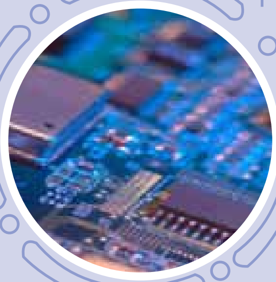
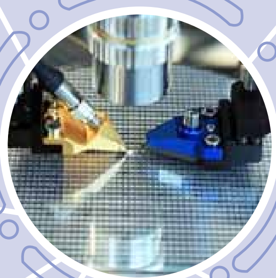
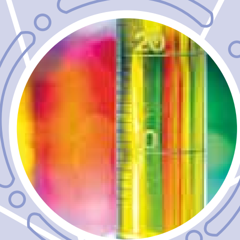




ANNUAL REPORT 2019

QES GROUP BERHAD
Company No. 201401042911 (1119086-U)
(Incorporated in Malaysia under the Companies Act, 1965)

WHAT 'S **INSIDE**

VISION

We aim to be the preferred partner of choice for our customers, suppliers and associates in the market segments we participate in.

MISSION

QES is the leading integrated solution provider specialized in distribution and service of precision equipment, material and engineering. We have design and manufacturing capability on inspection and automated handling equipment. We always work towards long-term profitability and sustainable growth by:

- Continuously training and empowering our Employees
- Keeping our Customers satisfied over long-term
- Building lasting relationships with our Key Suppliers
- Aligning to our Shareholders' vision and commitment

VALUE

ABOUT QES®

QES was founded in Oct 1991. We specialise in manufacturing, distribution and provision of engineering services for inspection, test, measuring, analytical and automated handling equipment. QES Group of companies has since grown into a leading integrated solution provider with manufacturing capability.

The Group has 2 core business division:

- Distribution Division
- Manufacturing Division

Our successful ingredient is always customer driven. It is vital for us to constantly seek the best solution to suit our customers' requirements.

FACTS

Exceed more than **11,000** equipment installed

Assuring You Our Best, ***always!***

Revenue **~USD 39** million

300+ employees

28 years operating

7 countries

CORPORATE INFORMATION

BOARD OF DIRECTORS

ADNAN BIN ZAINOL
Independent Non-Executive Chairman

CHEW NE WENG
Managing Director/President

LIEW SOO KEANG
Executive Director

CHIA GEK LIANG
Independent Non-Executive Director

HOH CHEE MUN
Independent Non-Executive Director

MAZNIDA BINTI MOKHTAR
Independent Non-Executive Director

AUDIT COMMITTEE
Hoh Chee Mun (Chairman)
Adnan Bin Zainol
Chia Gek Liang
Maznida Binti Mokhtar

NOMINATION COMMITTEE
Chia Gek Liang (Chairman)
Adnan Bin Zainol
Hoh Chee Mun

REMUNERATION COMMITTEE
Chia Gek Liang (Chairman)
Adnan Bin Zainol
Chew Ne Weng
Hoh Chee Mun

HEAD OFFICE
No 9, Jalan Juruukur U1/19
Hicom Glenmarie Industrial Park
Seksyen U1, 40150 Shah Alam
Selangor Darul Ehsan

Telephone number: 03-5882 6668
Facsimile number: 03-5567 0811

REGISTERED OFFICE
Lot 4.100, 4th Floor, Wisma Central
Jalan Ampang
50450 Kuala Lumpur

Telephone number: 03-2161 9753
Facsimile number: 03-2181 2456

PRINCIPAL BANKERS
HSBC Bank Malaysia Berhad
United Overseas Bank (M) Berhad

COMPANY SECRETARY
Andrea Huong Jia Mei (MIA 36347)

SHARE REGISTRAR
Mega Corporate Services Sdn Bhd
Level 15-2, Faber Imperial Court
Jalan Sultan Ismail
50250 Kuala Lumpur

Telephone number: 03-2692 4271
Facsimile number: 03-2732 5388

AUDITORS
Moore Stephens Associates PLT
Unit 3.3A, 3rd Floor, Surian Tower
No 1, Jalan PJU 7/3
Mutiara Damansara
47810 Petaling Jaya
Selangor Darul Ehsan

Telephone number: 03-7728 1800
Facsimile number: 03-7733 1033

SPONSOR
M&A Securities Sdn Bhd
Level 11, No. 45 & 47, The Boulevard
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur
Telephone number: 03-2284 2911
Facsimile number: 03-2284 2718

STOCK EXCHANGE LISTING
ACE Market of Bursa Malaysia
Securities Berhad
Stock Name : QES
Stock Code : 0196

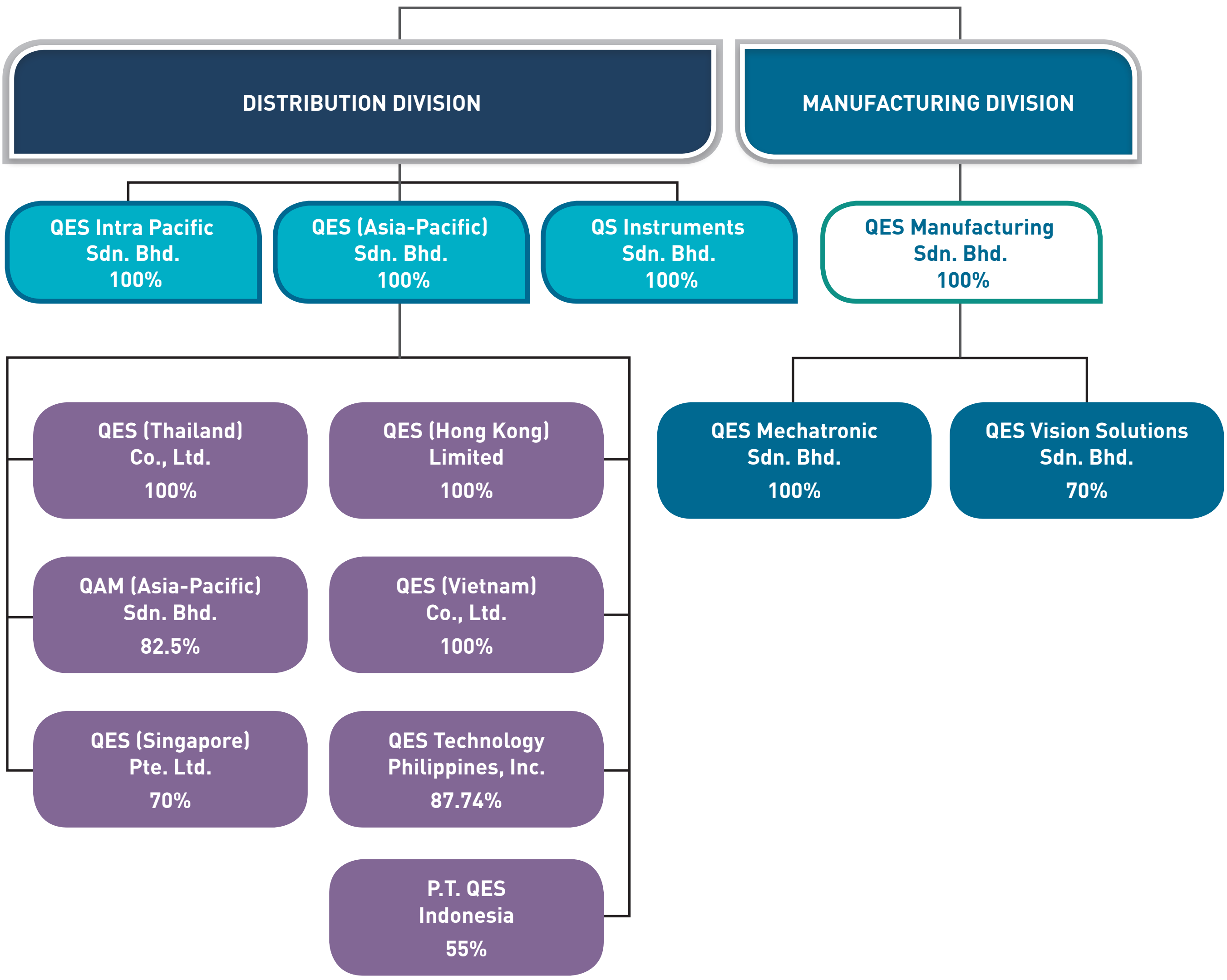
EMAIL ADD & CORPORATE WEBSITE
corporate@qesnet.com
www.qesnet.com

