

ANNUAL REPORT 2019

LINOCRAFT

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LINOCRAFT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8383

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Five-year Financial Summary

BOARD OF DIRECTORS

Executive Directors

Mr. Ong Yoong Nyock (*Chairman*)
Mr. Tan Woon Chay (*Chief Executive Officer*)

Independent Non-executive Directors

Mr. Choy Wing Keung David
Mr. Liew Weng Keat
Mr. Teoh Cheng Tun

COMPLIANCE OFFICER

Mr. Tan Woon Chay

AUTHORISED REPRESENTATIVES

Mr. Tan Woon Chay
Mr. Lam Wing Tai

AUDIT COMMITTEE

Mr. Choy Wing Keung David (*Chairman*)
Mr. Liew Weng Keat
Mr. Teoh Cheng Tun

REMUNERATION COMMITTEE

Mr. Teoh Cheng Tun (*Chairman*)
Mr. Choy Wing Keung David
Mr. Tan Woon Chay

NOMINATION COMMITTEE

Mr. Liew Weng Keat (*Chairman*)
Mr. Tan Woon Chay
Mr. Teoh Cheng Tun

COMPANY SECRETARY

Mr. Lam Wing Tai

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN MALAYSIA

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Johor Darul Takzim
Malaysia

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITOR

BDO Limited
Certified Public Accountants

COMPLIANCE ADVISER

Ample Capital Limited

PRINCIPAL BANKERS

AmBank (M) Bhd
Public Bank Berhad
United Overseas Bank (Malaysia) Bhd
The Hongkong and Shanghai Banking Corporation Limited

WEBSITE

www.linocraftprinters.com

STOCK CODE

8383

Chairman's Statement & Management Discussion and Analysis

Dear Shareholders,

On behalf of the board of Directors (the "**Board**"), I am pleased to present the annual report of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 August 2019 (the "**Financial Year**").

Our Group is a printing and packaging solutions provider based in Malaysia. We focus on packaging printing and our products include packaging boxes, rigid boxes, paper-board inserts, instruction manuals and printed labels to direct customers and contract manufacturers of international renowned brands.

BUSINESS REVIEW

Our Group is a well-established integrated offset printing and packaging solutions provider in Malaysia with more than 47 years of experience. Moreover, the Group has also set foot in the Philippines in June 2016 to set up our printing and packaging production line to better serve our customers in the region. We principally provide offset printing services and packaging boxes, instruction manuals and inserts to our customers. We continue to focus on strengthening our market position in the offset printing and packaging industry.

Our Group offers a wide range of packaging products to meet our customers' packaging needs. These products can be broadly categorised into (i) packaging; (ii) inserts; (iii) instruction manuals; and (iv) labels.

The following table sets forth the details of our Group's revenue by types of products for the year ended 31 August 2019 and 2018:

	For the year ended 31 August			
	2019		2018	
	RM'000	%	RM'000	%
Sales of production products:				
— Packaging	124,654	60.7	116,956	65.0
— Inserts	58,458	28.5	41,714	23.2
— Instruction manuals	21,909	10.7	20,633	11.5
— Labels	269	0.1	672	0.3
	205,290	100.0	179,975	100.0

Our Group's total revenue amounted to approximately RM205.3 million and RM180.0 million for the year ended 31 August 2019 and 2018 respectively. Approximate 75.5% (2018: 81.6%) of our revenue was attributable to our customers in Malaysia, with the remaining from Singapore and the Philippines during the Financial Year.

Packaging

Packaging accounts for our largest business segment of our Group's business. Packaging includes the manufacturing of packaging boxes and rigid boxes. Our packaging boxes and rigid boxes are produced with multi-colour sheetfed offset printed materials and manufactured using technologically advanced machines and colour management system of international standards such as Ugra/Fogra Media Wedge CMYK V3.0 to match the requirements of our customers. Our packaging not only serves as a marketing tool but most importantly as a protection for our customers' products. Our Group also provides product development services to customers who require packaging design for their products. Furthermore, our Group also has the capability to create prototype based on the design that was provided to us or created by our team. We have an industrial cutting machine that can produce such prototype to help customers visualise the packaging before mass production.

Our revenue from the production of packaging were approximately RM124.7 million and RM117.0 million for the year ended 31 August 2019 and 2018 respectively, representing approximately 60.7% and 65.0% of our total revenue, respectively.

Inserts

The production of inserts is our second largest business segment. Inserts are protective packaging used inside boxes to partition and protect products from damage. It is used to keep the products and accessories in position so that they will be neatly presented to the end consumers. Our Group is involved in designing and die-cutting of corrugated boards into desired shapes to fit and protect the customers' products in the packaging boxes.

Our revenue from the production of inserts were approximately RM58.5 million and RM41.7 million for the year ended 31 August 2019 and 2018 respectively, representing approximately 28.5% and 23.2% of our total revenue, respectively.

Instruction Manuals

The production of instruction manuals is the third largest business segment. Our Group also provides kitting services by packing related printed materials to be grouped together with instruction manuals into a package. This service provides convenience to our customers by enabling them to liaise with one single party for their packaging needs.

Our revenue from the production of instruction manuals were approximately RM21.9 million and RM20.6 million for the year ended 31 August 2019 and 2018 respectively, representing approximately 10.7% and 11.5% of our total revenue, respectively.

Labels

The production of paper-based labels is a small segment of our Group's business, primarily for food and beverage sector. Such labels are mainly used for branding of canned/bottled products. The printing of labels has become a smaller business segment of our Group due to our Group's expansion into other business segments.

Our revenue from the production of labels were approximately RM0.3 million and RM0.7 million for the year ended 31 August 2019 and 2018 respectively, representing approximately 0.1% and 0.3% of our total revenue, respectively.

Chairman's Statement & Management Discussion and Analysis

FUTURE PROSPECTS AND OUTLOOK

Our Group continues to focus strengthening its market position in the offset printing and packaging industry. Currently, we are negotiating with a number of reputable international brands from different industries to grow our business in Malaysia and the Philippines.

Our Group has set up a production plant, performing post-press processes, namely laminating and diecutting, in the Philippines, which has commenced production since October 2017. In March 2019, the Group has moved out from the existing production plant performing the post-press processes to the then new production plant. By centralizing the production machinery, this can help the Group to achieve a better efficiency in operation and reducing transportation cost between the two production plants. The new production plant also come with a new warehouse which the size is approximately 45,000 square feet ("**sqf**"). Currently, the orders from a contract manufacturer in the Philippines are fulfilled by our local production plant and partially supported by production plant in Malaysia.

As at the date of this report, our Philippines factory is fully equipped with completed production line to meet the requirements for production of packaging. This including one KBA 164 printing press, one CTP machine, two Auto Diecut machines, two Manual Diecut machines, one Stitching Machine, one Polar Cutter, one Laminating machine and one ECT test machine for QA laboratory use.

By Oct 2019, the new warehouse for Malaysia plant is officially completed and has begun to operate. The size of the new warehouse is approximately 72,000 sqf which equipped with 16 loading bays. This help us to reduce the reliance on external warehouse and help to improve the efficiency of inventory management.

In view of the positive progress in packaging printing market, our Directors expect the trends to have a positive impact on our Group's overall business in Malaysia and the Philippines.

FINANCIAL REVIEW

Revenue

Revenue for the Financial Year increased by approximately 14.1% or approximately RM25.3 million as compared to that of the previous year. The increase in revenue was mainly due to the increase in sales of packaging and inserts, where there was an increase in demand derived from major customers. The revenue contributed by the top five customers increased from approximately RM130.1 million for the year ended 31 August 2018 to RM154.7 million for the year ended 31 August 2019, which accounted for 72.3% and 75.4% of our total revenue for the corresponding years, respectively.

Cost of sales

	For the year ended 31 August	
	2019	2018
	RM'000	RM'000
Material cost	110,972	93,313
Labour cost	19,944	20,825
Manufacturing overhead	44,336	29,258
	175,252	143,396

Cost of sales comprises mainly (i) material costs (paper, facer, glue, chemical and plates); (ii) direct labour; and (iii) manufacturing overheads (utilities costs, depreciations expenses and repair and maintenance costs).

In line with the increase in revenue, the cost of sales for the year ended 31 August 2019 increased by approximately 22.2% or RM31.9 million as compared to that of the previous year. The increase in cost of sales was due to (i) increase in cost of materials consumed; and (ii) increase in manufacturing overhead as a result of increase in depreciation, cost of foreign workers and repair and maintenance.

Gross Profit and Gross Profit Margin

Our gross profit decreased about 17.9% from RM36.6 million for the year ended 31 August 2018 to RM30.0 million for the year ended 31 August 2019. Our overall gross profit margin decreased by 5.7% from approximately 20.3% for the year ended 31 August 2018 to approximately 14.6% for the year ended 31 August 2019.

The decrease in our gross profit and gross profit margin was mainly attributable to the increase in material costs and manufacturing overhead.

Distribution costs

Our distribution expenses mainly consist of (i) salary expenses and staff benefit which mainly represents the expenses in salary and staff benefits payable to our marketing department; (ii) sales commission; (iii) entertainment and promotional expenses; and (iv) travelling and transport expenses. Our distribution expenses decreased about 42.1% from RM16.9 million for the year ended 31 August 2018 to RM9.8 million for the year ended 31 August 2019, which was mainly caused by the decrease in transport expenses for the transportation of products to fulfill orders of the contract manufacturer in the Philippines.

Administrative expenses

The administrative expenses were approximately RM15.4 million for the year ended 31 August 2018 and approximately RM13.4 million for the year ended 31 August 2019. Our administrative expenses mainly consist of (i) salary expenses and staff benefits which mainly represents the expenses in salary and staff benefits payable to our administrative staff including our Directors; (ii) professional fees such as legal consultancy fees; and (iii) others such as repair and maintenance for office equipment, bank charges and depreciation which mainly represents the depreciation expenses for our office equipment.

Finance costs

Finance costs represented interest on bank overdraft, bank borrowings, finance lease and borrowings from related companies. For the year ended 31 August 2019 and 2018, financial cost amounted to approximately RM5.4 million and RM4.3 million, respectively. The increase was mainly due to the higher amounts of bank borrowings and finance lease during Financial Year.

Share of (loss)/profit of joint venture

Our Group has 50% equity interest in Linocraft Singapore Pte. Ltd, which engages in trading business for packaging and printing related products. As at 31 August 2019, the interest in a joint venture amounted to approximately RM164,000 (2018: RM169,000). The share of loss of a joint venture was RM5,000 for the year ended 31 August 2019 (2018: profit of RM62,000).

Chairman's Statement & Management Discussion and Analysis

Taxation

Hong Kong profit tax is calculated at tiered rates of 8.25% of the estimated assessable profits up to HK\$2,000,000 and 16.5% on any part of the estimated assessable profit over HK\$2,000,000 for the year ended 31 August 2019 (2018: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

Corporate income tax in Malaysia is calculated at the statutory rate of 24% (2018: 24%) of the estimated taxable profit for the Financial Year.

Certain companies of the Group in Malaysia with a paid up capital of RM2,500,000 and below can enjoy lower corporate tax rate in Malaysia of 17% (2018: 18%) on the first RM500,000 taxable profit. For the year of assessment 2019, the corporate tax rate further reduced from 18% to 17% on the first RM500,000 taxable profit. Statutory rate as above shall be charged on chargeable income in excess of RM500,000 taxable profit. In addition, for the year of assessment 2019 and 2018 in Malaysia, a further reduction in the corporate tax rate, progressively, from 24% to 20% on the incremental chargeable income of 5% to 9.99%, 10% to 14.99%, 15% to 19.99% and 20% and above as compared to the immediate preceding year of assessment is available.

Subsidiary located in Philippines was subject to Philippines income tax at the rate of 30% (2018: 30%) on the estimated taxable income during the period. Starting from the fourth taxable year after the year the business operations commenced, entities incorporated in the Philippines are required to pay tax equivalent to the higher of 30% (2018: 30%) regular corporate income tax ("RCIT") on taxable income and the 2% (2018: 2%) minimum corporate income tax ("MCIT") on gross income. Gross income is equivalent to revenue less direct costs. Any excess of the MCIT over RCIT can be carried forward and credited against RCIT for three succeeding taxable years.

For the year ended 31 August 2019, the income tax was approximately RM1.9 million (2018: tax credit: RM0.2 million).

Net profit and Earning per shares

As a result of the foregoing, our Group's net profit was RM6.6 million for the year ended 31 August 2019 (2018: RM7.0 million). The Group's earnings per share for the Financial Year was RM0.83 sen (2018: RM0.88 sen).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 August 2019,

- (a) the Group's net current assets were approximately RM21.9 million (2018: RM19.7 million) and the Group had cash and cash equivalents of RM18.8 million. (2018: RM20.0 million);
- (b) the Group had bank borrowings and finance lease obligations of approximately RM126.0 million (2018: RM93.8 million) and RM21.2 million (2018: RM16.9 million);
- (c) the Group's current ratio was approximately 1.2 times (2018: 1.2 times). The gearing ratio is calculated based on the net debt divided by the adjusted capital plus net debt as the respective year end. The Group's gearing ratio was approximately 65.0% (2018: 62.0%); and
- (d) the Group's total equity attributable to owners of the Company amounted to RM85.4 million (2018: RM78.7 million). The capital of the Company mainly comprises share capital and reserves.

DIVIDENDS

The Board does not recommend the payment of any final dividends for the Financial Year (2018: nil).

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

As at 31 August 2019 and 2018, the Group has no significant investments, material acquisitions or disposals of subsidiaries and associated companies.

CAPITAL COMMITMENTS

As at 31 August 2019, the capital commitments of the Group are related to purchase of property, plant and equipment of approximately RM5.7 million (2018: RM3.0 million).

PLEDGE OF ASSETS

At the 31 August 2019, certain of the Group's property, plant and equipment with net carrying amount of RM26.7 million and RM48.1 million (2018: RM21.3 million and RM49.4 million) were held under finance leases and/or pledged as security for borrowings.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in section headed "Comparison of business objectives and strategies with actual business progress" of this report, the Group does not have any concrete plan for material investments or capital assets for the coming year.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 August 2019 and 2018.

PRINCIPAL RISKS AND UNCERTAINTIES

In the course of conducting business, our Group is exposed to various types of risks, including operational risks, market risks, liquidity risk, credit risks and regulatory risks. Our Group has established a set of risk management policies and measures to identify, evaluate and manage risks arising from our operations.

Chairman's Statement & Management Discussion and Analysis

The followings set out some of the primary operational risks our Group faces that may materially and adversely affect our Group's business, financial condition and results of operation and our risk management measures:

1. Risk of dependent on the availability/supply of raw materials

Our Group maintains good working relationships with our suppliers and has multiple sources of raw materials sources to avoid unanticipated stock outs. Our strong relationships with suppliers also help us to plan ahead, with advice from them on market trends and potential price changes.

2. Risk of workplace hazards at production plant

Our Group follows the health and safety-related rules and regulations set out in the Occupational Safety and Health Act 1994. To ensure our employees work in a safe and healthy environment, our Group has implemented a Health, Safety and Environment induction programme to brief new employees on safety precautions and best practices. We also have a Safety & Health Officer who provides in-house training for our employees and arrange certified training mandated by the Malaysian government.

3. Risk of breakdown of machinery at production plant

Our Group conducts scheduled maintenance to perform checks on our machinery and its spare parts on a regular basis. This is a preventive measure to reduce breakdown of machinery.

FOREIGN CURRENCY RISK

The Group operates mainly in Malaysia and the Philippines, and is exposed to foreign currency risks arising from various currency exposures, mainly with respect to USD, Pesos and SGD. The Group derives majority of our revenue in RM and a portion of that in USD, Pesos and SGD, as some of our customers are companies headquartered in the US and Singapore, who prefer to use their local currencies to settle payment. Most of our Group's major customers are contract manufacturers based in Malaysia and the Philippines and settles payment in RM and Pesos. Quotations from suppliers and payments made to them are generally in RM, Pesos and USD. There is no assurance that the foreign exchange rate will go in the direction that is favourable to our Group and may result in foreign exchange loss and negatively affect our Group's results of operations and other comprehensive income.

The management will monitor foreign currency exposure of the Group and will consider undertaking foreign exchange hedging activities to reduce the impact of foreign exchange rate movements on the Group's operating result. As at 31 August 2019 and 31 August 2018, our Group had no opened derivative financial instrument.

EMPLOYEES AND REMUNERATION POLICY

As at 31 August 2019, the Group had a total of 755 (2018: 524) full-time employees. The Group recognises that our success in the printing and packaging industry is dependent on our employees. Our Group recruits our employees based on their working attitude, industry experience, educational background and interpersonal skills. The Group generally pays our employees a fixed salary and discretionary performance-based bonus that is paid yearly, subject to individual performance. Certain level of our staff qualify for sales target-based monthly incentives. For the year ended 31 August 2019, the Group's staff costs, including Directors' emoluments, were approximately RM27.4 million (2018: RM26.5 million). The Group reviews the performance of our employees and such review results will be taken into account during the annual salary review and promotion appraisal period.

COMPARISON OF BUSINESS OBJECTIVES AND STRATEGIES WITH ACTUAL BUSINESS PROGRESS

As set out in the prospectus of the Company dated 31 August 2017 (the "**Prospectus**"), the business objectives and strategies of the Group are (i) Diversified customer industry; (ii) Product line expansion; (iii) Geographical expansion; (iv) Repayment of bank loan; and (v) General working capital.

