are hereby empowered to obtain the approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad AND FURTHER THAT such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company."

By Order of the Board

WONG WAI FOONG *(MAICSA 7001358)*
CHEN MOI KEW *(MIA 6359)*
NG HARN SHIN *(MIA 22427)*
Company Secretaries

Petaling Jaya
5 April 2017

Notes on the Appointment of Proxy:

1. *For the purpose of determining a member who shall be entitled to attend this Twenty-Fifth Annual General Meeting, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd. in accordance with Article 54(2) of the Company's Articles of Association and Section 34(l) of the Securities Industry (Central Depositories) Act 1991 of Malaysia to issue a General Meeting Record of Depositors as at 28 April 2017. Only a depositor whose name appears on the Record of Depositors as at 28 April 2017 shall be entitled to attend the said meeting and to speak or vote thereat.*

2. *A member entitled to attend and vote at this meeting is entitled to appoint one (1) proxy or more proxies to attend and vote instead of him. A proxy may but need not be a member of the Company.*

3. *Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportion of his holding(s) to be represented by each proxy.*

4. *Where a Member of the Company is an authorised nominee as defined in the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one (1) proxy in respect of each securities account it holds in ordinary shares of the Company standing to the credit of the said securities account.*

5. *Where a member of the Company is an exempt authorised nominee 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 authorised nominee may appoint in respect of each omnibus account it holds.*

6. *The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.*

7. *The instrument appointing a proxy must be deposited at the Share Registrar of the Company, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or alternatively, the Customer Services Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, not less than twenty-four(24) hours, i.e. before 11.00 a.m. on Thursday, 4 May 2017, and in default the instrument of proxy shall not be treated as valid.*

Explanatory Notes to Ordinary Business:

1. ***Item 1 of the Agenda – Receipt of Report and Audited Financial Statements***

   *Item 1 of the Agenda is meant for discussion only as the provision of Section 340(1)(a) of the Act does not require a formal approval from the shareholders for the Audited Financial Statements. Hence, this item on the Agenda is **not put forward for voting**.*

Explanatory Notes to Special Business:

2. ***Ordinary Resolution 6 – Retention of Dato' Haji Mokhtar bin Haji Samad as Independent Non-Executive Director***

   In line with Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012, the Nominating Committee has assessed the independence of Dato' Haji Mokhtar bin Haji Samad, who has served as an Independent Non-Executive Director of the Company for a cumulative term of nearly nine (9) years and recommended him to continue to act as an Independent Non-Executive Director of the Company. The justifications of the Board of Directors for recommending and supporting the resolutions for their continuing in office as Independent Directors are set out under the Statement of Corporate Governance in the Company's Annual Report 2016.

3. ***Ordinary Resolution 7 – Retention of Chan Wan Siew as Independent Non-Executive Director***

   In line with Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012, the Nominating Committee has assessed the independence of Chan Wan Siew, who has served as an Independent Non-Executive Director of the Company for a cumulative term of nearly nine (9) years and recommended him to continue to act as an Independent Non-Executive Director of the Company. The justifications of the Board of Directors for recommending and supporting the resolutions for their continuing in office as Independent Directors are set out under the Statement of Corporate Governance in the Company's Annual Report 2016.

4. ***Ordinary Resolution 8 – Retention of Au Chun Choong as Independent Non-Executive Director***

   In line with Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012, the Nominating Committee has assessed the independence of Au Chun Choong, who has served as an Independent Non-Executive Director of the Company for a cumulative term of nearly nine (9) years and recommended him to continue to act as an Independent Non-Executive Director of the Company. The justifications of the Board of Directors for recommending and supporting the resolutions for their continuing in office as Independent Directors are set out under the Statement of Corporate Governance in the Company's Annual Report 2016.

5. ***Ordinary Resolution 9 - Authority to allot shares pursuant to Sections 75 and 76 of the Act***

   The proposed Ordinary Resolution No. 9 is for the purpose of seeking a renewal for the general mandate to empower the Directors of the Company pursuant to Sections 75 and 76 of the Act, from the date of the above meeting, to allot ordinary shares of not more than ten percent (10%) from the unissued share capital of the Company for such purposes as the Directors of the Company consider would be in the interest of the Company. This authority will, unless revoked or varied at a General Meeting, expire at the conclusion of the next Annual General Meeting of the Company. This authority will provide flexibility and enable the Directors to take swift action for allotment of shares for any possible fund raising activities, including but not limited to further placement of shares for purpose of funding future investment project(s), working capital and/or acquisition(s) and to avoid delay and cost in convening general meetings to approve such issue of shares.