CORPORATE STRUCTURE

QES GROUP BERHAD

("Group" or "QES") as at 4 May 2020

Incorporation & Subsidiaries



- QES was incorporated in Malaysia under the Companies Act 1965 on 20 November 2014 as a public limited company under its present name and was listed on the ACE Market of Bursa Malaysia Securities Berhad in 2018. QES Group Berhad is principally an investment holding company.
- The Group had been granted approval by Companies Commission Malaysia to strike off the following dormant subsidiaries pursuant to Section 550 of the Companies Act, 2016 in FY2019: - QES (Penang) Sdn. Bhd. (Company No. 405487-X), QES (Sarawak) Sdn. Bhd. (Company No. 405474-W) and Creden Engineering Sdn. Bhd. (Company No. 552261-H) on 11 July 2019, and QES (Kuala Lumpur) Sdn. Bhd. (Company No. 405481-D) and VMX Technology Sdn. Bhd. (Company No. 729275-M) on 17 October 2019.

CORPORATE MILESTONES

QES Malaysia was founded on the
4th October 1991

SEP 1992
Expanded to Singapore via QES (Singapore) Pte.Ltd.

MAY 1994
Moved into two-storey building in
USJ 9, UEP Subang Jaya

OCT 1994
Expanded to Thailand via QES (Thailand) Co.,Ltd.

MAY 1996
Expanded to Philippines

DEC 1996
New subsidiaries were set up, QES (Penang) Sdn Bhd & QES (Kuala Lumpur)

JAN 1997
QES (Asia-Pacific) Sdn.Bhd. was made Corporate HQ

APR 1997
Moved into new three-storey Corporate HQ Building is USJ 9, UEP Subang Jaya

OCT 2000
QAM (Asia-Pacific) Sdn.Bhd. was set up to diversify into material business of semiconductor test & assembly

JUN 2001
QES Intra Pacific Sdn. Bhd. was set up to diversify into material business of semiconductor wafer fabrication

DEC 2001
Invested in Creden Group
(Diversified into manufacturing)

MAR 2002
Expanded to China through QES (Singapore) Pte.Ltd. representative office in China

DEC 2003
QS Instruments Sdn.Bhd. was set up to focus on analytical instruments

APR 2005
Set up subsidiary, P.T QES Indonesia with main office in Jakarta to cover Indonesia market

DEC 2006
Expanded to Chengdu, China to cover China market

MAY 2007
Set up subsidiary, QES (Vietnam) Co.,Ltd. with offices in Ho Chi Minh & Hanoi to cover Vietnam market

DEC 2007
Recognition QMS ISO 9001:2000 for
QES Mechatronic Sdn.Bhd.

MAY 2008
Moved QES Corporate HQ office &
factory into threestorey building at Glenmarie

DEC 2012
Expanded coverage to Clark, Philippines

JUN 2013
Official launch of SPECTRO SEA Centre of Excellence

AUG 2014
Implementation of ERP software within QES Group

FEB 2015
Official launch of new QES Logo

SEP 2016
QES Mechatronic Sdn.Bhd. successfully sold equipment to Germany & Taiwan

DEC 2016
QES (Singapore) Pte.Ltd. and QES (Thailand) Co.,Ltd becomes subsidiaries

MAR 2017
Setting up of QES Technology Phillippines.Inc in Manila

MAR 2018
QES successfully listed on ACE Market

PROFILE OF DIRECTORS

Adnan Bin Zainol
Independent Non-Executive Chairman

Malaysian – Male – 67
Appointed to our Board: 11 May 2015
Meeting Attendance: 4/4 (100%)

Qualification(s):
- Bachelor of Economics in 1978, University Malaya.

Relevant Working Experience:
- Accumulated over 20 years of working experience in the banking industry. He started his career in 1978 serving various positions in Malayan Banking Berhad and CIMB Investment Bank Berhad until his retirement in 2004. From 2004 to 2007, he did general management consulting work on a freelance basis, assisting organisations in fundraising as well as to improve their cash flow management.

Member of the Remuneration, Nomination and Audit Committees.

Chew Ne Weng
Managing Director/President

Malaysian – Male – 57 - Co-founder
Appointed to our Board: 11 May 2015
Meeting Attendance: 4/4 (100%)

Qualification(s):
- Bachelor of Mechanical Engineering in 1987, National University of Singapore

Relevant Working Experience:
- Accumulated over 30 years of experience within the engineering industry.
- He started his career in 1987 as an Engineer at Cairnhill Precision Private Limited, Singapore and Co-founded QES Group on 4 October 1991
- As Managing Director/President, he is responsible for the overall strategic direction and management of the Company and its subsidiaries ("the Group") such as the implementation of policies on technical and financial operations, business plans for operating units as well as the execution of quality management system.

Member of the Remuneration Committee

Liew Soo Keang
Executive Director

Malaysian – Male – 58
Appointed to our Board: 11 May 2015
Meeting Attendance: 4/4 (100%)

Qualification(s):
- Bachelor of Electrical Engineering (Honours) (First Class) from University Malaya in 1987.

Relevant Working Experience:
- Accumulated over 30 years of experience in the engineering industry. He began his career in 1987 with Intel Technology Sdn. Bhd. where he was tasked with various roles including semiconductor test equipment maintenance, services and overseeing testing operations.
- He joined QES (Penang) Sdn. Bhd. in 1997 as Operations Director. He was responsible mainly for the business development activities in the northern region of Peninsular Malaysia before assuming a wider regional portfolio in 2000 when he was appointed to the board of directors of QES (Asia-Pacific) Sdn. Bhd.

Profile of Directors (Cont'd)

Chia Gek Liang
Independent Non-Executive Director

Malaysian – Male – 58
Appointed to our Board: 11 May 2015
Meeting Attendance: 4/4 (100%)

Qualification(s):
- Bachelor of Electrical Engineering and a Master of Business Administration from the National University of Singapore, in 1985 and 1993.
- Bachelor of Laws Hons (2nd Upper) from the University of London in 2010.
- Obtained his Certificate in Legal Practice in 2011 and was admitted as Advocate & Solicitor of the High Court of Malaya in 2012.