An analysis comparing the future plans and use of proceeds contained in the Prospectus with the Group's actual business progress for the period from 15 September 2017 (the "**Listing Date**"), the date of which the shares of the Company were initially listed on GEM of the Stock Exchange (the "**Listing**"), to 31 August 2019 (the "**Relevant Period**") is set out below:

Business strategy	Implementation activities	Actual business progress during the Relevant Period
1. Diversified customer industry — continue to expand business in other industries such as fast moving consumer goods (" FMCG "), medical & cosmetics and food & beverage	— Recruitment of brand manager in Malaysia	The Group has recruited the brand manager during mid of June 2018.
	— Additional warehouse for Malaysia operations (Phase 1)	The Phase 1 construction of additional warehouse has completed by September 2019.
	— Additional warehouse for Malaysia operations (Phase 2)	The Phase 2 construction of additional warehouse has completed by September 2019.
	— Expansion of design and solutions and quality assurance facilities in Malaysia	Yet to commence.
2. Product line expansion — develop new products/services to increase revenue stream	— Development of new product line — adhesive labels in Malaysia	Yet to commence.
	— Setting up of low dust facilities in Malaysia for medical and cosmetics, and food and beverage packaging products (phase 1)	The setup has completed.
	— Renovation and improvement of factory in Malaysia	The renovation is on-going and target to complete by Q1 of 2020.
	— Setting up of low dust facilities in Malaysia for medical and cosmetics, and food and beverage packaging products (phase 2)	Yet to commence.
	— Setting up of sample show room in Malaysia	Yet to commence.
	— Replacement of equipment for Malaysia operations	Company has acquired a new stitching machine to replace the old machine.
	— Purchase of new printing machines(s)	Company has acquired the printing machine and it's up and running now.
	— Expansion of rigid box assembly line in Malaysia	Already completed.

Chairman's Statement & Management Discussion and Analysis

Business strategy	Implementation activities	Actual business progress during the Relevant Period
3. Geographical expansion — gain access to new markets	<ul style="list-style-type: none"> — Setting up full production facilities at Production Plant 2 — Renovation of Production Plant 2 at Light Industry & Science Park III in the Philippines — Balance payment for VVLF offset printing press for Philippine operations — Purchase of lorries for Philippine operations — Recruitment of staff for Philippine team — Hostel for Philippine team — Setting up of plant in northern part of Malaysia, with post-press production facilities (finishing only) 	<p>The full production facilities at Production Plant 2 has been set up.</p> <p>Renovation of Production Plant 2 at Light Industry & Science Park III has completed.</p> <p>Balance of the payment has been paid.</p> <p>The lorry has been acquired in September 2018.</p> <p>Additional 6 staff have been recruited.</p> <p>The hostel has been rented for Philippine team.</p> <p>Yet to commence.</p>

USE OF PROCEEDS

As disclosed in the Prospectus, the net proceeds from the Share Offer were approximately HK\$61 million, after deducting the listing related expenses. As at 31 August 2019, all of the unused proceeds were deposited in the licensed bank in Hong Kong or Malaysia. During the Relevant Period, the net proceeds from the Share Offer has been applied as follows:

	Planned use of net proceeds as stated in the Prospectus during the Relevant Period		Actual use of proceeds during the Relevant Period
	%	HK\$ million	HK\$ million
Diversified customer industry — expansion into other industries	10.1	6.0	5.0
Product line expansion	23.3	14.2	10.1
Geographical expansion	45.8	28.1	23.1
Repayment of bank loan	11.7	7.1	7.1
General working capital	9.1	5.6	5.6
	100.0	61.0	50.9

APPRECIATION

I would like to express my greatest gratitude to the Board, management and staff for their strenuous contribution towards the Group. Furthermore, I would also like to take this opportunity to sincerely thank our business partners and Shareholders for their continuous support and trust. I believe all members of the Group will dedicate their best efforts to drive business growth and to deliver enhanced returns to Shareholders.

Ong Yoong Nyock

Chairman

Hong Kong, 26 November 2019

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Ong Yoong Nyock, aged 67, was appointed as a Director of our Company on 21 April 2017 and re-designated as our executive Director on the same day. Mr. Ong is the chairman of the Board. He has been serving as a director of our Group since 8 August 1997. He is a seasoned entrepreneur with investments in various industries. Mr. Ong has 22 years of experience in the printing industry. Since January 1990, he has been serving as the managing director of Tiong Nam Logistics Holdings Bhd, a company listed on the Kuala Lumpur Stock Exchange (stock code: 8397) which is principally engaged in logistics and warehousing services where he is responsible for developing the company into a well-established total logistics company covering all the major routes of peninsular Malaysia and east Malaysia. Mr. Ong received his secondary school education from Sekolah Menengah Kebangsaan Gajah Berang, Melaka, Malaysia.

Mr. Tan Woon Chay (also known as Mr. Andrew Tan), aged 55, was appointed as a Director of our Company on 13 April 2017 and re-designated as our executive Director on 21 April 2017. Mr. Andrew Tan is the chief executive officer of the Group and a member of each of the Remuneration Committee and Nomination Committee. He joined our Group as marketing director in March 2004 and was appointed as managing director in March 2007. Mr. Andrew Tan has been responsible for the overall direction of our Group. From 2000 to 2004, Mr. Andrew Tan worked at Zaid Ibrahim & Co, a law firm in Malaysia, where he last held the position of senior associate. Mr. Andrew Tan received a bachelor's degree in law and economics from the University of Kent at Canterbury in the United Kingdom in July 1988. He was admitted as a member of the Honourable Society of the Inner Temple, London in January 1986 and was called to the bar by the said society in July 1991. He was also admitted to practice as an advocate and solicitor of the High Court in Malaya in December 1999.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liew Weng Keat, aged 44, was appointed as an independent non-executive Director of our Company on 25 August 2017. Mr. Liew is the chairman of Nomination Committee and a member of Audit Committee. Mr. Liew joined International Trading Room Software Ltd (now known as ITRS Group Limited) in London in May 1999 before being transferred to ITRS America from 2001 to 2006, with the last position being the vice president. Having spent five years in New York, Mr. Liew then relocated to Hong Kong to start-up ITRS Asia's business for Asia Pacific from February 2006 to August 2008. From August 2008 to May 2009, Mr. Liew was the head of sales of North East Asia at Financial Innovative Technology International Pte. Ltd. From June 2009 to March 2010, he was a technology director at ITRS Asia Limited. Since November 2009, Mr. Liew has been the global account director at ITRS Asia Limited, responsible for business development for the Asia Pacific region. He was an independent non-executive director for Worldgate Global Logistics Ltd, a company listed on the Stock Exchange (stock code: 8292) for the period from 17 June 2016 to 31 July 2019. Mr. Liew received a bachelor's degree of engineering and a bachelor's degree of science in mechanical engineering from the University of Manchester in the United Kingdom in July 1997 and received a master's degree of business administration from Richmond, The American International University in London in the United Kingdom in December 1999.

Mr. Teoh Cheng Tun, aged 44, was appointed as an independent non-executive Director of our Company on 25 August 2017. Mr. Teoh is the chairman of Remuneration Committee and a member of each of Audit Committee and Nomination Committee. He started his career as an associate at Zaid Ibrahim & Co, a legal services provider from 1999 to 2000. He served as an analyst at Rating Agency Malaysia Berhad (now known as RAM Holdings Group), a rating agency from 2001 to 2003 where he was involved in corporate credit rating. In 2004, he resumed practicing law by joining AB Teoh & Co. (now known as AB Teoh & Shariza) as a partner. He then founded CT Teoh & Partners (now known as Teoh & Teoh) in 2013 where he has been advising on property, banking, commercial and intellectual property related matters. Mr. Teoh received a bachelor's degree of commerce and a bachelor's degree of laws from the University of New South Wales in Australia in April 1998 and June 1999, respectively.

Mr. Choy Wing Keung David, aged 54, was appointed as an independent non-executive Director of our Company on 25 August 2017. Mr. Choy is the chairman of Audit Committee and a member of Remuneration Committee. He founded David Choy & Co., an accounting firm in 1997 where he has been a certified public accountant, providing audit, assurance and taxation. He also previously served as an independent non-executive director for Perfectech International Holdings Limited, a company listed on the Stock Exchange which is principally engaged in manufacturing and selling toy products (stock code: 765) from May 2007 to November 2016. Mr. Choy graduated from the Hong Kong Shue Yan College (now known as the Hong Kong Shue Yan University) in Hong Kong with a diploma in accountancy in 1989. He has been a practicing certified public accountant since 1997 and is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He was also admitted as an associate of the Chartered Association of Certified Accountants (now known as the Association of Chartered Certified Accountants).

SENIOR MANAGEMENT

Mr. Yong Hong Kai, aged 41, joined our Group in May 2016 and is the marketing general manager of our Group. He is responsible for overseeing the marketing of our Group. In 2007, he joined CEVA Freight Holdings (Malaysia) Sdn. Bhd., a company principally engaged in logistics business where his last held position was assistant manager of business development. In 2009, he worked at HT Lubricant Sdn. Bhd., a company principally engaged in lubricant distribution where he held the position of industrial sales manager. In 2011, he joined our Group as the general marketing manager but left in 2015 and rejoined our Group with the same position in 2016. Mr. Yong completed the course requirements of a bachelor's degree of engineering (infomechatronics) from the Queensland University of Technology in Australia in February 2003.

Ms. Tan Dee Peng, aged 42, first joined our Group in October 2001 and is the senior purchasing manager of our Group, responsible for sourcing suppliers in the purchasing department of our Group. Ms. Tan started her career in 2001 as a production planner with our Group. She left our Group in April 2004 and rejoined in May the same year as a marketing executive. Ms. Tan received a bachelor's degree in economics from the Universiti Putra Malaysia in Malaysia in August 2001.

Mr. Tan Teck Sen, aged 37, joined our Group in July 2015 and is the corporate development manager of our Group, responsible for overseeing the corporate development of our Group. Mr. Tan started his professional career in 2005 as a graduate (finance and accounting) with Kerry Ingredients (M) Sdn Bhd, a company principally engaged in manufacturing and distributing application specific ingredients and flavours. In 2013, he worked at Kerry Group Business Services (ASPAC) Sdn Bhd, a company principally engaged in management services as a senior project accountant and was responsible for financial reporting. Mr. Tan received a bachelor's degree in accounting and marketing from the Curtin University of Technology in Australia in January 2005.

Directors and Senior Management

Mr. Tan Geng, aged 36, joined our Group in July 2015 and is the human resources and general affairs manager of our Group, responsible for overseeing the human resources and general affairs of our Group. Mr. Tan started his professional career in 2005 as a management trainee in the personnel and administration department of Tai Wah Garments Industry Sdn. Bhd., a company principally engaged in garment manufacturing where he was responsible for human resources. From 2008 to 2013, he was a treasury executive with PGEO Group Sdn. Bhd., a company principally engaged in the manufacturing of edible oils where he was responsible for the management of corporate cash flow. Mr. Tan received a bachelor's degree of business from the University of Technology, Sydney in Australia in May 2005.

Mr. Cosmos Lim Chen Ming, aged 52, joined our Group in April 2019 and is the Head of Finance and Compliance of our Group, responsible for overseeing the finance department of our Group. Mr. Lim started his career in 1991 working for Coopers & Lybrand (now PricewaterhouseCoopers) in London where he completed his professional examination by Institute of Chartered Accountants in England and Wales. In 1995 he transferred to Coopers & Lybrand, Kuala Lumpur and worked as Audit Manager. Subsequently, he worked with various investment banks at senior management level, specializing in corporate finance and advisory, debt capital markets and project advisory. Mr. Lim graduated with distinction from University of Wisconsin – Madison, USA where he obtained his Bachelor of Business Administration with double major in Accounting and Finance, Investment & Banking.

Mr. Robin Lee Che Kian, aged 42, joined our Group in March 2019. As an Operation Assistance General Manager, he is responsible to oversee entire Malaysia and Philippine Operation. He had been employed by multiple world ranking Contract Manufacturers throughout his 17 years working experience, inclusive of Technocom System Sdn. Bhd. (also known as Venture), Benchmark Electronics and Flextronics. His last held position was Operation Director in Flex Zhuhai Campus, managing a business unit consist of 5,000 employees. Mr. Robin Lee received his diploma in Electronics and Electrical Engineering from Ming Hsin Technology of University in Taiwan in Year 2001.

Ms. Cheng Yee Foon, aged 45 years old, joined our group in December 2018 as the Assistant General Manager for Planning and Customer Service. She started her first job at Prelude Printing Sdn Bhd, where she had proven her ability and succeeded as the Production Manager. Ms. Cheng later on joined Linocraft Printers Sdn Bhd, where she contributed further with her market strength and experience for 10 years with last held position as the Senior Production Manager. In 2012, she joined Venture Technocom Systems Sdn Bhd as a Program Manager, where she ran a major project that received great success for the company. She achieved a Diploma in Computer Studies before started her career in the printing industry since year 1995.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to fulfilling its responsibilities to the Shareholders and protecting and enhancing Shareholders' value through good corporate governance.

The Board recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. The Company's corporate governance practices are based on the principles of good corporate governance as set out in the Corporate Governance Code and Corporate Governance Report in Appendix 15 to the GEM Listing Rules (the "CG Code"). The Board is satisfied that, save for the deviations are set out in the relevant section as explained below, the Company had complied with the all applicable code provisions in the CG Code during the Financial Year.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct for dealing in securities of the Company by the Directors in accordance with Rules 5.46 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company during the Financial Year.

BOARD OF DIRECTORS

Responsibilities

The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group. The Board sets the Group's mission and standards and ensures that the requisite financial and human resources support is in place for the Group to achieve its objectives.

The Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference which are published on the respective websites of the GEM and the Company. The Board may from time to time delegate certain functions to senior management of the Group if and when considered appropriate. The management of day-to-day operation of the Group's businesses and implementation of the business plans, strategies and policies adopted by the Board has been delegated to the senior management of the Group.

The functions performed by the Board include but are not limited to the following matters:

- formulating the Group's strategy and direction and monitoring the implementation thereof;
- deciding all material contracts, acquisitions, investments, divestments, disposals of assets or any significant capital expenditure;
- approving of the Group's financial statements, published reports, price sensitive announcement and other disclosure required under the GEM Listing Rules;

Corporate Governance Report

- developing, monitoring and reviewing the Group's corporate governance practices and the effectiveness of the Group's financial controls, internal control and risk management systems;
- Board appointment and other major appointments or removal; and
- monitoring the performance of the management.

The Directors have full access to information of the Group and are entitled to seek independent professional advice in appropriate circumstances at the Company's expense.

Composition

The Company is committed to the view that the Board should include a balanced composition of executive and independent non-executive Directors (the "INED(s)") so that there is an independent element on the Board, which can effectively exercise independent judgment, and that non-executive Directors should be of sufficient caliber and number for their views to carry weight.

As at the date of this report, the Board comprises the following five Directors:

Executive Directors

Mr. Ong Yoong Nyock (*Chairman*)

Mr. Tan Woon Chay (*Chief executive officer*)

Independent Non-executive Directors

Mr. Choy Wing Keung David

Mr. Liew Weng Keat

Mr. Teoh Cheng Tun

The biographical details of each of the Directors are set out in the section headed "Directors and Senior Management" of this report.

There was no financial, business, family or other material/relevant relationship among the Directors.

In compliance with Rule 5.05(1), 5.05(2) and 5.05A of the GEM Listing Rules, the Company has appointed three INEDs representing more than one-third of the board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise.

The INEDs have brought in a wide range of business and financial expertise, experiences and independent judgment to the Board. Through active participation in the Board meetings and serving on various Board committees, all INEDs will make various contributions to the Company.

The Company has received an annual confirmation of independence in writing from each of the INEDs. Based on such confirmation, the Company considers such all the INEDs are independent and have met the independence guidelines set out in Rule 5.09 of the GEM Listing Rules for the Financial Year.

Proper insurance coverage in respect of legal actions against the Directors' liability has been arranged by the Company.

CONTINUING PROFESSIONAL DEVELOPMENT

Each newly appointed Director (if any) receives a formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure that he/she has a proper understanding of the Company's operations and business and is fully aware of the director's responsibilities under the statutes and common law, the GEM Listing Rules, legal and other regulatory requirements and the Company's business and governance policies. The Company will from time to time provide briefings to all Directors to develop and refresh their duties and responsibilities.

All Directors are also encouraged to attend relevant training courses at the Company's expense and they have been requested to provide the Company with their training records. All Directors confirmed that they have complied with the CG Code provision A.6.5. During the Financial Year, all Directors namely, Mr. Ong Yoong Nyock, Mr. Tan Woon Chay, Mr. Choy Wing Keung David, Mr. Liew Weng Keat and Mr. Teoh Cheng Tun had participated in continuous professional development by attending seminars, courses or conferences or read related materials to develop and refresh their knowledge and skills.

MEETINGS OF BOARD AND DIRECTORS' ATTENDANCE RECORDS

During the Financial Year, the Board held 6 meetings and passed 3 written resolutions, at which the Directors discussed and approved, amongst other matters, (i) the Group's consolidated results for the year ended 31 August 2018, the first quarterly results for the three months ended 30 November 2018, the interim results for the six months ended 28 February 2019 and the third quarterly results for the nine months ended 31 May 2019; (ii) the environmental, social and governance report 2018; (iii) adoption of dividend policy, nomination policy and revision of terms of reference of nomination committee and audit committee; (iv) the effectiveness of the Group's internal control and risk management systems; and (v) the overall strategic direction and plan of business.