   As at the date of this Notice, the Company did not allot any shares pursuant to the mandate granted to the Directors at the Twenty-Fourth Annual General Meeting. The Company did not allot any shares pursuant to the mandate granted because there were no investment(s), acquisition(s) or working capital that required fund raising activity.

Statement Accompanying Notice of Annual General Meeting
Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

There is no Director standing for election at the Twenty-Fifth Annual General Meeting of the Company.

LUXCHEM

LUXCHEM CORPORATION BERHAD

(Company No.: 224414-D)

PROXY FORM

*I/We ______________________________ NRIC/Passport/Company No. ____________________ Tel/Hp No.

______________________ of ____ being member(s) of

Luxchem Corporation Berhad, hereby appoint:

Full Name (in Block and as per NRIC/Passport)	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Full Name (in Block and as per NRIC/Passport)	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing him/her, the Chairman of the Meeting as *my/our proxy/proxies to attend and vote for *me/us and on *my/our behalf at the Twenty-Fifth Annual General Meeting of the Company to be held at Banyan and Casuarina Room, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on **Friday**, **5 May 2017** at **10.00 a.m.** and at any adjournment thereof, and to vote as indicated below:

Item	Agenda			
1.	To receive the Audited Financial Statements for the financial year ended 31 December 2016 together with the Reports of the Directors and Auditors thereon			
		Resolution	For	Against
2.	Payment of Directors' fees of RM106,000.00 for the financial year ended 31 December 2016	Resolution 1		
3.	Payment of Directors' remuneration (excluding Directors' fees) to the Non-Executive Chairman and Non-Executive Director up to an amount of RM29,760.00 from 1 January 2017 until the next Annual General Meeting of the Company	Resolution 2		
4.	Re-election of Dato' Haji Mokhtar Bin Haji Samad as Director	Resolution 3		
5.	Re-election of Tang Ying See as Director	Resolution 4		
6.	Re-appointment of Messrs Folks DFK & Co. as Auditors	Resolution 5		
Special Business				
7.	Retention of Dato' Haji Mokhtar bin Haji Samad as Independent Non-Executive Director of the Company	Resolution 6		
8.	Retention of Chan Wan Siew as Independent Non-Executive Director of the Company	Resolution 7		
9.	Retention of Au Chun Choong as Independent Non-Executive Director of the Company	Resolution 8		
10.	Authority to Allot Shares pursuant to Sections 75 and 76 of the Companies Act 2016	Resolution 9		

[Please indicate with an "X" in the spaces provided on how you wish your votes to be cast. In the absence of specific directions, your proxy will vote or abstain as he/she thinks fit. If no specific direction as to voting is given, the proxy will vote or abstain from voting at his discretion.]

Dated this day __________ of ________________ 2017

Number of ordinary shares held	
CDS account no.	

____

*Signature/Common Seal of Shareholder

** Delete if not applicable*

Notes:

1. *For the purpose of determining a member who shall be entitled to attend this Twenty-Fifth Annual General Meeting, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd. in accordance with Article 54(2) of the Company's Articles of Association and Section 34(l) of the Securities Industry (Central Depositories) Act 1991 of Malaysia to issue a General Meeting Record of Depositors as at 28 April 2017. Only a depositor whose name appears on the Record of Depositors as at 28 April 2017 shall be entitled to attend the said meeting and to speak or vote thereat.*
2. *A member entitled to attend and vote at this meeting is entitled to appoint one (1) proxy or more proxies to attend and vote instead of him. A proxy may but need not be a member of the Company.*
3. *Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportion of his holding(s) to be represented by each proxy.*
4. *Where a Member of the Company is an authorised nominee as defined in the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one (1) proxy in respect of each securities account it holds in ordinary shares of the Company standing to the credit of the said securities account.*
5. *Where a member of the Company is an exempt authorised nominee 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 authorised nominee may appoint in respect of each omnibus account it holds.*
6. *The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.*
7. *The instrument appointing a proxy must be deposited at the Share Registrar of the Company, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or alternatively, the Customer Services Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, not less than twenty-four(24) hours, i.e. before 11.00 a.m. on Thursday, 4 May 2017, and in default the instrument of proxy shall not be treated as valid.*

Fold This Flap For Sealing

Then Fold Here

AFFIX
STAMP

The Share Registrar
LUXCHEM CORPORATION BERHAD **(224414-D)**
c/o Tricor Investor & Issuing House Services Sdn Bhd
Unit 32-01, Level 32
Tower A, Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

1st Fold Here

www.luxchem.com.my

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