Relevant Working Experience:
- He began his career in 1985 in the engineering industry with SGS-Thomson Microelectronics Pte. Ltd. In Singapore for 6 years.
- In 1992, he joined CIMB Investment Bank Berhad in the corporate finance division. During his 9 years tenure in investment banking he was involved in a wide variety of assignments which include initial public offerings, debt and equity funding raising, mergers and acquisitions, reverse take-over, corporate and debt restructuring and privatisation exercises.
- In 2013, he started practising law as an Associate where he was primarily involved in providing corporate legal services..
- Since January 2019, he has resumed doing general consulting works.

Chairman of the Remuneration and Nomination Committees - Member of the Audit Committee.

Present Directorship(s) with Other Public Listed Companies:
Independent Non-Executive Director of i-Stone Group Berhad

Hoh Chee Mun
Independent Non-Executive Director

Malaysian – Male – 55
Appointed to our Board: 11 May 2015.
Meeting Attendance: 4/4 (100%)

Qualification(s):
- Certified Public Accountants, Malaysian Institute of Certified Public Accountant ("MICPA"), in 1993.
- Admitted as a Certified Public Accountant of MICPA on 29 January 1994.
- Admitted as a Chartered Accountant of Malaysia Institute of Accountants ("MIA") on 24 October 1994.

Relevant Working Experience:
- Commenced his accountancy career in 1985 with BDO and furthered his career with Ernst & Young in 1990.
- In 1996, he joined Fella Design Group of Companies as the Group Accountant, overseeing the accounts, finance, internal audit, human resources, and information technology.
- In 2005, he became the Finance Director of VHQ Group of Companies, overseeing the accounts, finance and corporate secretarial matters in Malaysia, Singapore, Indonesia, Thailand, Vietnam, and China.
- From 2012 to 2017, he provided general management consultancy and GST services.
- Since 2017, he was appointed as the Financial Controller of Straits Inter Logistics Berhad.

Chairman of the Audit Committee - Member of the Remuneration and Nomination Committees.

Profile of Directors (Cont'd)

Maznida Binti Mokhtar
Independent Non-Executive Director

Malaysian – Female – 53
Appointed to our Board: 1 August 2019
Meeting Attendance: 3/3 (100%)*

Qualification(s):
- BSc Econs (Honours) from London School of Economics and Political Science in 1990.
- She completed her professional articleship as a Chartered Accountant at Ernst & Young in London in 1993.
- She is currently a member of the Institute of Chartered Accountants of England and Wales, and the MIA.

Relevant Working Experience:
- She started her career at AmMerchant Bank Berhad in the Privatisation and Project Advisory Unit in 1994.
- In 1997, she co-founded Skali Group of Companies and was currently the Chief Financial Officer for 23 years. She and the management team provided the strategic direction and led the operations of the Group. She has accumulated over 25 years of working experience in the accounting firm, merchant banking industry and the IT industry.

Member of the Audit Committee.

* Reflects the number of meetings held during the time the Committee member held office.

Notes:

1. All the Directors above have no family relationship with any Directors and/or major shareholders of the Group and have never been charged for any offence against the law other than traffic offences (if any) within the past five (5) years.

2. None of the Directors have any conflict of interest with the Company.

3. Other than Mr. Chia Gek Liang, all the Directors of QES Group Berhad does not hold directorship in any other public listed companies.

PROFILE OF KEY MANAGEMENT

Lee Hock Chin
Vice President of Distribution Division

Malaysian – Male – 46
- Responsible for all regional sales, marketing and technical support activities.
- Appointed since 1 January 2011

Qualification(s):
- Diploma in Technology (Electronic Engineering) in 1978, Tunku Abdul Rahman College

Relevant Working Experience:
- Accumulated more than 20 years of experience in the test and measurement equipment industry.
- Over 20 years in QES where he was responsible for the after-sales technical support services, sales and marketing activities within the Business Unit of QS Instruments Sdn. Bhd.

Lim Chee Keong
Vice President of Manufacturing Division

Malaysian – Male – 53
- Responsible for overseeing the overall sales and marketing, production planning, equipment engineering, precision part machining operation, equipment assembly and supply chain management operations of the Manufacturing Division.
- Appointed since 1 January 2009

Qualification(s):
- Diploma in Computer Studies in 1993, Informatics Institute, Penang.

Relevant Working Experience:
- More than 30 years of engineering and sales experiences.
- Joined QES in 1994 and has since been in charge of technical support operations, managing the technical and service department, overall management of the operations before resuming his current position as Executive Director of QES Manufacturing Sdn. Bhd.

Chin Guat Eem
General Manager of Human Resources & Admin

Malaysian – Female – 53
- Responsible for overseeing the overall human resource and administration functions of our Group which include human resource planning, recruitment, payroll management and supply chain management.
- Appointed since 16 April 2005

Qualification(s):
- Diploma in Purchasing and Materials Management in 2001, Malaysian Institute of Purchasing and Materials Management.
- Foundation studies for Graduate Diploma in Purchasing and Supply Programme in 2001, Chartered Institute of Purchasing and Supply, United Kingdom.

Relevant Working Experience:
- Began her career in 1989 and since joining QES in 1992, she has accumulated over 30 years of experience in various roles ranging from office management, logistics, procurement and management of human capital.

Profile of Key Management (Cont'd)

Yeoh Cheong Yeow
General Manager of Finance

Malaysian – Male – 51
- Responsible for our Group's overall finance functions including the monitoring of business performance and results, profitability and cash flow, financial reporting, treasury management and tax compliance.
- Appointed since 1 September 2004

Qualification(s):
- Diploma in Commerce (Financial Accounting) in 1993, Tunku Abdul Rahman College.
- Diploma in Investment Analysis in 1996, Research Institute of Investment Analysts Malaysia.
- Fellow member of the Association of Chartered Certified Accountants, United Kingdom and a Chartered Accountant of the Malaysian Institute of Accountants.

Relevant Working Experience:
- More than 25 years of experience in accounting and finance functions.
- He began his career in 1993 as an auditor and subsequently held various finance and accounting roles prior to joining QES in 2004 assuming his present role.

Notes:

1. All the Key Management above have no family relationship with any Directors or major shareholders of the Group and have never been charged for any offence against the law other than traffic offences (if any) within the past five (5) years.

2. All the Key Management above does not hold directorship in any other public listed companies and has no conflict of interest with the Company.