The Board is scheduled to meet four times a year at approximately quarterly intervals with notice given to the Directors at least 14 days in advance. For all other Board meetings, notice is given in a reasonable time in advance. The Directors are allowed to include any other matters in the agenda that is required for discussion and resolution at the meeting. To enable the Directors to be properly briefed on issues arising at the Board meetings and to make informed decisions, an agenda and the accompanying Board papers together with all appropriate and relevant information in relation to the matters of the meetings are sent to all Directors at least three days before the intended date of each regular Board Meeting and three days or such other period as agreed before each other Board meeting. All Directors should have access to the advice and services of the company secretary of the Company (the "**Company Secretary**") with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The Company Secretary is responsible for keeping all Board meetings' minutes. Draft and final versions of the minutes will be circulated to the Directors for comments and record within a reasonable time after each meeting and the final version is open for the Directors' inspection. According to the GEM Listing Rules, any Directors and their associates (as defined in the GEM Listing Rules) with a material interest in the transactions to be discussed at the Board meetings will abstain from voting on resolutions approving such transactions and are not counted in the quorum of the meetings.

Corporate Governance Report

The attendance of each Director at the Board meeting during the Financial Year is as follows:

Name of Directors	Number of attendance/Number of Board meetings
Executive Directors	
Mr. Ong Yoong Nyock (<i>Chairman</i>)	6/6
Mr. Tan Woon Chay (<i>Chief executive officer</i>)	6/6
Independent Non-executive Directors	
Mr. Choy Wing Keung David	6/6
Mr. Liew Weng Keat	6/6
Mr. Teoh Cheng Tun	6/6

Apart from the above Board meetings, the chairman of the Board (the "**Chairman**") held a meeting with all the INEDs without the presence of other Directors during the Financial Year.

During the Financial Year, an annual general meeting of the Company (the "**AGM**") was held on 18 January 2019 (the "**2019 AGM**").

Name of Directors	Number of attendance/Number of general meeting
Executive Directors	
Mr. Ong Yoong Nyock (<i>Chairman</i>)	0/1
Mr. Tan Woon Chay (<i>Chief executive officer</i>)	1/1
Independent Non-executive Directors	
Mr. Choy Wing Keung David	1/1
Mr. Liew Weng Keat	1/1
Mr. Teoh Cheng Tun	1/1

Pursuant to code provision E.1.2 of the CG Code, the Chairman should attend the AGM. However, Mr. Ong Yoong Nyock ("**Mr. Ong**"), being the Chairman, was unable to attend the 2019 AGM due to his other prior engagement. Mr. Ong invited Mr. Tan Woon, an executive Director and chief executive officer (the "**CEO**") to chair and answer questions from Shareholders at the 2019 AGM.

NON-COMPETITION UNDERTAKING

The deed of non-competition dated 28 August 2017 and executed by Mr. Ong, Ms. Yong Kwee Lian (“**Mrs. Ong**”), Charlecote Sdn. Bhd. and Linocraft Investment Pte Limited (the “**Controlling Shareholders**”) in favour of our Company (for itself and on behalf of its subsidiaries), the principal terms of which are summarised in the section headed “Relationship with our Controlling Shareholders — 3. Non-competition Undertakings” in the Prospectus.

Each of our Controlling Shareholders has undertaken to us in the Deed of Non-Competition that he/she/it will not, and will procure his/her/its close associates (other than members of our Group) not to directly or indirectly be involved in or undertake any business (other than our business) that directly or indirectly competes, or may compete, with our business or undertaking (the “**Restricted Activity**”), or hold shares or interest in any companies or business that competes directly or indirectly with the business engaged by our Group from time to time, except where our Controlling Shareholders and/or his/her/its close associates hold less than 5% of the total issued shares of any company (whose shares are listed on the Stock Exchange or other stock exchange) which is engaged in any business that is or may be in competition with any business engaged by any member of our Group and they do not control 10% or more of the composition of the board of directors of such company.

Each of the Controlling Shareholders further undertakes that if he/it or his/its close associates other than any member of the Group is offered or becomes aware of any business opportunity which may compete with any business opportunity of the Group, he/it shall procure that his/its close associates to promptly notify the Group in writing and the Group shall have a right of first refusal to take up such opportunity.

The Group shall, within 30 days after receipt of the written notice (or such longer period if the Group is required to complete any approval procedures as set out under the GEM Listing Rules from time to time), notify the Controlling Shareholder(s) whether our Group will exercise the right of first refusal. The Group shall only exercise the right of first refusal upon the approval of all independent non-executive Directors who do not have any interest in such opportunity. The relevant Controlling Shareholder(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of the independent non-executive Directors for considering whether or not to exercise the right of first refusal.

The Deed of Non-Competition will lapse automatically if our Controlling Shareholders and their close associates directly or indirectly through subsidiaries, associate companies or any other persons own less than 30% of our issued Shares or our Shares cease to be listed on the Stock Exchange.

The Company has received a written confirmation from the Controlling Shareholders in respect of the compliance and enforcement of the terms of the Non-competition Undertaking by the Controlling Shareholders during the Financial Year.

The INEDs have reviewed the Non-competition Undertaking entered into by the Controlling Shareholders as to whether the Controlling Shareholders had abided by the Non-competition Undertaking. The INEDs confirmed that the Controlling Shareholders had not been in breach of the Non-competition Undertaking during the Financial Year.

Corporate Governance Report

BOARD DIVERSITY POLICY

The Board has adopted a policy of the Board diversity (the “**Board Diversity Policy**”) and discussed all measurable objectives set for implementing the Board Diversity Policy.

The Company recognises and embraces the benefits of a diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills and knowledge.

NOMINATION POLICY

The Group has adopted a nomination policy (the “**Nomination Policy**”) which provides the nomination procedures and process for selection of Directors. The Nomination Committee shall identify and nominate suitable candidates for appointment as Director(s) to fill a casual vacancy on the Board or as an addition to the existing Board. The criteria to be adopted by the Board in considering each individual shall be their ability to contribute to the effective carrying out by the Board of its responsibilities set out in the Appendix 15 to the GEM Listing Rules.

The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate, including but not limited to, reputation for integrity; accomplishment and experience in the industry where the principal businesses of the Company and its subsidiaries; commitment in respect of available time and relevant interest; and diversity in all its aspects, including but not limited to skill, knowledge, gender, age, cultural and educational background or professional experience. These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

The Board may consider any proposed candidate(s) as recommended by the management or Shareholders and nominate such candidate(s) to the Nomination Committee, if it thinks fit. The Nomination Committee may request candidates to provide additional information and documents, if considered necessary.

Nomination Procedures

For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board’s consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

In order to provide information of the candidates nominated by the Board to stand for election at a general meeting, and to invite nominations from shareholders, a circular will be sent to shareholders. The circular will set out the lodgment period for Shareholders to make the nominations. The names, brief biographies (including qualifications and relevant experience), independence, proposed remuneration and any other information, as required pursuant to the applicable laws, rules and regulations, of the proposed candidates will be included in the circular to Shareholders.

Where the board proposes a resolution to elect an individual as an INED at the general meeting, it should set out in the circular to Shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he/she should be elected and the reasons why they consider him/her to be independent.

A Shareholder can serve a notice to the Board or Company Secretary with the lodgement period of its intention to propose a resolution to elect a certain candidate as a Director, without the Board's recommendation or the Nomination Committee's nomination, other than those candidates set out in the shareholder circular. The particulars of the candidates so propose will be sent to all Shareholders for information by a circular.

CHAIRMAN AND CHIEF EXECUTIVE

According to the Code Provision A.2.1 of the CG Code, the roles of the chairman and the chief executive should be separate and performed by different individuals to ensure a balance of power and authority so that power is not concentrated in any one individual. Mr. Ong, the executive Director, is the Chairman and is responsible for the leadership of the Board while Mr. Tan Woon Chay, the executive Director, is the CEO and is responsible for managing the Group's business and overall operations.

NON-EXECUTIVE DIRECTORS

Each of our INEDs has entered into a letter of appointment with our Company for a term of three years commencing on the Listing Date, which may be terminated by not less than one month's notice in writing served by either party on the other. Each of the INEDs has a fixed term of appointment for a term of three years commencing on 15 September 2017, subject to retirement by rotation and re-election at AGM in accordance with the Company's articles of association (the "**Articles**").

BOARD COMMITTEES

The Board has established three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee to oversee particular aspects of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties. The written terms of reference for Board Committees are posted on the respective websites of the GEM and the Company.

Audit Committee

Our Company established the Audit Committee pursuant to a resolution of our Directors passed on 25 August 2017 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with paragraph C.3.3 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules has been adopted. The primary duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and relationship with external auditors, and arrangements to enable employees of the Company to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters of the Company and performing the Company's corporate governance functions. At present, the Audit Committee of our Company consists of three members who are Mr. Liew Weng Keat, Mr. Teoh Cheng Tun and Mr. Choy Wing Keung David. Mr. Choy Wing Keung David is the chairman of the Audit Committee.

Corporate Governance Report

During the Financial Year, the Audit Committee held 6 meetings, at which the Audit Committee has reviewed and discussed, amongst other matter, (i) the Group's consolidated results for the year ended 31 August 2018, the first quarterly results for the three months ended 30 November 2018, the interim results for the six months ended 28 February 2019 and the third quarterly results for nine months ended 31 May 2019; and (ii) the effectiveness of the Group's internal control and risk management systems the Group's internal audit function and recommended to the Board for consideration the same.

The attendance of each member at the Audit Committee Meeting during the Financial Year is as follows:

Name of Directors	Number of attendance/number of meetings
Mr. Choy Wing Keung David	6/6
Mr. Liew Weng Keat	6/6
Mr. Teoh Cheng Tun	6/6

Remuneration Committee

Our Company established the Remuneration Committee on 25 August 2017 with written terms of reference in compliance with paragraph B.1.2 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the Remuneration Committee are to make recommendation to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; review performance based remuneration; and ensure none of our Directors determine their own remuneration. The Remuneration Committee consists of three members who are Mr. Tan Woon Chay, Mr. Choy Wing Keung David and Mr. Teoh Cheng Tun. Mr. Teoh Cheng Tun is the chairman of the Remuneration Committee.

During the Financial Year, the Remuneration Committee held 1 meeting, at which the Remuneration Committee reviewed the remuneration packages for individual executive Directors and senior management and making recommendations to the Board.

The attendance of each member at the Remuneration Committee Meeting during the Financial Year is as follows:

Name of Directors	Number of attendance/number of meetings
Mr. Teoh Cheng Tun	1/1
Mr. Choy Wing Keung David	1/1
Mr. Tan Woon Chay	1/1

Nomination Committee

Our Company established the Nomination Committee on 25 August 2017 with written terms of reference in compliance with paragraph A.5.2 of the Code of Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the Nomination Committee are to review the structure, size and composition of our Board on regular basis; identify individuals suitably qualified to become Board members; assess the independence of INEDs; and make recommendations to our Board on relevant matters relating to the appointment or re-appointment of Directors and review the policy on the Board Diversity Policy. The nomination committee consists of three members who are Mr. Tan Woon Chay, Mr. Teoh Cheng Tun and Mr. Liew Weng Keat. Mr. Liew Weng Keat is the chairman of the Nomination Committee.

During the Financial Year, the Nomination Committee held 2 meeting, at which the Nomination Committee (i) assessed the independence of the INEDs, and (ii) recommended to the Board for consideration the re-appointment of all the retiring Directors at the forthcoming AGM.

Name of Directors	Number of attendance/ number of meetings
Mr. Liew Weng Keat	2/2
Mr. Tan Woon Chay	2/2
Mr. Teoh Cheng Tun	2/2

AUDITORS' REMUNERATION

For the Financial Year, BDO Limited ("BDO") was engaged as the Group's independent auditors. The remuneration paid/payable to BDO for the Financial Year is set out below:

Category of services	Amounts HK\$'000
Audit services — Annual audit	880
Non-audit services — Report on the continuing connected transactions	10
Report on agreement with preliminary announcement of results	10

ACCOUNTABILITY AND AUDIT

The Board is committed to provide a balanced, clear and comprehensive assessment of the Group's performance, position and prospects in annual and interim reports, and other financial disclosures required by the GEM Listing Rules. The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group which give a true and fair view of the state of affairs of the Company and the Group's results and cash flow for the Financial Year and are properly prepared on a going concern basis in accordance with the applicable statutory requirements and accounting standards.

The Management will provide the Board with monthly updates giving a balanced and understandable assessment of the Group's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under Rule 5.01 and Chapter 17 of the GEM Listing Rules.

Corporate Governance Report

The Directors were not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

In addition, BDO has stated in the independent auditor's report its reporting responsibilities on the Company's consolidated financial statements for the Financial Year.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the design, implementation, monitor and review of the Group's internal control system including the internal control and risk management for the Company to ensure their effectiveness and efficiency. The objective of internal control is to safeguard the Company's assets and ensure its accounting records are properly maintained, so that all the financial information is accurate and reliable. The Group has adopted a series of internal control policies and procedures designed to provide reasonable assurance for achieving the objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. All employees are committed to continually enhancing the risk management measures to ensure that these measures work in line with the growth of our business strategies and integrated into day-to-day operation of the business. The Board shall at least annually review its risk management and internal control system.

The objective of the risk management and internal control of the Group include:

- establishing and constantly improving the risks management and internal control system;
- ensuring the Group's risk management and internal control in compliance with the GEM Listing Rules requirements; and
- managing rather than eliminating the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

In order to continually improve our Group's internal control and risk management system upon Listing, our Group has established an on-going process for identifying, evaluating and managing the significant risks faced by our Group. The key procedures that our Group has established and implemented are summarised as follows:

- segregating duties and functions of the respective operational departments of our Group;
- reviewing systems and procedures to identify, measure, manage and control risks; and
- updating the staff handbook, internal control manual and compliance manual where there are changes to business environment or regulatory guidelines.

Our Group will continually monitor and improve our risk management measures to ensure that these measures work in line with the growth of our business. The key risks related to the Group's businesses and to the industries in which the Group operates were set out in the section headed "Principal risks and uncertainties" of Chairman's Statement and Management Discussion and Analysis.

Our Group engaged an independent internal control consultant to review our Group's internal control systems and procedures for the Financial Year, including the financial, operational and compliance controls and risk management functions.

The Board has conducted a review of the effectiveness of the risk management, internal control system and internal audit function of the Group through discussion with the Audit Committee on major findings and control issue. The Board considers that the Group has implemented appropriate procedures safeguarding the Group's assets and ensure its accounting records are properly maintained and compliance of the relevant laws and regulations. In addition, the Board also considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and internal audit and financial reporting function.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company has established and maintained the procedures and internal controls for the handling and dissemination inside information. The Company has adopted a code of conduct for dealing in securities of the Company by the Directors in accordance with Rules 5.46 to 5.67 of the GEM Listing Rules. Other employees of the Group who are likely to be in possession of inside information of the Company are also subject to dealing restrictions. The Group has strictly prohibited unauthorized use of confidential or insider information or any use of such information for the advantage of himself or others. Any inside information and any information which may potentially constitute inside information is promptly identified, assessed and escalated to the Board and for the Board to decide on the need for disclosure. Inside information and other information which is required to be disclosed pursuant to the GEM Listing Rules will be announced on the respective websites of GEM and the Company in due course.

COMPANY SECRETARY

Mr. Lam Wing Tai ("**Mr. Lam**") was appointed as the Company Secretary on 21 April 2017. Mr. Lam was admitted as a certified practicing accountant of the Certified Practicing Accountants Australia in May 1995 and a certified public accountant of the Hong Kong Institute of Certified Public Accountants in January 1996. Mr. Lam has complied with the training requirement for the Financial Year under Rule 5.15 of the GEM Listing Rules.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to convene an extraordinary general meeting (the "EGM")

Pursuant to the Article 58 of the Articles, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The requisition must state clearly the name of the Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene the EGM and the proposed agenda.

Corporate Governance Report

Procedures for Shareholders to send enquires to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong.

COMMUNICATION WITH THE SHAREHOLDERS

The Board has the overall responsibility to ensure that the Company maintains on-going dialogue with Shareholders and in particular, use annual general meetings or other meeting to communicate with Shareholders and encourage their participation.

Information will be communicated to the Shareholders through convening the annual general meeting or general meeting, publication of annual, interim and quarterly reports, notices, announcement, circulars as well as all the disclosures submitted to the respective websites of GEM and the Company.

CONSTITUTIONAL DOCUMENTS

During the Financial Year, there were no changes in the constitutional documents of the Company. The amended and restated memorandum and articles of association of the Company is available on the respective websites of the GEM and the Company.

DIVIDEND POLICY

The Company adopted a dividend policy (the “**Dividend Policy**”) on 28 December 2018. Under the Dividend Policy, provided there are distributable profits and without affecting the normal operations of the Group, the Company may consider to declare and pay dividends to the Shareholders.