LETTER TO SHAREHOLDERS

Dear Shareholders,

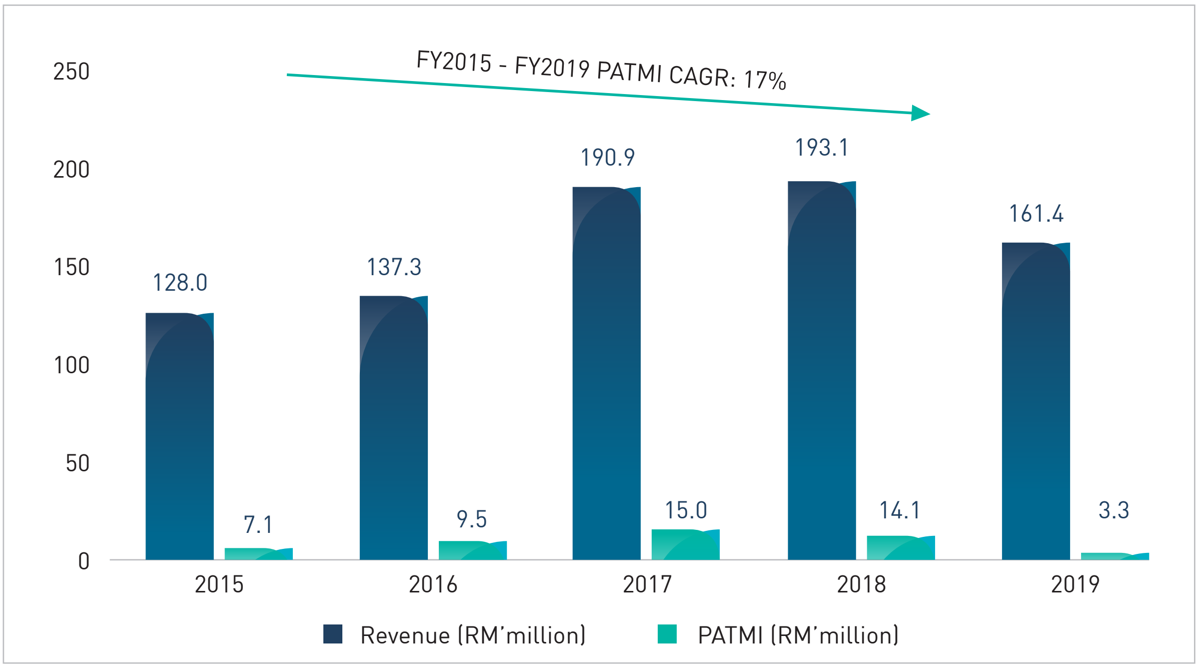
We wrapped-up the financial year ended ("FYE") 31 December 2019 in a cautious mode yet resolved to achieve better for 2020. In 2019, Bursa Malaysia has been one of the worst performing bourses in Asia following the economic slowdown due to the prolonged US-China trade war, geopolitical tensions which resulted in an overall slowdown on global economy. Despite that, with a diverse market segment and sticky recurring revenue from our services income, the Group managed to sustain a profitable business for the FYE 2019. On behalf of the Board of Directors ("Board"), we are pleased to present the Annual Report and the Financial Statements of the Group for FYE 2019.

FINANCIAL PERFORMANCE

(i) Analysis of financial results

The Group ended the financial year with RM161.4 million in revenue and RM3.3 million in profit after tax attributable to the owners of the company ("PATMI"). Revenue declined by RM31.7 million from RM193.1 million while our PATMI declined by RM10.8 million from RM14.1 million as compared to FYE 2018. The decline in both revenue and profit were mainly attributed by significant lower sales generated from the Manufacturing Division, which was affected by economic uncertainties locally and worldwide.

Revenue & PATMI

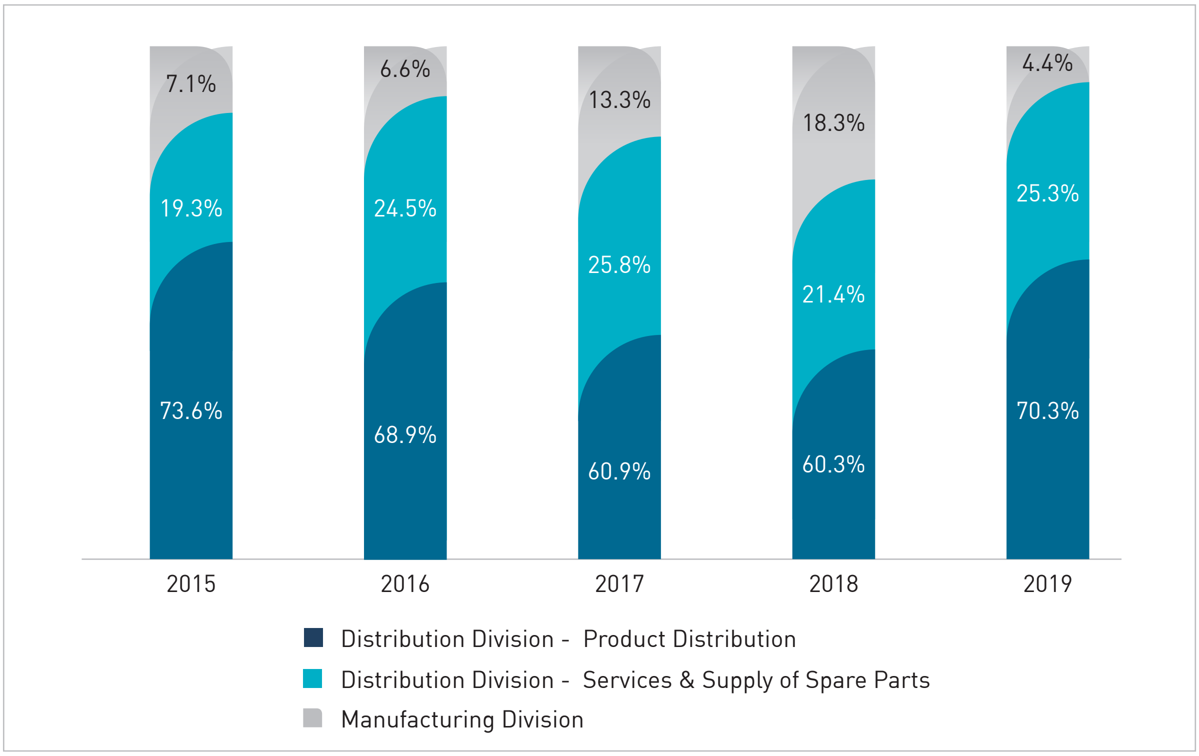


Letter to Shareholders (Cont'd)

(ii) Significant drop in manufacturing revenue

Revenue in the Manufacturing Division decreased significantly by 80% year-on-year ("YoY") and recorded a loss before tax ("LBT") of RM4.3 million as compared to a profit before tax ("PBT") of RM6.2 million last year due to less deliveries of Automated Optical Inspection Systems. The overall slowdown in the semiconductor industry worldwide was the main reason for the drastic reduction of deliveries.

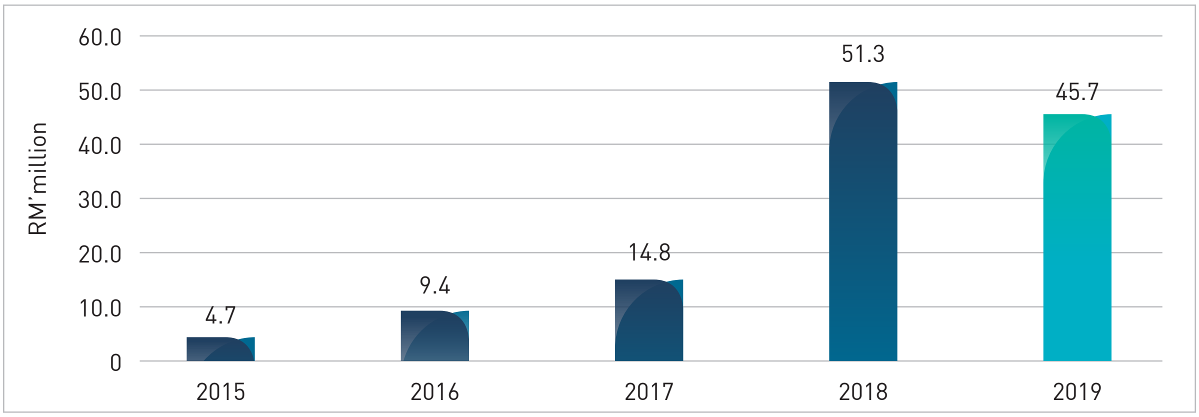
Manufacturing & Distribution Division Breakdown



(iii) Maintaining a strong balance sheet

As at 31st December 2019, the Group has cash and cash equivalents of RM45.7 million. In view of the expected downcast economic climate in FY 2020 due to the outbreak of the Covid-19, political uncertainties and a worldwide economic slowdown, the Group is committed to optimise usage of our cash reserves over the next 12 months, in ensuring the sustainability of the Group.

Cash & Cash Equivalents Trend



Letter to Shareholders (Cont'd)

(iv) Shareholders' equity growth

Our shareholders' equity increased from RM87.8 million in FYE 2018 to RM89.1 million in FYE 2019. With the Group's net cash position, gearing ratio remained negative in FYE 2019 whilst our current ratio improved from 2.23 times to 2.31 times. The Group's cash and cash equivalents decreased to RM45.7 million in FYE 2019, compared to RM51.3 million.

BUSINESS SUSTAINABILITY AND DEVELOPMENT

(i) Sustainable growth in the Manufacturing Division

During FYE 2019, one of the key takeaways was the volatile level of revenue from the Manufacturing Division due to its heavy reliance on Post Wire Bond Automated Optical Inspection (PWB AOI) in the semiconductor industry. While the Group will continue to focus and expand on its core business in the development and improvement on the PWB AOI series, we are planning to add on more automatic handling equipment relating to automation and Industry 4.0 requirements. The Manufacturing Division introduced 4 new product lines in FYE 2019 which includes the following:

1. Optical Inspection Series (Molded Strip Optical Inspection System and Post Die Attach Inspection System)
2. Automatic Handling Series (Wafer Barcode Printing & Labelling System and Precision Tilt Sensing System).

(ii) People Development

Succession planning has always been a part of our Corporate Governance oversight and remains a priority for the Board. The Group regularly undertakes a thorough and regular management talent pool review to ensure that the Group can maintain a robust, knowledgeable and talented pool of people at any given time.

(iii) Product Development

We constantly keep up with new market trends to ensure that our Distribution Division brings in new products to the ASEAN market while at the same time strengthening our existing products' offerings through deeper and wider collaboration with our key suppliers.

In FYE 2019, the Group expanded our product group to target those in the General Industry such as Analytics, Research and Development and other Industrial Applications through the introduction of Leybold Pumps and Wesco Power Sag Protector. The Distribution Division also looked into exploring the Agriculture and Livestock industry by bringing in equipment from Draminski such as Portable Ultrasounds, Moisture Meters for grains and coffee from Poland. In addition to this, the Group also expanded on our semiconductor product offerings to include products from Wentworth Laboratories from United Kingdom and HiSol, Inc. from Japan.

Our Manufacturing Division will remain focused on developing products within our core competencies of automatic vision inspection and automated material handling equipment. For FY 2020, our Manufacturing Division will continue to put in more resources and effort into the development of our two new products which are the automatic post probing inspection (PPI Series) and automatic post dicing inspection (PDI Series) which was originally scheduled to be launched in FYE 2019 but has now been postponed to FY 2020.

(iv) Factors affecting business

The worldwide semiconductor industry experienced downturns which started towards the end of 2018. Capex investments by our customers were affected by the on-going USA-China trade negotiations which caused uncertainties and has now been further hit by the outbreak of Covid-19. We remain hopeful that our customers will embark on capex spending in the second half of 2020 and with our strong cash balance sheet, we are well positioned to overcome this and capture the recovery and upturn in future.

Letter to Shareholders (Cont'd)

MARKET OUTLOOK AND FUTURE PROSPECT

As we move into the new decade, our expectations on the global economic growth may sink to all time low levels as the Covid-19 outbreak is foreseen to impact worldwide demand and supply, creates uncertainties and suspends business operations worldwide especially in the first half of 2020. Nevertheless, the management is conservatively optimistic that should the outbreak of Covid-19 subdue, there should be a possible up-tick in the second half of 2020 especially with the foreseeable recovery of the semiconductor, electrical and electronics industries. The long-term future of the global economy will depend on how these challenges are addressed. The Group's long-term business objectives are to generate sustainable earnings supported by positive cash flows, maintain a positive and healthy financial position and endeavour to pay a stable dividend to our shareholders.

ACKNOWLEDGEMENTS

On behalf of the Board of Directors, we would like to express our sincere appreciation and gratitude to our shareholders, the management and employees, for their dedicated work, commitment and loyalty. Finally, we would like to express our sincere gratitude to all our customers, suppliers, business associates, vendors, bankers and regulatory authorities for their continuous support and trust in QES.

Rest assured, we will continue to work together and forge ahead to achieve the highest growth and success for QES.

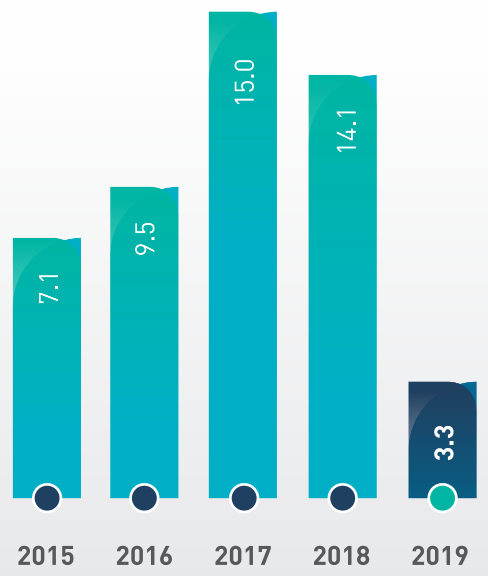
Adnan Bin Zainol
Independent Non-Executive Chairman

Chew Ne Weng
Managing Director/President

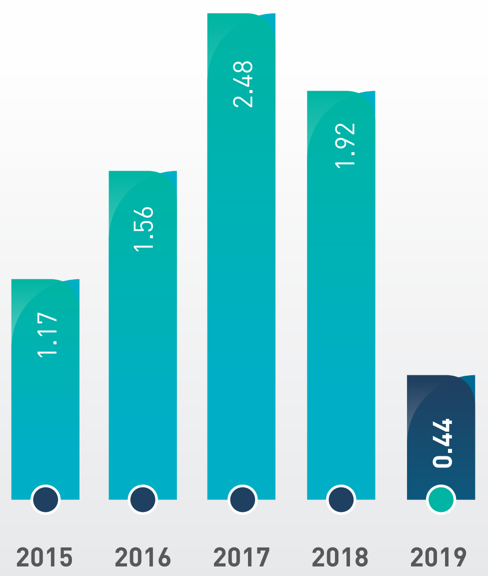
GROUP FINANCIAL HIGHLIGHTS

Earnings before Interest, Taxes, Depreciation and Amortisation (RM'million)