In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, included but not limited to: (i) the general financial condition of the Group; (ii) working capital and debt level of the Group; (iii) future cash requirements and availability for business operations, business strategies and future development needs; (iv) any restrictions on payment of dividends that may be imposed by the Group’s lenders; (v) the general market conditions; and (vi) any other factors that the Board deems appropriate.

The payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands and the Articles. The Dividend Policy will continue to be reviewed from time to time and there can be no assurance that a dividend will be proposed or declared in any specific periods.

Report of the Directors

The Board is pleased to present the report together with the audited consolidated financial statements of the Group for the Financial Year.

PRINCIPAL ACTIVITIES

The Group is a printing and packaging solutions provider based in Malaysia. The principal activities of the Company's principal subsidiaries are set forth in note 32 to the consolidated financial statements.

BUSINESS REVIEW AND ANALYSIS OF KEY FINANCIAL PERFORMANCE INDICATORS

The business review and analysis of key financial performance indicator of the Group for the Financial Year are set out in the "Chairman's Statement and Management Discussion and Analysis" of this annual report.

FINANCIAL RESULTS AND FINANCIAL POSITION

The results of the Group for the Financial Year and the financial position of the Company and the Group as at 31 August 2019 are set forth in the consolidated financial statements on pages 45 to 115 of this annual report.

FINAL DIVIDEND

The Board does not recommend the payment of final dividends for the Financial Year.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to Shareholders by reason of their holding of the Company's securities.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the last five years, as extracted from the audited consolidated financial statements of the Company or the Prospectus, is set out on page 116 of this annual report. This summary does not form part of the consolidated financial statements for the Financial Year.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in plant and equipment of the Group during the Financial Year are set out in note 17 to the consolidated financial statements.

Report of the Directors

PROPERTIES

The Group did not hold any major property for development and/or sale or for investment purpose as at 31 August 2019.

SHARE CAPITAL

Details of the Company's share capital are set out in notes 29 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

RESERVES

Details of movements in the reserves of the Company and of the Group during the Financial Year are set out in note 30 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 August 2019, the Group's reserves available for distribution to the Shareholders comprising (share premium, merger reserve and retained earnings) amounted to approximately RM82.2 million.

SHARE OPTION SCHEME

The Company has not adopted any share option scheme.

EQUITY-LINKED AGREEMENTS

The Company did not have any equity-linked agreements that (i) will or may result in the Company issuing Shares or (ii) require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the Financial Year or subsisted at the end of the Financial Year.

PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES OF THE COMPANY

During the Financial Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.



MAJOR CUSTOMERS AND SUPPLIERS

During the Financial Year, the five largest suppliers of the Group accounted for about 45.6% of the Group's cost of sales and the largest supplier accounted for about 18.1% of the cost of sales.

During the Financial Year, the five largest customers of the Group accounted for about 75.4% of the Group's total revenue and the largest customer accounted for about 26.7% of the total revenue.

Based on the information publicly available to the Company and to the best knowledge of the Directors, none of the Directors, their respective close associates (as defined in the GEM Listing Rules) or any shareholders (which to the best knowledge of the Directors, own more than 5% of the Shares) had any beneficial interest in any of the Group's five largest customers or suppliers referred to above.

CONTINUING CONNECTED TRANSACTIONS

Master Logistics Services Agreement

On 25 August 2017, our Company entered into a master logistics services agreement (the "**Master Logistics Services Agreement**") with Tiong Nam Logistics Solutions Sdn Bhd ("**Tiong Nam**"), pursuant to which our Company agreed to engage Tiong Nam or its associate companies to provide logistics services to our Group for a term three years commencing from 1 September 2017 to 31 August 2020. For the two years ended 31 August 2015 and 2016 and the nine months ended 31 May 2017, the total logistics fee paid by our Group to Tiong Nam or its associate companies for the logistic services amounted to approximately RM3.2 million, RM2.8 million and RM2.9 million, respectively.

Our Directors estimate that the maximum transaction amounts under the Master Logistics Services Agreement for the years ending 31 August 2018, 2019 and 2020 will not exceed RM3.7 million, RM4.0 million and RM4.4 million, respectively. The terms of the Master Logistics Services Agreement have been arrived at after arm's length negotiation between our Company and Tiong Nam, with reference to the prevailing market price for such logistic services by other providers comparable with Tiong Nam. The estimated fee for the logistics services to be paid by our Group to Tiong Nam or its associate companies to our Group was determined with reference to (a) the historical transaction amounts for the two years ended 31 August 2015 and 2016 and the nine months ended 31 May 2017; (b) the projected demand for the logistics arrangement of our Company's products in the next three years; (c) the prevailing market price of such logistics services in the open market; and (d) the expected growth in the demand for our Company's printing and packaging services in the next three years. In considering whether to engage the services of Tiong Nam in the future, our Group will seek quotations from at least two other independent comparable suppliers in the open market. Our Group will retain logistics services from Tiong Nam if the price and quality of its services offered are comparable to or more favourable than those offered by independent third party suppliers to our Group for the relevant transactions contemplated under the relevant agreement.

Tiong Nam is owned as to 70% by Mr. Ong, our executive Director and one of our Controlling Shareholders. As such, Tiong Nam is a connected person of our Company for the purpose of the GEM Listing Rules. Accordingly, the transactions under the Master Logistics Services Agreement will constitute continuing connected transactions for our Company under Chapter 20 of the GEM Listing Rules.

Report of the Directors

The Master Logistics Services Agreement is a framework agreement which provides the mechanism for the operation of the connected transactions described therein. It is envisaged that from time to time and as required, individual retainers may be required to be entered into between our Group and Tiong Nam or its associate companies. Each individual retainer will set out the relevant logistics services to be provided by Tiong Nam or its associate companies to our Group, the fee for the logistics services to be paid by our Group and any detailed specifications which may be relevant to those retainers. The individual retainers may only contain provisions which are in all material respects consistent with the binding principles, guidelines, terms and conditions set out in the Master Logistics Services Agreement. As the individual retainers are simply further elaborations on the retainers contemplated by the Master Logistics Services Agreement, they do not constitute new categories of connected transactions as far as the GEM Listing Rules are concerned.

The amount of the transactions entered into during the Financial Year was RM2.9 million. Details of the continuing connected transactions for the Financial Year are set out in note 34 to the consolidated financial statements. The Company confirmed that it has complied with the relevant requirements in respect of the above continuing connected transactions in accordance with Chapter 20 of the GEM Listing Rules.

AUDITORS' LETTER ON CONTINUING CONNECTED TRANSACTIONS

The Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The Company's auditors have issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 31 to 32 of this report in accordance with Rule 20.54 of the GEM Listing Rules.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The INEDs have reviewed the above continuing connected transactions and confirmed that the above continuing connected transactions have been entered into: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties (as defined under the GEM Listing Rules); and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Since each of the applicable percentage ratios (other than the profits ratio) for Master Logistics Services Agreement is expected to be more than 5%, the transactions contemplated under Master Logistics Services Agreement are subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement, circular and independent shareholders' approval requirements pursuant to Rule 20.103 of the GEM Listing Rules in respect of the continuing connected transactions as disclosed in the above subject to the aggregate value of such non-exempt continuing connected transactions for each financial year not exceeding the relevant annual cap amount set forth in the respective caps stated above. Save as disclosed above, the Directors are not aware of any transactions which constituted a connected transaction or continuing connected transaction under the GEM Listing Rules.

RELATED PARTIES TRANSACTIONS

Related parties transactions of the Group during the Financial Year are disclosed in note 34 to the consolidated financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group understands the importance of environmental sustainability and protection. We are mindful of the environment and are committed to preserve it. Linocraft Printers Sdn. Bhd., an indirect wholly-owned subsidiary of the Company, has obtained ISO 14001:2015 environmental management system certification and takes an active role in being environmentally friendly. We invested in resources to build a water treatment plant within our production plant in Malaysia to treat water that has been contaminated by printing chemicals. Our Group has a certified environmental professional who has attended relevant environmental, health, safety and ISO training courses, is taking care of environmental health.

The Group has adopted policies on pollution prevention, preservation of natural resources and adherence to environmental laws and regulations. The Environmental, Social and Governance Report for the year ended 31 August 2019 containing all information required by the GEM Listing Rules will be published on the respective websites of GEM and the Company in due course.

PERMITTED INDEMNITY PROVISIONS

The Articles provides that the Directors, Secretary and other officers and every Auditor for the time being of the Company shall be entitled to be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty.

The Company has arranged for appropriate insurance cover for Director's and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group and its activities are subject to requirements under various laws in Malaysia, Philippines, Singapore, Cayman Islands and Hong Kong and all applicable regulations, guidelines, policies and licence terms issued or promulgated under or in connection with these statutes. In addition, the GEM Listing Rules also apply to the Company. The Company seeks to ensure compliance with these requirements through various measures such as internal controls and approval procedures, training and oversight of various business units with the designated resources at different levels of the Group.

The Group has compliance and risk management policies and procedures, and members of the senior management are delegated with the continuing responsibility to monitor adherence and compliance with all significant legal and regulatory requirements. During the Financial Year, the Group is not aware of any material non-compliance with the relevant laws and regulations that have significant impact on the business of the Group.

Report of the Directors

KEY RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group is committed to operating in a sustainable manner while balancing the interests of its various stakeholders including employees, suppliers and subcontractors.

Our Group recognises that our success in the printing and packaging industry is dependent on our employees. Our Group recruits our employees based on their working attitude, industry experience, educational background and interpersonal skills. Our Group generally pays our employees a fixed salary and discretionary performance-based bonus that is paid yearly, subject to individual performance. Certain level of our staff qualify for sales target-based monthly incentives. Our Directors believe that, the management policies, working environment, development opportunities and employee benefits have contributed to employees' satisfaction levels and retention level. Our Group organises bonding activities, such as weekly badminton sessions and annual staff dinners, to allow employees to build up teamwork and to strengthen their bonding. During the Financial Year, our Group did not experience any strike or labour dispute with our staff which had caused significant disruption to our Group's business operations.

Our Group has built stable relationships with customers across a variety of industries such as electronic and electrical, food and beverage, medical, and FMCG sectors for many years. Our marketing team conducts regular meetings with our customers to gather feedback for our Group's continual improvement. We also have a sales support team that provides prompt response to customers' enquiries. Our Group is therefore able to maintain continued business relationships with our customers. We believe that this is an indication of our customers' loyalty and recognition of our service quality and we consider this recognition as a critical success factor leading to our Group's accomplishment in the packaging printing industry in Malaysia.

Our Directors also believe that suppliers are one of the key components of our Group's business and they play an important role in the manufacturing process. Our Directors believe that fostering close working relationships with our suppliers is imperative so as to maintain reliable sources of raw material supplies for us to produce high quality products. Our suppliers' support is critical to us as they play a major role in our business. Our Group's major suppliers have established business relationships with us for many years. Our Directors believe that effective communication is the key to maintain a long-term relationship with our suppliers. Our Directors consider our suppliers as partners and believe that all of us share a common goal of growing together in the printing and packaging industry.

In view of the above and as at the date of this report, there is no circumstance of any event which will have a significant impact on the Group's business and on which the Group's success depends.



DIRECTORS

The Directors during the year ended 31 August 2019 and up to the date of this report were:

Executive Directors

Mr. Ong Yoong Nyock (*Chairman*)

Mr. Tan Woon Chay (*Chief executive officer*)

Independent Non-executive Directors

Mr. Choy Wing Keung David

Mr. Liew Weng Keat

Mr. Teoh Cheng Tun

Article 83(3) of the Articles provides that any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM and shall then be eligible for re-election.

Article 84 of the Articles provides that (1) one-third of the Directors for the time being (or, if their number is a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each AGM, provided that every Director shall be subject to retirement by rotation at least once every three years. (2) A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of Directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election.

Mr. Choy Wing Keung David and Mr. Liew Weng Keat will retire at the forthcoming AGM and both of them, being eligible, will offer themselves for re-election at the forthcoming AGM.

BIOGRAPHIES OF DIRECTORS

The biographical details of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of our INEDs has entered into a letter of appointment with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than one month's notice in writing served by either party on the other.

Report of the Directors

None of the Directors proposed for re-election at the forthcoming AGM has a service agreement/letter of appointment with the Company, which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATIONS

Details of the remuneration of Directors are set out in note 12 to the consolidated financial statements.

DIRECTORS' EMOLUMENT POLICY

The Remuneration Committee was established for reviewing and determining the remuneration and compensation packages of the Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 August 2019, the interests or short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules ("Model Code") relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange were as follows:

(i) Interests in the Company

Name of Director	Nature of interest	Number of Shares held ⁽¹⁾	Percentage of shareholding
Mr. Ong ⁽²⁾	Interest of a controlled corporation	408,000,000(L)	51.00%
Mr. Tan Woon Chay	Beneficial owner	1,000,000(L)	0.13%

Notes:

- (1) The letter "L" denotes the person's long position in the Shares.
- (2) Mr. Ong beneficially owns 50% of Charlecote Sdn. Bhd., which in turn owns 70% of the issued share capital of Linocraft Investment Pte Limited ("Linocraft Investment"). Linocraft Investment owns 51% of the issued share capital of our Company. By virtue of the SFO, Mr. Ong is deemed to be interested in the Shares held by Linocraft Investment.

(ii) Interests in associated corporations of our Company

Name of Directors	Name of associated corporations	Capacity	Number of Shares	Percentage of shareholding
Mr. Ong ⁽¹⁾	Linocraft Investment	Beneficial owner and interest of a controlled corporation	8,050	80.50%
	Charlecote Sdn. Bhd.	Beneficial owner	2	100.00%
Mr. Tan Woon Chay	Linocraft Investment	Beneficial owner	1,950	19.50%

Note:

- (1) Charlecote Sdn. Bhd., which holds 70% of Linocraft Investment, is held as to 50% by Mr. Ong and 50% by Mrs. Ong. By virtue of the SFO, Mr. Ong is deemed to be interested in all the shares in Charlecote Sdn. Bhd. and the shares of Linocraft Investment held by Charlecote Sdn. Bhd..

Save as disclosed above, as at 31 August 2019, none of the Directors or chief executives of the Company had, or was deemed to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 August 2019, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholders	Nature of interest	Interests in Shares ⁽¹⁾	Percentage of shareholding
Linocraft Investment	Beneficial owner	408,000,000(L)	51.00%
Charlecote Sdn. Bhd. ⁽²⁾	Interest of a controlled corporation	408,000,000(L)	51.00%
Mrs. Ong ⁽³⁾	Interest of spouse	408,000,000(L)	51.00%
Stan Cam Holdings Limited (" Stan Cam ")	Beneficial owner	120,000,000(L)	15.00%
Ralex Investment Holdings Limited ⁽⁴⁾	Interest of a controlled corporation	120,000,000(L)	15.00%
Mr. Gan Ker Wei (" Mr. Gan ") ⁽⁵⁾	Interest of a controlled corporation	120,000,000(L)	15.00%
Mrs. Amy Ong Lai Fong ⁽⁶⁾	Interest of spouse	120,000,000(L)	15.00%

Report of the Directors

Notes:

- (1) The letter "L" denotes long position in the Shares.
- (2) Charlecote Sdn. Bhd. holds 70% of the issued share capital of Linocraft Investment, which in turn owns 51% of our Company. By virtue of the SFO, Charlecote Sdn. Bhd. is deemed to be interested in the Shares held by Linocraft Investment.
- (3) Mrs. Ong is the spouse of Mr. Ong. By virtue of the SFO, Mrs. Ong is deemed to be interested in the Shares held by Charlecote Sdn. Bhd. and Mr. Ong.
- (4) Stan Cam is owned as to 75% by Ralex Investment Holdings Limited. By virtue of the SFO, Ralex Investment Holdings Limited is deemed to be interested in the Shares held by Stan Cam.
- (5) Stan Cam is owned as to 75% by Ralex Investment Holdings Limited. Ralex Investment Holdings Limited is wholly-owned by Mr. Gan. By virtue of the SFO, Mr. Gan is deemed to be interested in the Shares held by Stan Cam.
- (6) Mrs. Amy Ong Lai Fong is the spouse of Mr. Gan. By virtue of the SFO, she is deemed to be interested in the Shares held by Mr. Gan.

Save as disclosed above, as at 31 August 2019, the Directors were not aware of any other persons/entities (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Financial Year was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

NON-COMPETITION UNDERTAKINGS

The Company has received the written confirmations from the Controlling Shareholders for the Financial Year in respect of the compliance with the provisions of the Non-competition Undertakings entered into between the Controlling Shareholders and the Company as set out in the paragraph 3 of the section headed "Relationship with the Controlling Shareholders" of the Prospectus.

The INEDs have reviewed and confirmed that the Controlling Shareholders had complied with the Non-competition Undertaking and the Non-competition Undertaking had been enforced by the Company in accordance with its terms for the Financial Year.

COMPETING INTERESTS

As confirmed by the Directors, Controlling Shareholders and their respective close associates do not have any interests in any business, apart from the business operated by members of the Group, which competes or is likely to compete, directly or indirectly, with the business of the Group during Financial Year.

INTERESTS OF COMPLIANCE ADVISER

As at 31 August 2019, except for the compliance adviser agreement entered into between the Company and Ample Capital Limited (the “**Compliance Adviser**”), neither the Compliance Adviser, nor any of its directors, employees or close associates has any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities) pursuant to Rule 6A.32 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, there is a sufficient float of more than 25% the issued Shares as required under the GEM Listing Rules.