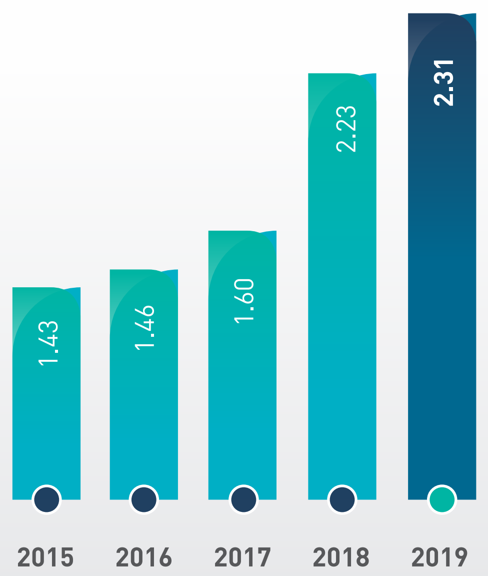
Profit attributable to Owners of the Company (RM'million)



Basic Earnings per Share (sen)



Current Ratio (times)



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE REVIEW

Revenue and gross profit

The Group recorded a lower revenue of RM 161.4 million in FYE 2019, representing a decrease of RM31.7 million or 16.4% as compared to FYE 2018. The decline of revenue from the Distribution Division and Manufacturing Division was mainly attributed by lower sales, due to the overall slowdown in the semiconductor industry worldwide.

The Group recorded a lower gross profit ("GP") of RM32.3 million, a 24.0% drop over last year's RM42.5 million primarily due to lower GP contribution by the Manufacturing Division, in tandem with its decline in revenue. Overall GP margin for the current financial year stood at 20.0% as compared to 22.0% in FYE 2018.

Geographically, Malaysia remains as the biggest revenue contributing country, at approximately 37.4% of our total revenue in FYE 2019. 57.2% of our revenue is derived from other ASEAN countries, and the remaining 5.4% is contributed by other countries. This well-balanced geographical composition shows the Group's diversity and strength of our core businesses in which there are no heavy reliance on a single country to drive the continuous growth of the Group.

Operating expenses

Administrative expenses decreased to RM15.8 million in FYE 2019 from RM16.0 million in FYE 2018 in the absence of listing expenses after our successful listing on 8 March 2018.

Marketing and distribution cost rose to RM7.3 million from RM7.0 million due to increase in marketing and exhibition activities across ASEAN countries and China.

Other operating expenses increased to 3.1% of our revenue in FYE 2019 compared to 1.5% in FYE 2018 on account of higher depreciation for right-of-use assets, an impact from the adoption of MFRS 16 Leases, coupled with the recognition of inventories written off and loss on foreign exchange. Our finance costs increased slightly mainly due to the recognition of interest expenses on lease liabilities in FYE 2019, an impact from the adoption of MFRS 16 Leases, despite the reduction in interest from bank borrowings.

Profit before tax

Our profit before tax ("PBT") reduced by 69.9% to RM5.6 million in FYE 2019 from RM18.6 million in FYE 2018 in line with the decline in our revenue and gross profit. Profit after tax further declined 75.4% to RM3.5 million in FYE 2019 from RM14.8 million in FYE 2018 in line with lower PBT.

The Group's effective tax rate in FYE 2019 was 38.3%. It is higher compared to 20.3% in FYE 2018 and statutory income tax rate of 24.0% mainly due to adjustments on certain non-deductible expenses.

Management Discussion and Analysis (Cont'd)

FINANCIAL POSITIONS REVIEW

Non-current assets

The Group's total non-current assets increased by RM7.1 million, mainly due to the recognition of right-of-use ("ROU") assets of RM6.1 million as a result of MFRS 16 Leases adoption in FYE 2019. Notwithstanding the reclassification of RM2.5 million from property, plant and equipment ("PPE") to ROU assets and the disposal of demonstration equipment of RM0.5 million at net book value and total depreciation of RM2.2 million charged during FYE 2019, PPE had increased by RM4.0 million due to purchase of demonstration equipment and other office equipment and fittings. Deferred tax assets ("DTA") and intangible assets have also increased by RM 1.2 million and RM 1.0 million respectively. The increase in DTA is mainly due to the recognition of tax losses from the Manufacturing Division which suffered losses in the current financial year. DTA is recognised as the Group considers it probable that future taxable profits will be available against which it can be utilised. The increase in intangibles asset is due to capitalisation of cost for future product development incurred by manufacturing division.

Current assets

Total current assets for FYE 2019 stood at RM125.9 million, a decrease by RM10.3 million mainly attributable to a decrease in trade receivables of RM15.6 million as a result from the decrease in revenue for FYE 2019, and a decrease in both short-term investment of RM9.0 million and fixed deposits with financial institutions of RM1.8 million. The decrease was partially offset by the increase in inventories of RM4.4 million due to stock in place as at end of FYE 2019 pending deliveries and increase in other receivables and tax recoverable of RM1.0 million and RM1.4 million respectively. Cash and bank balances also increased by RM9.3 million mainly due to cash inflow from operating activities as explain in subsequent notes.

Current and non-current liabilities

The Group's non-current liabilities increased by RM2.8 million in FYE 2019. This is mainly due to recognition of non-current lease liabilities of RM4.2 million coupled with the classification of finance lease liabilities of RM1.6 million as a result of MFRS 16 Leases adoption in FYE 2019. Total current liabilities decreased by RM6.7 million in FYE 2019, mainly attributable to the decrease in trade payables of RM6.6 million as a result of decrease in trade purchase. Other payables have also decreased by RM2.8 million due to lower accrued expenses despite the increase in contract liabilities of RM3.3 million from down payments received from customers.

Gearing ratios

Our gearing ratio remained negative due to the Group is in net cash position at the end of FYE 2019 and FYE 2018.

LIQUIDITY AND CAPITAL RESERVES

The net cash outflow of the Group for FYE 2019 was RM5.9 million. This can be accounted by:-

a) Cash inflow of RM8.0 million from operating activities;
b) Cash outflow of RM3.3 million from investing activities; and
c) Cash outflow of RM10.6 million for financing activities.

Cash inflow of RM8.0 million was mainly attributable to favourable outcome from operating activities in place during the year.

Cash outflow of RM3.3 million from investing activities was mainly attributable to the acquisition of property, plant and equipment of RM4.0 million and increase in intangible assets of RM1.1 million which was mitigated with the interest on income received amounting to RM1.4 million.

The dividend paid of RM3.3 million, decrease in trade facilities of RM5.6 million and repayment of lease liabilities of RM1.5 million constituted the main cash outflow of RM10.6 million for financing activities.

As at 31 December 2019, the Group's cash and cash equivalents stood at RM45.7 million.

Operational and Financial Risks

Operational Risks

The Group is in the process of implementing a new ERP system. This will enable our entire systems and processes to be digitalised so that information or data, concerning the Group will be captured on one platform to guide all our actions and decisions. Our ultimate objective is to create optimum operational efficiencies while enhancing the customer experience. This will enable us to minimize any prospect of loss resulting from inadequate information while implementing policies, procedures or systems in place.

The Group is actively and continuously pursuing new product and technology innovations to address the increasingly sophisticated needs of our customers. Our regular participation in local and overseas exhibitions provide opportunities for the Group to understand the latest market requirements and keep abreast of the current technological changes.

The Group will continue to strengthen its market position and expand its customer base by penetrating new market segments.

Management Discussion and Analysis (Cont'd)

Operational and Financial Risks (Cont'd)

Financial Risks

Foreign exchange risk

The Group is exposed to fluctuations in foreign exchanges rates as a major part of our sales and purchases are transacted in foreign currencies. Our finance, purchasing and sales departments will coordinate our foreign currency sales and purchases to be in the same currency as much as possible to minimize our foreign currency exposure as a form of natural hedging. Should our exposure become substantial, the Group would consider hedging our position. However, there would remain risks arising from foreign exchange and any adverse fluctuations in the foreign exchange rates may have an adverse impact on the Group's revenue and earnings.

DIVIDEND

On 11 April 2019, the Directors declared an interim single tier dividend of 0.40 sen per ordinary share for the financial year ended 31 December 2019 amounting to RM3,033,232 which was paid on 24 May 2019.

The Board do not recommend any final dividend in respect of the current financial year.

SUSTAINABILITY STATEMENT

QES strives to poise commercial focus with sustainability factors. Hence, we believe in striking a balance between achieving operational profitability whilst simultaneously focusing on the economic, environment and social ("EES") criteria as essential elements in enabling the Group to achieve success now as well as into the future. This Statement has been prepared in accordance with the Sustainability Reporting Guide and Toolkits, issued by Bursa Malaysia Securities Berhad.

This sustainability report outlines our endeavours throughout FYE 2019 in areas where our expertise and resources can make a positive impact. It provides details of our sustainability activities with respect to the following three core areas:

1) ECONOMIC VALUES

- Constant Innovation

In the year under review, we continue our innovation journey in delivering greater customer experience through our innovative and cost-effective vision inspection solutions. This is to accommodate the trend towards automation and data exchange in manufacturing technologies and processes, also known as Industry 4.0 which will make it possible to gather and analyse data across machines and also enabling faster, more flexible and more efficient processes to produce higher-quality goods at reduced costs.

The new products from the Manufacturing Division includes the Molded Strip Optical Inspection System ("MPI3000") that allows for inspection of leadframe from the top and bottom as well. Another product that was launched is the Post Die Attach Inspection System ("PDA100K") which uses a simple yet effective loading/unloading module to transfer the ceramic panels onto/from the inspection stage with precision control. This ensures a higher level of accuracy covering all possible defect detections on the die. The Group also launched a new Wafer Barcode Printing and Labelling System ("WID8000") which automates the placement of sticker labels on wafers. This reduces human errors as well as reduce cost.

During FYE 2019, the Distribution Division also diversified into the Agriculture & Livestock Industry. From our participation in AgriMalaysia 2019, the management realised that there is a significant gap in the existing product offerings catering for this industry. Hence, the Group made a decision to work together with Dramiński S.A., a Polish company considered a leader in the production of veterinary and medical ultrasound scanners.

- Effective Engagement with Stakeholders

The Group maintains an active online platform through its corporate website which provides current information on the Group, including any announcements, quarterly financial results, Group's performance and any other related information with the aim of fostering and maintaining good relations with various stakeholders of the Group.

The Group continually seek out new opportunities by building collaborative relationships, listening to the needs of our customers, and ultimately, maintaining and strengthening our relationships with key players and suppliers from different segments through active participations in local and international trade exhibitions. Here is a list of trade exhibitions that the Group participated in the FYE 2019:

Event Name	Date	Location
SEMICON CHINA 2019	20th - 22nd Mar 2019	SNIEC, Shanghai, China
SEMICON SEA 2019	7th - 9th May 2019	MITEC, Kuala Lumpur, Malaysia
MetalTech 2019	15th - 18th May 2019	MITEC, Kuala Lumpur, Malaysia
PSECE 2019	30th May - 1st Jun 2019	SMX CC, Manila, Phlippines
Manufacturing Expo 2019	19th - 22nd Jun 2019	BITEC, Bangkok, Thailand
AGRI Malaysia 2019	26th - 28th Sep 2019	SCCC, Klang, Malaysia
LABASIA 2019	15th - 18th Oct 2019	PWTC, Kuala Lumpur, Malaysia
15th CFAR Annual Forum - Council of Failure Analysis and Reliability	5th Nov 2019	Acacia Hotel
Oil & Gas Vietnam (OGAV) 2019	13th - 15th Nov 2019	Vung Tau City, Vietnam
PIPOC 2019	19th - 21st Nov 2019	KLCC, Kuala Lumpur, Malaysia
Metalex 2019	20th - 23rd Nov 2019	BITEC, Bangkok, Thailand

Sustainability Statement (Cont'd)

2) ENVIRONMENT FOOTPRINT

- Reduce, Reuse, Recycle & Rethink

Environmental sustainability forms an integral part of the Group's sustainability philosophy. We work to integrate the best sustainability practices across business operations to reduce adverse environmental impact on the ecosystem.

In our daily operations, the Group continues to be committed on recycling, energy-saving practices and undertaking measures to reduce wastage, pollution and harmful emissions. The Group is committed to improve resource efficiency and reduce our environmental impact by encouraging our employees: -

- To recycle old documents
- To distribute all memos via email
- To disseminate all company information such as handbooks, SOP, forms using internal electronic network
- To reuse delivery boxes when necessary
- To reuse shipping, packing material when necessary
- To switch off all electrical appliances when not in use

During the reporting period, there were no incidents of non-compliance and penalties pertaining to environmental-related issues. To maintain the highest standard of environmental compliance and to prevent future occurrence of incidence, the management will continue to review and improve current environmental management system and practices and ensure that all our activities and operations comply with existing regulatory requirements.

- E-Waste Management

The Group organized an e-waste collection drive in August 2019 to raise awareness on proper disposal of electronic wastages by encouraging our employees to recycle their old computers, printers, televisions, scanners, mobile phones and etc. We engaged an e-waste management company to dispose of these items safely for us. This e-waste collection drive yielded very positive response across the Group and we wish to continue this initiative in the following years.

- Green Products

In promoting a green environment, the Group is heavily invested in extending the green initiatives by providing various types of analytical instrument that could help provide a quick screening of hazardous substances for highly sensitive trace elements such as heavy metals in water, soil, sludge and waste using Fluorescent X-ray Analysers and ICP Optical Emission Spectrophotometers.

The Group's effort to bring in these products to the ASEAN market helps us to support our customers to comply with environmental directives such as the Restriction on Hazardous Substances ("RoHS") and End of Life Vehicles Directive. The Group has been actively publicizing this information through various workshops organized in-house and through email marketing.