DIRECTORS’ INTEREST IN SIGNIFICANT CONTRACTS

Save as disclosed in this annual report, no transactions, arrangements or contracts of significance in relation to the Group’s business in which the Company or any its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the Financial Year.

EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any significant event requiring disclosure that has been taken place subsequent to 31 August 2019 and up to the date of this report.

INDEPENDENT AUDITOR

The consolidated financial statements for the Financial Year were audited by BDO, the independent auditors, who shall retire and, being eligible, offer itself for re-appointment at the forthcoming AGM. A resolution will be proposed at the forthcoming AGM to re-appoint BDO as auditor and to authorise the Directors to fix its remuneration.

On behalf of the Board
Linocraft Holdings Limited

Ong Yoong Nyock
Chairman

Hong Kong, 26 November 2019

Independent Auditor's Report



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TO THE SHAREHOLDERS OF LINO-CRAFT HOLDINGS LIMITED

(incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Linocraft Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 45 to 115, which comprise the consolidated statement of financial position as at 31 August 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 August 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (the "HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

ALLOWANCE FOR EXPECTED CREDIT LOSSES ("ECLs") ASSESSMENT OF TRADE RECEIVABLES

Refer to summary of significant accounting policies in Note 4(f)(A)(ii), accounting estimates and judgements in Note 5(ii) and disclosure of trade receivables in Note 22 to the consolidated financial statements.

As at 31 August 2019, the Group had net trade receivables amounting to RM59,136,000 (net of allowance for ECLs is close to zero). No impairment loss on trade receivables has been recognised during the year ended 31 August 2019.

In determining the loss allowance for trade receivables, the Group measures the ECLs at an amount equal to lifetime ECLs, which is calculated using a provision matrix. Management estimated the level of expected losses, with reference to historical observed default rate, and forward-looking economic factors using the simplified approach under HKFRS 9 that calculates ECLs based on lifetime ECLs. The Group applied the practical expedient to estimates the ECLs based on a provision matrix for trade receivables of the Group.

We have identified allowance for expected credit losses assessment of trade receivables as a key audit matter due to considerable amount of judgment and estimates being used by the Group in assessing the ECLs as mentioned in the forgoing paragraph.

Our response:

Our procedures in relation to management's allowance for ECLs assessment of trade receivables included:

- Assessing the appropriateness of the credit loss provision methodology throughout the Group;
- Challenging the information used to determine the expected credit losses by considering cash collection performance against historical trends and the level of credit loss charges over time;
- Testing controls on a sample basis over the billing and collection cycle;
- Assessing the reasonableness of recoverability of trade receivables with reference to the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of individual customers; and
- Reviewing minutes of the board of directors' meetings relating to the recoverability of trade receivables.

Independent Auditor's Report

WRITE-DOWN ASSESSMENT OF INVENTORIES

Refer to summary of significant accounting policies in Note 4(g), accounting estimates and judgements in Note 5(v) and disclosure of inventories in Note 21 to the consolidated financial statements.

The Group had inventories of approximately RM48,599,000 as at 31 August 2019 which consist of raw materials, work-in-progress and finished goods.

The Group's management writes down slow-moving or obsolete inventories based on an assessment of net realisable value. Inventory will be written down where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgment and estimates. The subsequent change in estimation will impact carrying value of the inventories and lead to a revision of the amount of inventories written down in the respective period. The Group recognised a net reversal of write-down of inventories of approximately RM814,000 for the year. We identified the write-down assessment of inventories as a key audit matter as it requires management to exercise significant judgement on net realisable value of the inventories and the carrying amount of inventories is quantitatively significant to the consolidated financial statements.

Our response:

Our procedures in relation to management's write-down assessment included:

- Assessing the reasonableness of the inventory provision policy applied by the management;
- Discussing with operational staff or managers who have knowledge of the condition of inventories, utilisation pattern and turnover days and considering whether the provisions made by management are consistent with those assessments made by operational personnel;
- Assessing the ageing of inventories prepared by management;
- Observing obsolete inventories identified by performing physical inventory inspection; and
- Challenging the reasonableness of the reversal amount recognised for the year.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements 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.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group'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 to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, 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 internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

- 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 ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements 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 consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee 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 Audit Committee 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

BDO Limited

Certified Public Accountants

Pak Tak Lun

Practising Certificate number: P06170

Hong Kong, 26 November 2019



Consolidated Statement of Comprehensive Income

For the year ended 31 August 2019

	Notes	2019 RM'000	2018 RM'000
Revenue	7	205,290	179,975
Cost of sales		(175,252)	(143,396)
Gross profit		30,038	36,579
Other operating income	8	7,242	6,892
Distribution costs		(9,767)	(16,860)
Administrative expenses		(13,437)	(15,425)
Other operating expenses		(172)	(135)
Profit from operation		13,904	11,051
Finance costs	14	(5,395)	(4,304)
Share of (loss)/profit of a joint venture	18	(5)	62
Profit before income tax expense	9	8,504	6,809
Income tax (expense)/credit	15	(1,870)	203
Profit for the year		6,634	7,012
Other comprehensive income, net of tax <i>Items that may be reclassified subsequently to profit or loss</i>			
— Exchange differences on translation to profit or loss		(13)	(888)
— Share of exchange difference on translation of a foreign joint venture		—	(4)
Other comprehensive income for the year		(13)	(892)
Total comprehensive income for the year		6,621	6,120
Earnings per share		RM	RM
Basic and diluted earnings per share	16	0.83 sen	0.88 sen

Consolidated Statement of Financial Position

As at 31 August 2019

	Notes	2019 RM'000	2018 RM'000
Non-current assets			
Property, plant and equipment	17	116,355	91,899
Interest in a joint venture	18	164	169
Prepayment for acquisition of property, plant and equipment		1,800	6,800
Deferred tax assets	20	189	1,031
Total non-current assets		118,508	99,899
Current assets			
Inventories	21	48,599	43,606
Trade and other receivables	22	73,675	66,275
Amounts due from a related company	23	44	41
Tax recoverable		14	44
Cash and cash equivalents		18,815	19,974
		141,147	129,940
Assets of a disposal group classified as held for sale	24	12	12
Total current assets		141,159	129,952
Current liabilities			
Trade and other payables	25	26,293	38,922
Bank borrowings	26	86,214	65,976
Amounts due to related companies	27	527	1,441
Finance lease obligations	28	6,235	3,933
Total current liabilities		119,269	110,272
Net current assets		21,890	19,680
Total assets less current liabilities		140,398	119,579

Consolidated Statement of Financial Position

As at 31 August 2019

	Notes	2019 RM'000	2018 RM'000
Non-current liabilities			
Bank borrowings	26	39,771	27,823
Finance lease obligations	28	15,003	13,013
Deferred tax liabilities	20	260	—
Total non-current liabilities		55,034	40,836
Net assets		85,364	78,743
Capital and reserves			
Share capital	29	4,304	4,304
Reserves	30	81,060	74,439
Total equity		85,364	78,743

Tan Woon Chay
Director

Ong Yoong Nyock
Director

Consolidated Statement of Changes in Equity

For the year ended 31 August 2019

	Share capital (Note 29) RM'000	Reserves			Retained earnings RM'000	Total RM'000
		Share premium RM'000	Merger reserve RM'000	Exchange reserve RM'000		
Balance at 1 September 2017	*	—	8,548	(240)	24,044	32,352
Profit for the year	—	—	—	—	7,012	7,012
Other comprehensive income	—	—	—	(892)	—	(892)
Total comprehensive income	—	—	—	(892)	7,012	6,120
Issuance of new shares for share offer	1,076	41,964	—	—	—	43,040
Transaction costs attribute to issue of new shares (Note 29(ii))	—	(2,769)	—	—	—	(2,769)
Capitalisation issue (Note 29)	3,228	(3,228)	—	—	—	—
Balance at 31 August 2018 and 1 September 2018	4,304	35,967	8,548	(1,132)	31,056	78,743
Profit for the year	—	—	—	—	6,634	6,634
Other comprehensive income	—	—	—	(13)	—	(13)
Total comprehensive income	—	—	—	(13)	6,634	6,621
Balance at 31 August 2019	4,304	35,967	8,548	(1,145)	37,690	85,364

* Represents amount less than RM1,000

Consolidated Statement of Cash Flows

For the year ended 31 August 2019

	Notes	2019 RM'000	2018 RM'000
Cash flows from operating activities			
Profit before income tax expense		8,504	6,809
Adjustments for:			
(Reversal of)/Allowance for obsolete inventories, net		(814)	129
Depreciation of property, plant and equipment		8,624	4,976
Doubtful debts recovered		(120)	(8)
Provision for doubtful debts		—	66
Bad debts written off		279	—
Finance costs	14	5,395	4,304
Share of loss/(profit) in a joint venture		5	(62)
Unrealised gain on foreign exchange		(2,230)	(1,271)
(Gain)/Loss on disposal of property, plant and equipment		(1,843)	31
Operating profit before working capital changes		17,800	14,974
Increase in inventories		(4,179)	(18,044)
Increase in trade and other receivables		(7,559)	(18,895)
(Decrease)/Increase in trade and other payables		(10,400)	4,349
Cash used in operations		(4,338)	(17,616)
Interest paid		(344)	(189)
Income taxes paid		(726)	(658)
Net cash used in operating activities		(5,408)	(18,463)
Cash flows from investing activities			
Decrease/(Increase) in prepayment for acquisition of property, plant and equipment		5,000	(3,609)
(Increase)/Decrease in amounts due from a related company		(3)	5
Purchase of property, plant and equipment		(24,034)	(25,331)
Proceeds from disposal of property, plant and equipment		1,845	29
Net cash used in investing activities		(17,192)	(28,906)

Consolidated Statement of Cash Flows

For the year ended 31 August 2019

	Notes	2019 RM'000	2018 RM'000
Cash flows from financing activities			
Proceeds from issue of shares under placing		—	43,040
Transaction costs attributable to issue of new shares		—	(2,769)
Proceeds from bank borrowings		263,435	160,199
Repayment of bank borrowings		(234,134)	(116,474)
Interest paid on bank borrowings		(4,015)	(3,430)
Decrease in amounts due to related companies		(914)	(12,817)
Interest paid on amounts due to related companies		—	(18)
Capital element of finance lease obligations		(3,890)	(2,513)
Interest paid on finance lease		(1,036)	(667)
Net cash generated from financing activities		19,446	64,551
Net (decrease)/increase in cash and cash equivalents		(3,154)	17,182
Effects of exchange rate changes on cash and cash equivalents		(890)	(827)
Cash and cash equivalents at beginning of year		14,915	(1,440)
Cash and cash equivalents at end of year		10,871	14,915

An analysis of balances of cash and cash equivalents

		2019 RM'000	2018 RM'000
Bank and cash balances		18,815	19,974
Bank overdrafts	26	(7,944)	(5,059)
		10,871	14,915

Notes to the Financial Statements

For the year ended 31 August 2019

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 13 April 2017 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its principal place of business in Hong Kong and Malaysia are located at Unit 1302, 13/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong and Lot 1769, Jalan Belati, Off Jalan Kempas Lama, Taman Perindustrian Maju Jaya, 81300 Johor Bahru, Johor Darul Takzim, Malaysia, respectively.

The Company is an investment holding company and the principal activities of its subsidiaries (together with the Company, collectively referred to as the "Group") are set out in Note 33.

The Company's parent is Linocraft Investment Pte Limited (the "Linocraft Investment"), a company incorporated in the British Virgin Islands (the "BVI"). In the opinion of the directors, Charlecote Sdn. Bhd. is the ultimate parent of the Company, which is a company with limited liability incorporated in Malaysia.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS"). In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

These consolidated financial statements have been prepared under the historical cost convention.

The functional currency of the Company is Hong Kong dollars ("HK\$"), while the financial statements are presented in Malaysian Ringgit ("RM"), which is the functional currency of the Company's major subsidiaries. The directors consider that it is more appropriate to adopt RM as the Group's and the Company's presentation currency. All values are rounded to the nearest thousand except when otherwise indicated.

Notes to the Financial Statements

For the year ended 31 August 2019

3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) Adoption of new or revised HKFRSs — effective on 1 September 2018

Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards
Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

Except for the amendments to HKAS 40 and Amendments to HKFRS 2, which are not relevant to the preparation of the Group’s consolidated financial statements, the nature and the impact of the new and revised HKFRSs are described below:

Annual Improvements to HKFRSs 2014–2016 Cycle — Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

The adoption of these amendments has no impact on these financial statements as the periods to which the transition provision exemptions related have passed.

Annual Improvements to HKFRSs 2014–2016 Cycle — Amendments to HKAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation’s permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(a) Adoption of new or revised HKFRSs — effective on 1 September 2018 (Continued)

Amendments to HKFRS 2 — Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and 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.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

HKFRS 9 — Financial Instruments

(i) *Classification and measurement of financial instruments*

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 August 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 September 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

The Group has assessed and concluded that no significant financial impact, of transition of HKFRS 9, on the opening balance of retained earnings as of 1 September 2018.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group’s accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group’s classification and measurement of financial assets is set out below.

Notes to the Financial Statements

For the year ended 31 August 2019

3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(a) Adoption of new or revised HKFRSs — effective on 1 September 2018 (Continued)

HKFRS 9 — Financial Instruments (Continued)

(i) *Classification and measurement of financial instruments (Continued)*

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVTPL”), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost (“amortised costs”); (ii) financial assets at fair value through other comprehensive income (“FVOCI”); or (iii) FVTPL (as defined in above).

The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the “solely payments of principal and interest” criterion, also known as “SPPI criterion”). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(a) Adoption of new or revised HKFRSs — effective on 1 September 2018 (Continued)

HKFRS 9 — Financial Instruments (Continued)

(i) *Classification and measurement of financial instruments (Continued)*

The following accounting policies would be applied to the Group’s financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVOCI (debt instruments)	Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
FVOCI (equity instruments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

Notes to the Financial Statements

For the year ended 31 August 2019

3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(a) Adoption of new or revised HKFRSs — effective on 1 September 2018 (Continued)

HKFRS 9 — Financial Instruments (Continued)

(i) Classification and measurement of financial instruments (Continued)

The following table summarizes the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group’s financial assets as at 1 August 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 September 2018 under HKAS 39 RM’000	Carrying amount as at 1 September 2018 under HKFRS 9 RM’000
Trade and other receivables	Loans and receivables	Amortised cost	63,632	63,632
Amounts due from a related company	Loans and receivables	Amortised cost	41	41
Cash and cash equivalents	Loans and receivables	Amortised cost	19,974	19,974

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group’s impairment model by replacing the HKAS 39 “incurred loss model” to the “expected credit losses (“ECLs”) model”. HKFRS 9 requires the Group to recognise ECL for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(a) Adoption of new or revised HKFRSs — effective on 1 September 2018 (Continued)

HKFRS 9 — Financial Instruments (Continued)

(ii) *Impairment of financial assets (Continued)*

Measurement of ECLs (Continued)

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due unless the Group has reasonable and supportable information that demonstrate otherwise.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 1 year past due. The Group has rebutted the presumption that the default does not occur later than when the financial asset is 90 days past due based on reasonable and supportable information that a more lagging default criteria is more appropriate.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt investment at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the assets.

Impact of the ECL model

(a) Impairment of trade receivables

For trade receivables as at 1 September 2018, the Group applied expected credit loss rate of 0.01% for balances not past due and less than 30 days past due; 0.01%–0.1% balances more than 30 but less than 90 days past due; 0.56%–55% for balances more than 90 but less than 365 days past due; 78% for balances more than 365 days past due, and considered the loss allowance as at 31 August 2018 under HKAS 39 approximated to the loss allowance under the ECLs model and accordingly, no adjustment is made to the loss allowance as at 1 September 2018. The loss allowances for trade receivables did not increase during the year ended 31 August 2019 under the ECL model adopted by the Group (Note 4(f)(A)(ii)). The adoption of the simplified ECL approach has not resulted in any additional impairment loss for trade receivables as at 1 September 2018. The expected credit loss for the trade receivables is immaterial as at 1 September 2018 and 31 August 2019.

(b) Impairment of other financial assets

In respect of other financial assets at amortised cost (including amount due from a related company, deposits, and other receivables), loss allowances are measured on 12 months basis and there had been no significant increase in credit risk since initial recognition. The management of the Group makes individual assessment for significant outstanding items and collective assessment for other insignificant outstanding items on the recoverability of deposits and other receivables based on historical experience and forward-looking information. The management considers that the expected credit loss for deposits and other receivables is immaterial as at 1 September 2018 and 31 August 2019.

(c) Impairment of cash and cash equivalents

For cash and cash equivalents (including restricted deposits and bank balances), the management of the Group considers the credit risk on cash and cash equivalents is limited because the counterparties are reputable banks, and the risk of inability to pay at the due date is low, therefore, the expected credit loss for cash and cash equivalents is immaterial as at 1 September 2018 and 31 August 2019.

Notes to the Financial Statements

For the year ended 31 August 2019

3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(a) Adoption of new or revised HKFRSs — effective on 1 September 2018 (Continued)

HKFRS 9 — Financial Instruments (Continued)

(iii) *Hedge accounting*

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) *Transition*

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 August 2018, but are recognised in the statement of financial position on 1 September 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 September 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the “DIA”):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

HKFRS 15 — Revenue from Contracts with Customers (“HKFRS 15”)

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. As a result, the financial information presented for 2017 has not been restated.

The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The relevant disclosures are included in Note 7 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in Note 4(h) to the financial statements.

3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(a) Adoption of new or revised HKFRSs — effective on 1 September 2018 (Continued)

HKFRS 15 — Revenue from Contracts with Customers (“HKFRS 15”) (Continued)

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at that date. The Group has elected to apply the standard to contracts that are not completed as at 1 September 2018.

No adjustment to the opening balance of accumulated losses of the Group as at 1 September 2018 is required for the cumulative effect of the initial application of HKFRS 15. The comparative information was not restated and continues to be reported under HKAS 18 and related interpretations.

There was no material impact of adopting HKFRS 15 on the Group’s consolidated statement of financial position as at 31 August 2019. There was no material impact on the Group’s consolidated statements of comprehensive income and consolidated statement of cash flows for the year ended 31 August 2019.

Details of the new significant accounting policies in relation to the Group’s various goods and services are set out in Note 4(h).

Amendments to HKFRS 15 — Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first, year.

HK(IFRIC)-Int 22 — Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

Notes to the Financial Statements

For the year ended 31 August 2019

3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(b) New or revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures Applying ¹
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3 Business Combinations, HKFRS 11 Joint Arrangements, HKAS 12 Income Taxes and HKAS 23 Borrowing Costs ¹
HKFRS 16	Leases ¹
HK(IFRIC)-Int 23	Uncertainty over income tax treatments ¹
Amendments to HKAS 1 and HKAS 8	Definition of Material ²
Amendments to HKFRS 3	Definition of a Business ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
HKFRS 17	Insurance Contracts ⁵

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

² Effective for annual periods beginning on or after 1 January 2020

³ The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

⁴ Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

⁵ Effective for annual periods beginning on or after 1 January 2021

Those new/revised HKFRSs that might have material impact on the Group’s financial statements are set out below:

Amendments to HKFRS 9 — Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met — instead of at fair value through profit or loss.

3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(b) New or revised HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKAS 28 — Long-term Interests in Associates and Joint Ventures Applying

The amendment clarifies that HKFRS 9 applies to long-term interests (“LTI”) in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

Notes to the Financial Statements

For the year ended 31 August 2019

3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(b) New or revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 16 — Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases” and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 August 2019, the Group has non-cancellable operating lease commitments of approximately RM5,450,000 as disclosed in Note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but yet completed its detailed assessment. The actual impact of applying HKFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the Group’s borrowing rate as at 1 September 2019, the composition of the Group’s lease portfolio at that date, the Group’s latest assessment of whether it will exercise any lease renewal options and the extent to which the Group choose to use practical expedients and recognition exemptions.

The Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments, extension and termination options and of sub-lease accounting. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group’s profit or loss and classification of cash flows going forward.

3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(b) New or revised HKFRSs that have been issued but are not yet effective (Continued)

HK(IFRIC)-Int 23 — Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the “most likely amount” or the “expected value” approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKAS 1 and HKAS 8 — Definition of Material

The amendments clarify the definition of material to make it easier for entities to make materiality judgements. The definition of material, an important accounting concept in HKFRS Standards, helps entities decide whether information should be included in their consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors’ interests in the joint venture or associate.

Amendments to HKFRS 3 — Definition of a Business

The amendments improve the definition of a business. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the Board has provided supplementary guidance. Distinguishing between a business and a group of assets is important because an acquirer recognises goodwill only when acquiring a business.

HKFRS 17 — Insurance Contracts

HKFRS 17 will replace HKFRS 4 as a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the consolidated financial statements of the issuers of those contracts.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group’s accounting policies and consolidated financial statements.

Except as described above, the directors so far concluded that the application of these new pronouncements will not result in substantial changes to the Group’s accounting policies and financial statements.

Notes to the Financial Statements

For the year ended 31 August 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Business combination and basis of consolidation (Continued)

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Joint arrangements

The group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The group classifies its interests in joint arrangements as Joint ventures where the group has rights to only the net assets of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement;
- The legal form of joint arrangements structured through a separate vehicle;
- The contractual terms of the joint arrangement agreement; and
- Any other facts and circumstances (including any other contractual arrangements).

Joint ventures are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amounts are adjusted for the Group's share of post-acquisition changes in the joint ventures' net assets except that losses in excess of the Group's interest in the joint venture are not recognised unless there is an obligation to make good those losses.

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Notes to the Financial Statements

For the year ended 31 August 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment

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

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount 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 as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Freehold land	Not depreciated
Buildings	50 years
Plant and machinery	10–13 years
Equipment, furniture and fittings	10–20 years
Renovation	10 years
Motor vehicles	5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(e) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Leasing (Continued)

The Group as lessee (Continued)

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

(f) Financial Instruments

(A) Financial Instruments (accounting policies applied from 1 September 2018)

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

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

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Notes to the Financial Statements

For the year ended 31 August 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial Instruments (Continued)

(A) Financial Instruments (accounting policies applied from 1 September 2018) (Continued)

(i) *Financial assets (Continued)*

Debt instruments (Continued)

Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Fair value through profit or loss ("FVTPL"): Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial Instruments (Continued)

(A) Financial Instruments (accounting policies applied from 1 September 2018) (Continued)

(ii) *Impairment loss on financial assets*

The Group recognises loss allowances for expected credit loss (“ECL”) on trade receivables, contract assets, financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due unless the Group has reasonable and supportable information that demonstrate otherwise.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 1 year past due. The Group has rebutted the presumption that the default does not occur later than when the financial asset is 90 days past due based on reasonable and supportable information that a more lagging default criteria is more appropriate.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets, interest income is calculated based on the gross carrying amount.

Notes to the Financial Statements

For the year ended 31 August 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial Instruments (Continued)

(A) Financial Instruments (accounting policies applied from 1 September 2018) (Continued)

(iii) *Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

(iv) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial Instruments (Continued)

(A) Financial Instruments (accounting policies applied from 1 September 2018) (Continued)

(v) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) *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. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (a) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in (ii) above; and (b) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

(vi) *Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

Notes to the Financial Statements

For the year ended 31 August 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial Instruments (Continued)

(B) Investments and other financial assets/liabilities (policies under HKAS 39 applicable before 1 September 2018)

(i) *Financial assets*

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loan and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) *Impairment loss on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial Instruments (Continued)

(B) Investments and other financial assets/liabilities (policies under HKAS 39 applicable before 1 September 2018) (Continued)

(iii) *Financial liabilities*

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, bank borrowings and finance lease obligations are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the respective financial years. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

Notes to the Financial Statements

For the year ended 31 August 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial Instruments (Continued)

(B) Investments and other financial assets/liabilities (policies under HKAS 39 applicable before 1 September 2018) (Continued)

(v) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) *Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(g) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Revenue recognition

Revenue recognition (accounting policies applied from 1 September 2018):

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service. The normal credit term is 30 – 60 days upon delivery.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Revenue recognition (Continued)

Revenue recognition (accounting policies applied from 1 September 2018): (Continued)

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(i) *Sales of goods*

Revenue from the sales of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

(ii) Interest income is accrued on a time-proportion basis using the effective interest method.

Revenue recognition (accounting policies applied before 31 August 2018):

Revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

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

(i) Income tax

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements

For the year ended 31 August 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Income tax (Continued)

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(j) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate(s) (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Malaysian Ringgit) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of the reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities’ separate financial statements on the translation of long-term monetary items forming part of the Group’s net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Employee benefits

(i) Short-term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(l) Impairment of assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of property, plant and equipment to determine whether there is any indication that these assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Financial Statements

For the year ended 31 August 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

(o) Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions apply:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OR ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

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

(i) Useful lives of property, plant and equipment

The Group regularly reviews the estimated useful lives of property, plant and equipment based on factors such as business plan and strategies, expected level of usage and future technological developments. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful lives of property, plant and equipment would increase the recorded depreciation and decrease the value of property, plant and equipment.

(ii) Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables are disclosed in Note 22 to the financial statements, respectively.

(iii) Income taxes

Judgement is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

Notes to the Financial Statements

For the year ended 31 August 2019

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OR ESTIMATION UNCERTAINTY (Continued)

(iv) Classification of bank borrowings

The Group entered into term loan agreements with certain registered banks in Malaysia that are governed by and construed in accordance with the laws of Malaysia and the said agreements include repayment on demand clauses. Judgement is involved in determining whether the Group has unconditional right to defer settlement of these bank borrowings for at least twelve months after the reporting period. The Group, with reference to court decisions on certain legal cases in Malaysia, determines that demand clauses on these bank borrowings shall not have an effect to the Group's ability to defer settlement of its liabilities to these banks for at least twelve months after the reporting period as these clauses would not override other terms and conditions provided in these banking facilities.

The Group classifies its fixed term bank borrowings with these registered banks in Malaysia as current and non-current liabilities in accordance with terms and conditions as stated in respective bank loan agreements.

Provision for expected credit losses on trade receivables and contract assets

The Group assess at each reporting date whether there is any objective evidence that a receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the receivable and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

(v) Estimated net realisable value of inventories

The Group's management writes down for slow moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Inventory will be written down where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgment and estimates in inventory provision policy. Where the expectation is different from the original estimate, such difference will impact carrying value of the inventories and revision on the amount of inventories written down in the period in which such estimate has been changed. In making this estimation, the Group evaluates the usage and extent by all means to which the amount will be recovered. During the year, certain inventories written down in prior years have been used and sold. The Group recognised net reversal of impairment loss on inventory of approximately for the year RM814,000 (2018: Nil)

6. SEGMENT INFORMATION

(a) Business segment

The Group has been operating in one operating and reportable segment, being printing and manufacture of instruction manuals, insert, packaging products and printed paper labels. The chief operating decision maker make decisions based on the historical financial information of the Group prepared in accordance with HKFRS about resources allocation and performance assessment.

6. SEGMENT INFORMATION (Continued)**(b) Geographic information**

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than investment in golf club membership, interest in a joint venture, prepayment for acquisition of property, plant and equipment and deferred tax assets ("Specified non-current assets").

	Revenue from external customers	
	2019 RM'000	2018 RM'000
Malaysia	154,937	146,874
Singapore	5,326	2,253
Philippines	45,027	30,848
	205,290	179,975

	Specified non-current assets	
	2019 RM'000	2018 RM'000
Malaysia	90,520	75,118
Philippines	25,602	16,393
Others	233	388
	116,355	91,899

(c) Information about major customers

Revenue from customers individually contributing 10% or more of the Group's revenue are as follow:

	Revenue from external customers	
	2019 RM'000	2018 RM'000
Customer A	54,870	31,821
Customer B	44,349	30,849
Customer C	19,900	20,261
Customer D	17,971	23,079
Customer E	17,624	24,068
Customer F	15,931	19,577

Notes to the Financial Statements

For the year ended 31 August 2019

7. REVENUE

An analysis of disaggregation of the Group's revenue from contract with customers are as follows:

	2019 RM'000	2018 RM'000
Sales of production products transferred at a point in time:		
— Instruction manual	21,909	20,633
— Label	269	672
— Insert	58,458	41,714
— Packaging	124,654	116,956
	205,290	179,975

The following table provides information about trade receivables from contracts with customers.

	31 August 2019 RM'000	1 September 2018 RM'000
Receivables (Note 22)	59,136	55,804

All sales of goods are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

8. OTHER OPERATING INCOME

	2019 RM'000	2018 RM'000
Doubtful debts recovered	—	8
Gain on disposal of property, plant and equipment	1,843	—
Gain/(Loss) on foreign exchange:		
— realised	(3,132)	(57)
— unrealised	2,230	1,271
Sales of scrap materials	4,088	4,012
Other income	2,213	1,658
	7,242	6,892

9. PROFIT BEFORE INCOME TAX EXPENSE

	2019 RM'000	2018 RM'000
Profit before income tax expense is arrived at after charging/(crediting):		
Cost of inventories sold*	175,252	143,396
(Reversal of)/Allowance for obsolete inventories, net [#]	(814)	129
Auditor's remuneration	601	476
Depreciation of property, plant and equipment		
— Owned	5,610	4,018
— Held under finance leases	3,014	958
Provision for doubtful debts	—	66
Doubtful debts recovered	(120)	(8)
Bad debts written off	279	—
(Gain)/Loss on disposal of property, plant and equipment	(1,843)	31
Employee costs (Note 11)	27,726	26,520
Minimum lease payments under operating lease		
— Rental of equipment	816	1,021
— Rental of premises	3,869	2,891
Listing expenses (including professional fees and other expenses)	—	576

* For the years ended 31 August 2019 and 2018, cost of inventories sold comprise RM25,369,000 (2018: RM19,772,000 relating to employee benefit expenses and depreciation charges, which are also included in the respective total amounts disclosed separately above.

[#] The analysis of the amount of inventories recognized as an expense and included in profit or loss is as follows:

	2019 RM'000	2018 RM'000
Carrying amount of inventories sold	176,066	143,267
Allowance for obsolete inventories	199	129
Reversal of allowance for obsolete inventories	(1,013)	—
	175,252	143,396

The reversal of allowance for obsolete inventories made in prior years arose due to an increase in the estimated net realizable value of certain goods as a result of a change in consumer preferences.

10. DIVIDENDS

No dividend was paid or proposed during 2019, nor has any dividend been proposed since the end of reporting period (2018: Nil).

There are no income tax consequences related the payment of dividends by the company to its shareholders.

Notes to the Financial Statements

For the year ended 31 August 2019

11. EMPLOYEE COSTS

	2019 RM'000	2018 RM'000
Employee costs (including directors) comprise:		
Wages and salaries	24,999	24,440
Short-term non-monetary benefits	354	231
Contributions to retirement benefit schemes	1,997	1,849
	27,350	26,520

12. DIRECTORS' EMOLUMENTS

Directors' emoluments are disclosed as follows:

Year ended 31 August 2019:

	Fees RM'000	Salaries and other benefits RM'000	Contributions to retirement benefit schemes RM'000	Total RM'000
<i>Executive directors</i>				
Ong Yoong Nyock	—	808	61	869
Tan Woon Chay	—	899	290	1,189
<i>Independent non-executive directors</i>				
Choy Wing Keung David	127	—	—	127
Liew Weng Keat	127	—	—	127
Teoh Cheng Tun	127	—	—	127
	381	1,707	351	2,439

12. DIRECTORS' EMOLUMENTS (Continued)**Year ended 31 August 2018:**

	Fees RM'000	Salaries and other benefits RM'000	Contributions to retirement benefit schemes RM'000	Total RM'000
<i>Executive directors</i>				
Ong Yoong Nyock	—	960	80	1,040
Tan Woon Chay	—	3,515	388	3,903
<i>Independent non-executive directors</i>				
Choy Wing Keung David	119	—	—	119
Liew Weng Keat	119	—	—	119
Teoh Cheng Tun	119	—	—	119
	357	4,475	468	5,300

13. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals included two (2018: two) directors for the year ended 31 August 2019. The remaining three (2018: three) highest paid individuals for the year ended 31 August 2019 were as follow:

	2019 RM'000	2018 RM'000
Salaries and other benefits	652	678
Contributions to retirement benefit schemes	81	84
	733	762

The emoluments of each of the above non-director highest paid individuals were all within the band of nil to RM523,700 (approximately nil to HK\$1,000,000) and nil to RM545,678 (approximately nil to HK\$1,000,000) in 2019 and 2018, respectively.

During the year, no emolument was paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office in the current year and in prior year. None of the directors nor the five highest paid individuals has waived or agreed to waive any emoluments in the current year and in prior year.

Notes to the Financial Statements

For the year ended 31 August 2019

14. FINANCE COSTS

	2019 RM'000	2018 RM'000
Interest on bank overdrafts	344	189
Interest on bank borrowings	4,015	3,430
Interest on finance lease	1,036	667
Interest on amounts due to related companies	—	18
	5,395	4,304

15. INCOME TAX EXPENSE/(CREDIT)

The amount of income tax expense in the consolidated statements of comprehensive income represents:

	2019 RM'000	2018 RM'000
Current tax — Corporate income tax in Malaysia		
— Charge for the year	746	473
— Under/(Over) provision in respect of prior years	11	(159)
	757	314
Deferred tax (Note 20)	1,113	(517)
Income tax expense/(credit)	1,870	(203)

The Company was incorporated in the Cayman Islands that is tax-exempted as no business is carried out in the Cayman Islands under the laws of the Cayman Islands.

Hong Kong Profits Tax is calculated at tiered rates of 8.25% on the first HK\$2 million and 16.5% for the remainder (2018: 16.5%) on the estimated assessable profits of subsidiaries operating in Hong Kong for the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

Corporate income tax in Malaysia is calculated at the statutory rate of 24% (2018: 24%) of the estimated taxable profit for the financial year ended 31 August 2019.

15. INCOME TAX EXPENSE/(CREDIT) (Continued)

Certain companies of the Group in Malaysia with a paid up capital of RM2,500,000 and below can enjoy lower corporate tax rate in Malaysia of 17% (2018: 18%) on the first RM500,000 taxable profit. For the year of assessment 2019, the corporate tax rate further reduced from 18% to 17% on the first RM500,000 taxable profit. Statutory rate as above shall be charged on chargeable income in excess of RM500,000 taxable profit. In addition, for the year of assessment 2019 and 2018 in Malaysia, a further reduction in the corporate tax rate, progressively, from 24% to 20% on the incremental chargeable income of 5% to 9.99%, 10% to 14.99%, 15% to 19.99% and 20% and above as compared to the immediate preceding year of assessment is available.

Subsidiary located in Philippines was subject to Philippines income tax at the rate of 30% (2018: 30%) on the estimated taxable income during the year. Starting from the fourth taxable year after the year the business operations commenced, entities incorporated in the Philippines are required to pay tax equivalent to the higher of 30% (2018: 30%) regular corporate income tax ("RCIT") on taxable income and the 2% (2018: 2%) minimum corporate income tax ("MCIT") on gross income. Gross income is equivalent to revenue less direct costs. Any excess of the MCIT over RCIT can be carried forward and credited against RCIT for three succeeding taxable years.

The income tax expense for the year can be reconciled to the profit before income tax expense per the consolidated statement of comprehensive income as follows:

	2019 RM'000	2018 RM'000
Profit before income tax expense	8,504	6,809
Tax calculated at the domestic tax rates	1,719	1,611
Tax effect of expenses not deductible for tax purposes	3,609	1,117
Tax effect of revenue not taxable for tax purposes	(2,614)	(179)
Effect of tax exemption granted to Malaysia subsidiary	(855)	(2,563)
Under/(Over) provision of tax expense in prior year	11	(159)
Other	—	(30)
Income tax expense/(credit)	1,870	(203)

Notes to the Financial Statements

For the year ended 31 August 2019

16. EARNINGS PER SHARE

The calculation of basic earnings per share amount is based on the earning attributable to owners of the Company and the weighted average number of ordinary shares in issue during the respective periods.

The calculation of basic and diluted earnings per share is based on the following information:

	2019 RM'000	2018 RM'000
Earnings		
Profit for the year attributable to owners of the Company	6,634	7,012

	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year	800,000,000	792,876,712

Diluted earnings per share were the same as the basic earnings per share as the Group had no dilutive potential shares during the years ended 31 August 2019 and 2018.

17. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings RM'000	Plant and machinery RM'000	Equipment, furniture and fittings RM'000	Renovation RM'000	Motor vehicles RM'000	Construction in progress RM'000	Total RM'000
Cost:							
At 1 September 2017	29,511	63,770	6,004	4,099	996	—	104,380
Additions	—	36,676	2,182	1,982	796	—	41,636
Disposals	—	(881)	(2)	—	—	—	(883)
Exchange realignment	—	(58)	(1)	(3)	—	—	(62)
At 31 August 2018	29,511	99,507	8,183	6,078	1,792	—	145,071
Additions	4,935	8,972	1,634	3,326	727	12,622	32,216
Disposals	—	(11,182)	(7)	—	(230)	—	(11,419)
Exchange realignment	—	785	99	30	32	—	946
At 31 August 2019	34,446	98,082	9,909	9,434	2,321	12,622	166,814
Accumulated depreciation:							
At 1 September 2017	3,762	38,172	3,431	2,852	805	—	49,022
Charge for the year	304	3,645	516	365	146	—	4,976
Disposal	—	(823)	—	—	—	—	(823)
Exchange realignment	—	(3)	—	—	—	—	(3)
At 31 August 2018	4,066	40,991	3,947	3,217	951	—	53,172
Charge for the year	321	6,624	728	640	311	—	8,624
Disposal	—	(11,182)	(5)	—	(230)	—	(11,417)
Exchange realignment	—	56	8	9	7	—	80
At 31 August 2019	4,387	36,489	4,678	3,866	1,039	—	50,459
Net carrying amount:							
At 31 August 2019	30,059	61,593	5,231	5,568	1,282	12,622	116,355
At 31 August 2018	25,445	58,516	4,236	2,861	841	—	91,899

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For the year ended 31 August 2019

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases and/or pledged as security for borrowings:

	2019 RM'000	2018 RM'000
Assets held under finance leases		
— Plant and machinery	25,941	20,775
— Motor vehicles	711	546
	26,652	21,321
Assets pledged as security for borrowings (Note 26)		
— Freehold land and buildings	30,059	25,444
— Plant and machinery	18,028	23,993
	48,087	49,437

18. INTEREST IN A JOINT VENTURE

	2019 RM'000	2018 RM'000
Represented by:		
Share of net assets	164	169

Details of the Group's joint venture are as follows:

Name	Place of incorporation, operation and principal activities	Percentage of ownership interests	
		As at 31 August 2019	2018
Linocraft Singapore Pte. Ltd. (the "LSPL")	General wholesale print and packing products in Singapore	50%	50%

18. INTEREST IN A JOINT VENTURE (Continued)

The Group has 50% (2018: 50%) interest in a joint venture, the LSPL, a separate structured vehicle incorporated and operating in Singapore. The primary activity of the LSPL is general wholesale print and packing products, which is in line with the Group's strategy to expand the printing division.

The contractual arrangement provides the group with only the rights to the net assets of the joint arrangement, with the rights to the assets and obligation for the liabilities of the joint arrangement resting primarily with the LSPL. Under HKFRS 11, this joint arrangement is classified as a joint venture and has been included in the consolidated financial statements using the equity method.

Summarised financial information of the joint venture is presented below:

	2019 RM'000	2018 RM'000
Current assets	987	894
Non-current assets	—	—
Current liabilities	(659)	(556)
Non-current liabilities	—	—
Net assets	328	338
Group's share of the net assets of the joint venture	164	169
	2019 RM'000	2018 RM'000
Revenue	2,485	2,104
(Loss)/Profit for the year	(10)	125
Other comprehensive income	—	(9)
Total comprehensive income for the year	(10)	116
Aggregate amount of the Group's share of a joint venture		
Profit or loss	(5)	62
Other comprehensive income	—	(4)
Total comprehensive income	(5)	58

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19. INVESTMENT IN GOLF CLUB MEMBERSHIP

	2019 RM'000	2018 RM'000
Golf club membership at cost	20	20
Less: accumulated impairment loss	(20)	(20)
	—	—

20. DEFERRED TAX ASSETS

Details of the deferred tax liabilities and assets recognised and movements during the current and prior years:

	Accelerated tax depreciation RM'000	Reinvestment allowance RM'000	Tax losses RM'000	Other RM'000	Total RM'000
At 1 September 2017	(5,079)	4,367	—	1,229	517
(Charge)/Credit to profit or loss for the year	159	506	233	(381)	517
Exchange differences	—	—	(3)	—	(3)
At 31 August 2018 and 1 September 2018	(4,920)	4,873	230	848	1,031
Charge to profit or loss for the year	782	(1,840)	(52)	(3)	(1,113)
Exchange differences	—	—	11	—	11
At 31 August 2019	(4,138)	3,033	189	845	(71)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 RM'000	2018 RM'000
Deferred tax assets, net	189	1,031
Deferred tax liabilities, net	(260)	—
	(71)	1,031

21. INVENTORIES

	As at 31 August	
	2019 RM'000	2018 RM'000
Raw materials	20,185	16,781
Work-in-progress	13,309	11,123
Finished goods	16,187	17,598
	49,681	45,502
Less: allowance for obsolete inventories	(1,082)	(1,896)
	48,599	43,606

22. TRADE AND OTHER RECEIVABLES

	2019	2018
	RM'000	RM'000
Trade receivables from:		
— Joint venture	877	693
— Third parties	58,259	55,111
	59,136	55,804
Deposit and prepayments	8,041	5,041
Loans and advances	4,805	1,218
GST recoverable	1,693	4,212
	73,675	66,275

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22. TRADE AND OTHER RECEIVABLES (Continued)

Included in trade receivables are trade debtors (net of impairment losses) with the following aging analysis, based on invoice dates, as at 31 August 2019 and 2018:

	2019 RM'000	2018 RM'000
Within 1 month	41,854	21,987
1 to 2 months	13,594	15,013
2 to 3 months	1,058	10,261
Over 3 months	2,630	8,543
	59,136	55,804

At the end of each of the reporting periods, the Group reviews trade and other receivables for evidence of impairment on both individual and collective basis. Based on the impairment assessment, no impairment loss has been recognised as at 31 August 2019 and 2018. The Group did not hold any collateral as security or other credit enhancement over the trade receivables.

The aging of trade receivables which are past due but not impaired is as follows:

	2018 RM'000
Past due but not impaired:	
Less than 1 month	10,372
1 to 3 months	1,413
More than 3 months but less than 12 months	7,131
	18,916

Trade receivables that were past due but not impaired related to a number of independent customers that had a good track record of credit with the Group. Based on past credit history, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable.

22. TRADE AND OTHER RECEIVABLES (Continued)

The below table reconciled the impairment loss/allowance for ECL of trade debtors for the year:

	2019 RM'000	2018 RM'000
Beginning of the year under HKAS 39	120	62
Adjustment upon application of HKFRS 9	—	—
Adjusted upon as at 1 September 2018	120	62
Impairment loss recognised	—	66
Recovery of impairment loss previously recognised	(120)	(8)
End of the year	—	120

For all other receivables, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The Group measures the loss allowance equal to 12-month ECLs and there had been no significant increase in credit risk since initial recognition. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. No additional impairment for other receivables as at 1 September 2018 and 31 August 2019 as the expected credit loss is immaterial.

23. AMOUNTS DUE FROM A RELATED COMPANY

Amounts due from a related company disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap.622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) are as follows:

	As at 31 August	
	2019 RM'000	2018 RM'000
Pentino Sdn Bhd*	44	41
Maximum outstanding amount during the year		
— Pentino Sdn Bhd	44	46

The amounts are non-trade related, unsecured, interest-free and repayable on demand.

* A company whose directors are also the directors of the Company.

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24. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

In the prior year, the Group transferred its entire equity interest in Linocraft Packaging Zhuhai Pte. Ltd., a subsidiary of the Group, to a former subsidiary of the Group.

The following major classes of assets and liabilities relating to this operation had been classified as held for sale in the consolidated statement of financial position.

	2019 RM'000	2018 RM'000
Property, plant and equipment	1	1
Trade and other receivable	11	11
	12	12
Trade and other payable	—	—

In accordance with HKFRS 5 the assets and liabilities of the disposal group had been written down to their recoverable amount. This is a non-recurring fair value measurement.

There had no impairment loss recognised in administrative expenses from continuing operations on the measurement of the disposal group to fair value less costs to sell.

There was no cumulative income or expense included in other comprehensive income related to the disposal group.

25. TRADE AND OTHER PAYABLES

	2019 RM'000	2018 RM'000
Trade payables	17,526	32,145
Other payables, accruals and deposit received	8,767	6,777
	26,293	38,922

Trade payables are non-interest bearing. The Group is normally granted credit terms ranging from 0 to 90 days from the invoice date.

25. TRADE AND OTHER PAYABLES (Continued)

Included in trade and other payables are trade creditors with the following aging analysis, based on invoice dates, as at 31 August 2019 and 2018:

	2019 RM'000	2018 RM'000
Current or less than 1 month	8,581	17,784
1 to 3 months	7,946	12,233
More than 3 months but less than 12 months	906	2,117
More than 12 months	93	11
	17,526	32,145

26. BANK BORROWINGS

	2019 RM'000	2018 RM'000
Secured		
Secured and interest-bearing bank borrowings	118,041	88,740
Bank overdraft	7,944	5,059
	125,985	93,799
Bank borrowings are scheduled to repay as follows:		
— on demand or within one year	86,214	65,976
— more than one year, but not exceeding two years	5,564	5,943
— more than two years, but not exceeding five years	23,870	17,706
— after five years	10,337	4,174
	125,985	93,799
Amount due within one year included in current liabilities	(86,214)	(65,976)
Amount include in non-current liabilities	39,771	27,823

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26. BANK BORROWINGS (Continued)

Notes:

- (a) Bank borrowings are interest bearing at the banks' base lending rate adjusted by certain basis points per annum. The interest rates of the Group's bank borrowings as at 31 August 2019 granted under banking facilities ranged from 3.66% to 9.22% (2018: 4.33% to 9.22%) per annum, respectively.
- (b) As at 31 August 2019, the carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contains repayable on demand clause amounting to RM30,131,000 (2018: RM18,597,000).

In the opinion of directors, with reference to the case laws established in Malaysia, it is determined that the mere inclusion of a repayment on demand clause in a long term loan agreement governed under the laws of Malaysia would not allow the banks to early terminate the facilities granted and to seek immediate repayment from the borrower unless there is a breach by the borrower, as the clause would not override other terms and conditions provided in the term loan agreement.

Accordingly, the liability associated with the term loans of the Group raised in Malaysia that contained a repayable on demand clause is classified as current and/or non-current liability during the reporting periods in accordance with other terms and conditions as stated in the respective term loan agreement.

Any change to the precedence established by the Courts of Law in Malaysia relating to the interpretation of the repayment on demand clause in the future may have an impact to the classification of the term loans of the Group.

- (c) The Group classifies its fixed term bank borrowings with certain registered banks in Malaysia as current and non-current liabilities in accordance with terms and conditions as stated in respective bank loan agreements.

The Group's bank borrowings and banking facilities are secured by the followings:

- Freehold land and buildings with net carrying amount of RM30,059,000 (2018: RM25,444,000) as at 31 August 2019 (Note 17);
- Plant and machinery with net carrying amount of RM18,028,000 (2018: RM23,993,000) as at 31 August 2019 (Note 17); and
- Personal guarantees from Mr. Ong Yoong Nyock, Mr. Tan Woon Chay and a director of Linocraft Malaysia.

27. AMOUNTS DUE TO RELATED COMPANIES

As at 31 August 2019, the amounts due to related companies in which a director has interests are unsecured, with no fixed terms of repayment and interest free, except for the borrowings amounting to RM1,369,000 with interest charged at 5% per annum as at 31 August 2018, which is fully settled during the year ended 31 August 2019.

28. FINANCE LEASE OBLIGATIONS

The Group leases certain plant and machinery and motor vehicles. Such assets are generally classified as finance leases as the rental period amounts to the estimated useful economic life of the assets concerned and often the Group has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount.

Future lease payments are due as follows:

At 31 August 2019:

	Minimum lease payments RM'000	Interest RM'000	Present value RM'000
Not later than one year	7,307	1,072	6,235
More than 1 year but less than 2 years	7,447	740	6,707
Later than 2 years and not later than 5 years	8,725	429	8,296
	23,479	2,241	21,238

At 31 August 2018:

	Minimum lease payments RM'000	Interest RM'000	Present value RM'000
Not later than one year	4,902	969	3,933
More than 1 year but less than 2 years	4,792	697	4,095
Later than 2 years and not later than 5 years	9,564	646	8,918
	19,258	2,312	16,946

The present value of future lease payments are analysed as:

	2019 RM'000	2018 RM'000
Current liabilities	6,235	3,933
Non-current liabilities	15,003	13,013
	21,238	16,946

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29. SHARE CAPITAL

	2019 RM'000	2018 RM'000
Ordinary shares Issued and fully paid	4,304	4,304

* Represents amount less than RM1,000

As at 31 August 2018, the share capital balance represented the issued share capital of the Company. Details of the movements in the authorised and issued and fully paid share capital of the Company are summarised as follows:

	Number of shares	Amount RM'000	Amount HK\$'000
Ordinary shares of HK\$0.01 each			
<i>Authorised:</i>			
At 31 August 2018, 1 September 2018 and 31 August 2019	5,000,000,000	27,284	50,000
<i>Issued and fully paid:</i>			
At 31 August 2018, 1 September 2018 and 31 August 2019	800,000,000	4,304	8,000

* Represents amount less than RM1,000

Notes:

- (i) On 15 September 2017, the Company issued a total of 200,000,000 ordinary shares of HK\$0.01 each at a price of HK\$0.4 per share as a result of the completion of the Share Offer. The gross proceeds from Share Offer of RM43,040,000 (or HK\$80,000,000 equivalent) representing the par value of RM1,076,000 (or HK\$2,000,000 equivalent) credited to the Company's share capital, and share premium of RM41,964,000 (or HK\$78,000,000 equivalent), which can be used for deduction of share issuance expenses. After the share premium account of the Company being credited as a result of the Share Offer, RM3,228,000 (or HK\$6,000,000 equivalent) was capitalised from the share premium account and applied in paying up in full 599,999,955 shares which was approved by the shareholders of the Company on 31 August 2017 and has become unconditional. The Company's total number of issued shares was increased to 800,000,000 shares upon completion of Share Offer.
- (ii) The share issuance expenses, which amounted to RM2,769,000, were deducted from share premium account.
- (iii) All shares issued rank pari passu in all respects with all shares then in issue.

30. RESERVES

The Group

The following describes the nature and purpose of exchange reserve within owners' equity:

Merger reserve

Merger reserve mainly arose from the Reorganisation upon completion of reorganisation. Merger reserve as at 31 August 2017 amounting to RM8,548,000 represented the difference between the nominal value of shares issued by the Company and the issued share capital and share premium of its subsidiaries including Linocraft Holdings Limited, Linocraft International Limited, Grace Key Limited, Eden Grace Hong Kong Limited, Linocraft Group Limited, Linocraft Printers Sdn. Bhd., Linocraft Printers Philippines Inc and Linocraft Packaging Zhuhai Pte Ltd.

Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy in Note 4(j).

The Company

The movement of the Company's reserves during the years are as follows:

	Share premium RM'000	Exchange reserve RM'000	Merger reserve RM'000	Accumulated losses RM'000	Total RM'000
At 1 September 2017	—	19	39,289	(6,364)	32,944
Loss for the year	—	—	—	(3,207)	(3,207)
Other comprehensive income	—	(2,377)	—	—	(2,377)
Issue of ordinary shares for comprehensive income					
— Share offer	41,964	—	—	—	41,964
— Capitalisation issue	(3,228)	—	—	—	(3,228)
Transaction costs attributable to issue of new shares (Note 29(ii))	(2,769)	—	—	—	(2,769)
At 31 August 2018 and 1 September 2018	35,967	(2,358)	39,289	(9,571)	63,327
Loss for the year	—	—	—	(2,681)	(2,681)
Other comprehensive income	—	1,719	—	—	1,719
At 31 August 2019	35,967	(639)	39,289	(12,252)	62,365

* Merger reserve represents the difference between the nominal value of the shares issued for reorganisation and the net assets value of its subsidiary at the date of acquisition.

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31. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 August 2019

	Note	2019 RM'000	2018 RM'000
Non-current assets			
Investments in subsidiaries		38,693	37,706
Current assets			
Other receivables		—	26
Amounts due from subsidiaries		21,951	15,167
Cash and cash equivalents		8,326	15,415
		30,277	30,608
Current liabilities			
Accruals		(759)	(495)
Amounts due to subsidiaries		(1,542)	(188)
		(2,301)	(683)
Net current assets		27,976	29,925
Net assets		66,669	67,631
Capital and reserves			
Share capital	30	4,304	4,304
Reserves	31	62,365	63,327
Total equity		66,669	67,631

Tan Woon Chay
Director

Ong Yoong Nyock
Director

32. INVESTMENTS IN SUBSIDIARIES

Name	Country and date of incorporation	Place of operation and principal activities	Particulars of issued and fully paid up share capital/ registered capital	Percentage of ownership interests/voting rights/ profit share	
				Directly	Indirectly
Linocraft International Limited	The British Virgin Islands (the "BVI"), 26 January 2017	BVI, Investment holdings	US\$10,000	100%	—
Linocraft Group Limited	The BVI, 14 February 2017	BVI, Investment holdings	US\$1,000	—	100%
Linocraft Printers Sdn. Bhd. (the "Linocraft Malaysia")	Malaysia, 28 June 1972	Malaysia, Printing and manufacture of instruction manuals, packaging products and printed paper labels	RM2,000,000	—	100%
Linocraft Printers Philippines Inc.	Philippines, 9 June 2016	Philippines, Printing and manufacture of instruction manuals, packaging products and printed paper labels	Peso10,000,000	—	99%
Grace Key Limited	BVI, 16 August 2016	BVI, Investment holdings	US\$1,000	—	100%
Eden Grace Hong Kong Limited	Hong Kong, 12 October 2016	Hong Kong, Provide supporting services to other Group's entities	HK\$100,000	—	100%

33. OPERATING LEASES

Operating lease payments represent rentals payable by the Group for certain of its lease properties. Leases are negotiated for terms between 1 year and 5 years at fixed rentals.

At the end of each of the reporting periods, the Group had operating lease commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2019 RM'000	2018 RM'000
Rented premises		
Not later than one year	3,415	391
Later than one year and not later than two years	1,690	128
Later than two years and not later than five years	69	121
	5,174	640

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33. OPERATING LEASES (Continued)

	2019 RM'000	2018 RM'000
Plant, machinery and equipment		
Not later than one year	116	26
Later than one year and not later than two years	95	12
Later than two years and not later than five years	44	11
Later than five years	21	—
	276	49
	5,450	689

34. RELATED PARTY TRANSACTIONS

- (a) As at 31 August 2019 and 2018, Mr. Ong Yoong Nyock and Mr. Tan Woon Chay provide personal guarantees to secure for the bank borrowings and banking facilities (Note 26) and finance lease obligations (Note 28) grant to the Group.

Mr. Ong Yoong Nyock and Mr. Tan Woon Chay provide personal guarantees to the Group for bank borrowings and finance lease obligations before listing. These personal guarantees were released, discharged or replaced by corporate guarantees or other securities provided by the Group upon Listing.

- (b) The remuneration of directors and other members of key management during the year were as follows:

	2019 RM'000	2018 RM'000
Wages and salaries	1,707	4,475
Contribution to retirement benefits schemes	351	468
	2,058	4,943

34. RELATED PARTY TRANSACTIONS (Continued)

(c) During the year, the Group entered into the following material transactions with related parties:

Related party relationship	Common director	Interest	Name/Company name	Type of transaction	Year ended	
					2019 RM'000	2018 RM'000
An entity controlled by Ong Yoong Nyock, a director of the Company	Ong Yoong Nyock	70%	TIONG NAM HOLDINGS SDN BHD	(a) Interest expenses paid to related companies	—	13
Ong Yoong Nyock, a director of the Company, being a member of the key management personnel of the entity	N/A	N/A	STRAITS PLUS (M) S/B		—	5
					—	18
An entity controlled by Ong Yoong Nyock, a director of the Company	Ong Yoong Nyock	70%	TIONG NAM HOLDINGS SDN BHD	(b) Commission fees paid to a related company	—	9
An entity controlled by Ong Yoong Nyock, a director of the Company	Ong Yoong Nyock	70%	TIONG NAM HOLDINGS SDN BHD	(c) Management fees paid to a related company	—	10
An entity controlled by Ong Yoong Nyock, a director of the Company	Ong Yoong Nyock	70%	TIONG NAM LOGISTICS SOLUTIONS SDN BHD	(d) Transportation fees paid to a related company (Note (ii))	2,927	3,524
Chua Sui Keng, a director of Linocraft Malaysia, being a director of the entity	Chua Sui Keng	N/A	TN EQUIPMENT RENTAL (JB) SDN BHD	(e) Rental expenses of equipments paid to related companies	—	240
An entity controlled by Chua Sui Keng, a director of Linocraft Malaysia	Chua Sui Keng	25%	GF EQUIPMENT RENTAL SDN BHD		545	510
					545	750
Joint venture	Tan Woon Chay	50% hold by Linocraft Printers Sdn. Bhd. (before 26 Jan 2018: 25% — Note 18)	Linocraft Singapore Pte. Ltd. (Note (i))	(f) Purchases from the Group	2,163	1,809

Notes :

- (i) On 26 January 2017, the Group acquired 25% equity interest in Linocraft Singapore Pte. Ltd. from a family member of a director of the Group in a consideration of Singapore dollars 25,000. The Group disposed a subsidiary to certain directors of the Company.
- (ii) Moreover, the related party transactions in respect of transportation fees paid or payable to TIONG NAM LOGISTICS SOLUTIONS SDN BHD above also constitute continuing connected transactions as defined in Chapter 20 of the GEM Listing Rules.

In the opinion of the directors of the company, the above transactions were conducted on arm's length basis and on normal commercial terms.

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35. CAPITAL COMMITMENTS

	2019 RM'000	2018 RM'000
Commitments for the acquisition of:		
Investment property	3,067	2,949
Property, plant and equipment	2,680	—
	5,747	2,949

36. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

	2019 RM'000	2018 RM'000
Financial assets		
Loans and receivables		
— Cash and cash equivalents	18,815	19,974
— Trade and other receivables	68,750	63,632
— Amounts due from a related company	44	41
	87,609	83,647
Financial liabilities measured at amortised cost		
— Trade and other payables	26,293	38,922
— Bank borrowings	125,985	93,799
— Amounts due to related companies	527	1,441
— Finance lease obligations	21,238	16,946
	174,043	151,108

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, amounts due from a related company, trade and other payables, bank borrowings, amounts due to related companies and finance lease obligations.

Due to their short term nature, the carrying values of cash and cash equivalents, trade and other receivables, amounts due from a related company, trade and other payables, bank borrowings, amounts due to related companies and finance lease obligations approximate fair value.

37. FINANCIAL RISK MANAGEMENT

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables and bank deposits. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group applies the simplified approach to providing for ECL prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for contract assets and all trade receivables.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers. Trade receivables are due within 0–90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but a lesser extent. The concentration of credit risk due from the Group's largest and five largest customers are listed below:

	2019 RM'000	2018 RM'000
Largest customer	6,008	8,742
Five largest customers	12,480	42,059

Substantial bank deposits are held in major financial institutions which management believes are of high credit quality.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases. ECLs rates are based on actual loss experience. These rates are adjusted to reflect differences between economic conditions during the year over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. No impairment for trade debtors and bills receivable is provided as the amount of additional impairment measured under the ECLs model is immaterial.

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37. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Other receivables measured at amortised costs are subject to the ECLs model and the loss allowances are limited to 12-month ECLs as there has not been a significant increase in credit risk since initial recognition. The ECLs of other receivables as at 31 August 2019 were determined to be immaterial.

The credit risk on cash and bank balances is limited because the counterparties are banks with high credit-rating assigned by international credit-rating agencies.

These risks are limited by the Group's financial management policies and practices described below.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting periods of the Group's bank borrowings, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group can be required to pay.

	Carrying amount RM'000	Total contractual undiscounted cash flow RM'000	Within 1 year or on demand RM'000	More than 1 year but less than 2 years RM'000	More than 2 years but less than 5 years RM'000	More than 5 years RM'000
31 August 2019						
Trade and other payables	26,293	26,293	26,293	—	—	—
Bank borrowings	125,985	155,660	96,221	15,293	34,969	9,177
Amounts due to related companies	527	527	527	—	—	—
Finance lease obligations	21,238	23,479	7,307	7,447	8,725	—
	174,043	205,959	130,348	22,740	43,694	9,177

37. FINANCIAL RISK MANAGEMENT (Continued)**(b) Liquidity risk (Continued)**

	Carrying amount RM'000	Total contractual undiscounted cash flow RM'000	Within 1 year or on demand RM'000	More than 1 year but less than 2 years RM'000	More than 2 years but less than 5 years RM'000	More than 5 years RM'000
31 August 2018						
Trade and other payables	38,922	38,922	38,922	—	—	—
Bank borrowings	93,799	100,813	68,169	7,671	20,387	4,586
Amounts due to related companies	1,441	1,441	1,441	—	—	—
Finance lease obligations	16,946	19,259	4,902	4,793	9,564	—
	151,108	160,435	113,434	12,464	29,951	4,586

(c) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group's interest rate risk mainly arises from bank deposits, bank borrowings and finance lease obligations. Borrowings arranged at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

All of the Group's bank borrowings as at 31 August 2019 and 2018 bore interest at floating rates whereas its amounts due to related companies and finance lease obligations bore interest at fixed rates. Details of bank borrowings, amounts due to related companies and finance lease obligations are disclosed in Notes 26, 27 and 28, respectively.

The Group's bank balances also expose it to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The directors of the Group consider the Group's exposure to interest rate risk in respect of bank balances is not significant due to low level of deposit interest rate.

The Group currently does not have an interest rate hedging policy. However, the management closely monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Notes to the Financial Statements

For the year ended 31 August 2019

37. FINANCIAL RISK MANAGEMENT (Continued)

(c) Interest rate risk (Continued)

At 31 August 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit/(loss) for the year and retained profits by approximately RM869,000 (2018: RM648,000). The changes in interest rates do not affect the Group's other component of equity.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next reporting date.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars ("USD").

All the Group's borrowings are denominated in the functional currency of the entity taking out the loan. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

	2019 RM'000	2018 RM'000
Trade receivables	20,200	18,936
Cash and cash equivalents	2,831	1,049
Trade payables	(1,974)	(3,601)
	21,057	16,384

37. FINANCIAL RISK MANAGEMENT (Continued)**(d) Currency risk (Continued)**

The following tables illustrate the approximate change in the Group's profit for the year and retained profits in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of each reporting periods.

	2019 RM'000	2018 RM'000
USD appreciated by 5%	1,053	819

The change in exchange rates do not affect the Group's other component of equity. The same percentage depreciation in the foreign currencies against the functional currency of the respective group companies would have the same magnitude on profit and retained profits but of opposite effect.

The sensitivity analysis has been determined assuming that the change in foreign exchanges rates had occurred at the end of each of the reporting periods and had been applied to each of the group entities; exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next reporting date.

38. CAPITAL MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 August 2019 and 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio below 75%. Net debt includes trade and other payables, bank borrowings, amounts due to related companies and finance lease obligation, less cash and cash equivalents. Capital includes equity attributable to owners of the Group.

Notes to the Financial Statements

For the year ended 31 August 2019

38. CAPITAL MANAGEMENT (Continued)

The gearing ratios as at 31 August 2019 and 2018 were as follows:

	2019 RM'000	2018 RM'000
Trade and other payables	26,293	38,922
Bank borrowings	125,985	93,799
Amounts due to related companies	527	1,441
Finance lease obligations	21,238	16,946
Less: Cash and cash equivalents	(18,815)	(19,974)
Net debts	155,228	131,134
Equity attributable to owners of the Group	85,364	78,743
Capital and net debts	240,592	209,877
Gearing ratio	65%	62%

The Group targets to maintain a gearing ratio to be in line with the expected changes in economic and financial conditions. The Group's overall strategy on capital management remains unchanged throughout the year.

39. NOTES SUPPORTING CASH FLOW STATEMENT

(a) Cash and cash equivalents comprise:

	2019 RM'000	2018 RM'000
Cash available on demand	18,815	19,974
Overdrafts	(7,944)	(5,059)
Cash and cash equivalent at end of year	10,871	14,915
Significant non-cash transactions are as follows:		
Financing activities		
Assets acquired under finance leases	8,182	16,305

39. NOTES SUPPORTING CASH FLOW STATEMENT (Continued)**(b) Reconciliation arising from financing activities**

The table below details changes in the Company's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's statements of cash flows from financing activities.

	Amounts due to related companies (Note 27) RM'000	Bank loans and other borrowings (Note 26) RM'000	Finance lease obligations (Note 28) RM'000
At 1 September 2018	1,441	88,740	16,946
Changes from financing cash flows:			
Repayment to related companies	(4,265)	—	—
Proceed from related companies	3,351	—	—
New borrowings from banks	—	263,435	—
Repayment of bank loans	—	(234,134)	—
Interest paid on bank borrowings	—	(4,000)	—
Capital element of finance lease rentals paid	—	—	(3,890)
Interest element of finance lease rentals paid	—	—	(1,036)
Total changes from financing cash flows:	527	114,041	12,020
Other changes:			
Interest expenses	—	4,000	—
New finance leases	—	—	8,182
Finance charges on obligations under finance leases	—	—	1,036
Total other changes	—	4,000	9,218
At 31 August 2019	527	118,041	21,238

Notes to the Financial Statements

For the year ended 31 August 2019

39. NOTES SUPPORTING CASH FLOW STATEMENT (Continued)

(b) Reconciliation arising from financing activities (Continued)

	Amounts due to related companies (Note 28) RM'000	Bank loans and other borrowings (Note 27) RM'000	Finance lease obligations (Note 29) RM'000
At 1 September 2017	14,258	45,015	3,154
Changes from financing cash flows:			
Repayment to related companies	(20,801)	—	—
Proceed from related companies	7,984	—	—
Interest paid	(18)	—	—
New borrowings from banks	—	160,199	—
Repayment of bank loans	—	(116,474)	—
Interest paid on bank borrowings	—	(3,430)	—
Capital element of finance lease rentals paid	—	—	(2,513)
Interest element of finance lease rentals paid	—	—	(667)
Total changes from financing cash flows:	1,423	85,310	(26)
Other changes:			
Interest expenses	18	3,430	—
New finance leases	—	—	16,305
Finance charges on obligations under finance leases	—	—	667
Total other changes	18	3,430	16,972
At 31 August 2018	1,441	88,740	16,946

40. EVENTS AFTER THE REPORTING DATE

There were no material events requiring disclosure after the year end date.

41. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 26 November 2019.

Five-year Financial Summary

A summary of the results, and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements or the Prospectus is set out below.

RESULTS

	For the year ended 31 August				
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
Revenue	88,448	101,120	129,921	179,975	205,290
Cost of sales	(76,239)	(78,898)	(109,156)	(143,396)	(175,252)
Gross profit	12,209	22,222	20,765	36,579	30,038
Other operating income/(loss)	3,873	2,174	3,466	6,892	7,242
Distribution costs	(6,177)	(6,929)	(9,101)	(16,860)	(9,767)
Administrative expenses	(2,787)	(3,837)	(15,540)	(15,425)	(13,437)
Other operating expenses	(114)	(26)	(976)	(135)	(172)
Profit/(loss) from operation	7,004	13,604	(1,386)	11,051	13,904
Finance costs	(2,597)	(2,363)	(2,503)	(4,304)	(5,395)
Share of (loss)/profit of an associate	(11)	41	1	—	—
Share of (loss)/profit of a joint venture	—	—	(104)	62	(5)
Profit/(loss) before income tax expenses	4,396	11,282	(3,992)	6,809	8,504
Income tax (expense)/credit	(1,769)	(2,820)	(2,204)	203	(1,870)
Profit/(loss) for the year	2,627	8,462	(6,196)	7,012	6,634
Attributable to:					
Owners of the Company	2,627	8,462	(6,196)	7,012	6,634

ASSETS AND LIABILITIES

	As at 31 August				
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
Total assets	94,318	106,108	136,771	229,851	259,667
Total liabilities	(69,290)	(74,123)	(104,419)	(151,108)	(174,303)
Total equity	25,028	31,985	32,352	78,743	85,364