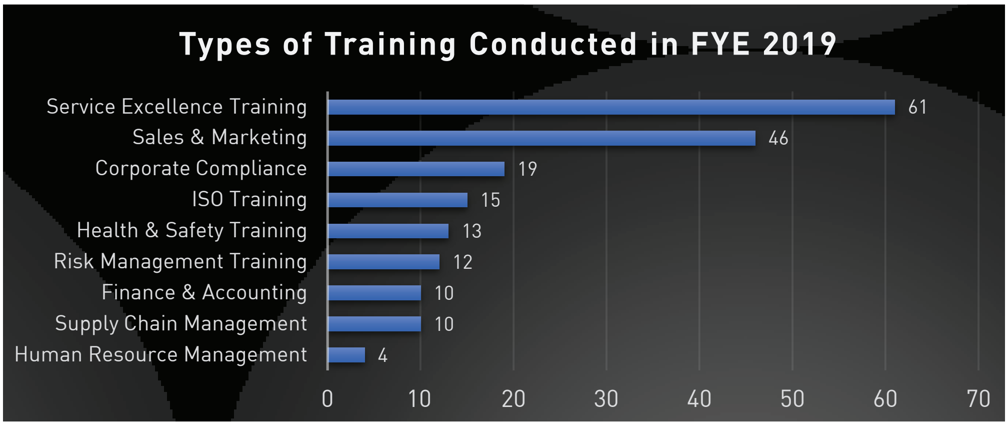
Sustainability Statement (Cont'd)

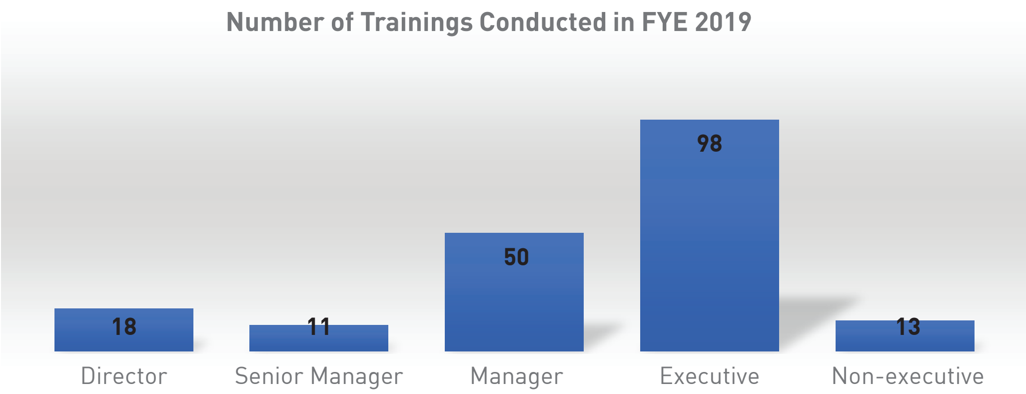
3) SOCIAL FACTORS

- Talent Training & Development Program

We see our employees as one of our major stakeholders and we understand the value of investing in them as an important step to ensure continuous growth for the Group. Our support to our employees is extended not only to their career, but also to their personal development through trainings, workshops and non-work related activities organised by the management.

Various training and talent development programmes were conducted throughout 2019 to ingrain an on-going learning culture in our team. We place great emphasis in ensuring that our workforce is professionally fulfilled and appropriately skilled, as this will ultimately translate to the long-term success of the Group. In FYE 2019, the Group conducted a total of 190 training both locally and overseas.





- Occupational Health and Safety

The Group's emphasis on employee's health and safety well-being can be witnessed through the establishment of our in-house Health and Safety Committee which comprises the: -

- Atomic Energy Licensing Board (AELB) Emergency Response Training Team
- Emergency Response Team
- Monthly Fire System Maintenance Team
- Health & Safety Team.

The aim of these teams is to ensure that the Group provides an accident-free workplace environment across our workstations to all our employees.

- Staff Welfare

The Group place a great importance on all matters related to the well-being of our employees. The Group equally emphasize on maintaining a healthy work-life balance among our employees by organising weekly badminton and monthly futsal sessions. There are also monthly movie outings organised by the Group to encourage bonding sessions among the employees across departments as well. On top of that, we organise health screenings and seminars to promote healthy lifestyle habits.

GROUP HIGHLIGHTS OF 2019

QES CNY Lion Dance 2019
Date : 11th February 2019
Venue : QES Corporate HQ, Shah Alam, Malaysia

Gastroesophageal Reflux Disease (GERD) Health Talk 2019
Date : 19th April 2019
Venue : QES Corporate HQ, Shah Alam, Malaysia

PSECE 2019
Date : 30th May – 1st June 2019
Venue : SMX CC, Manila, Phlippines

MetalTech 2019
Date : 22nd May – 25th May 2019
Venue : MITEC, Kuala Lumpur, Malaysia

SEMICON CHINA 2019
Date : 20th – 22nd March 2019
Venue : SNIEC, Shanghai, China

SEMICON SEA 2019
Date: 7th – 9th May 2019
Venue: MITEC, Kuala Lumpur, Malaysia

QES Hari Raya Lunch 2019
Date : 17th June 2019
Venue : QES Corporate HQ, Shah Alam, Malaysia

Blood Donation Drive 2019
Date : 20th August 2019
Venue : QES Corporate HQ, Shah Alam, Malaysia

Manufacturing Expo 2019
Date : 19th – 22nd June 2019
Venue : BITEC, Bangkok, Thailand

Group Highlights of 2019 (Cont'd)

QES E-Waste Collection Drive 2019
Date : 26th August – 6th September 2019
Venue : QES Corporate HQ, Shah Alam, Malaysia

AGRI Malaysia 2019
Date : 26th – 28th September 2019
Venue : SCCC, Selangor, Malaysia

Run for Humanity 2019
Date : 16th September 2019
Venue : Anjung Floria, Putrajaya, Malaysia

QES Annual Badminton Tournament 2019
Date : 4th October 2019
Venue : Glenmarie, Shah Alam, Malaysia

Group Highlights of 2019 (Cont'd)

QES Annual Dinner 2019
Date : 4th October 2019
Venue : Sofitel Hotel, Kuala Lumpur, Malaysia

LABASIA 2019
Date : 15th – 18th October 2019
Venue : PWTC, KL, Malaysia

QES Christmas & New Year Lunch 2019
Date : 17th December 2019
Venue : QES Corporate HQ, Shah Alam, Malaysia

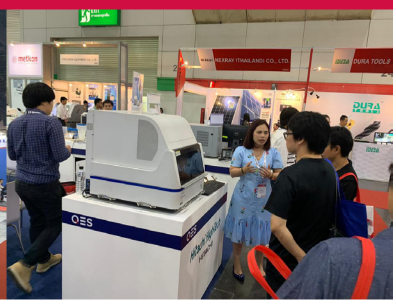
Activ@work Challenge 2019
Date : 1st October – 31st December 2019
Venue : QES Corporate HQ, Shah Alam, Malaysia

15th CFAR Annual Forum - Council of Failure Analysis and Reliability 2019
Date : 5th November 2019
Venue : Acacia Hotel, Manila, Philippines

Oil & Gas Vietnam (OGAV) 2019
Date : 13th – 15th November 2019
Venue : Vung Tau City, Ho Chi Minh, Vietnam

PIPOC 2019
Date : 19th – 21st November 2019
Venue : KLCC, Kuala Lumpur, Malaysia

Metalex 2019
Date : 20th – 23rd November 2019
Venue : BITEC, Bangkok, Thailand



CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors ("Board") of QES Group Berhad are pleased to present the Group's Corporate Governance ("CG") Overview Statement for the FYE 2019, which serves to provide shareholders and stakeholders with an understanding of the Group's commitment to CG and how the Group's practices support its ability to create long-term value for shareholders and stakeholders. Our CG Overview Statement are premised on Securities Commission Malaysia's Malaysian Code On Corporate Governance's three principles, namely Leadership and Effectiveness, Effective Audit and Risk Management, Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders.

This CG Overview Statement is prepared in compliance with Bursa Malaysia Securities Berhad's ACE Market Listing Requirement ("AMLR") , and it is to be read together with the CG Report 2019 which is available on the Group's corporate website at www.qesnet.com.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

SECTION I: BOARD RESPONSIBILITIES

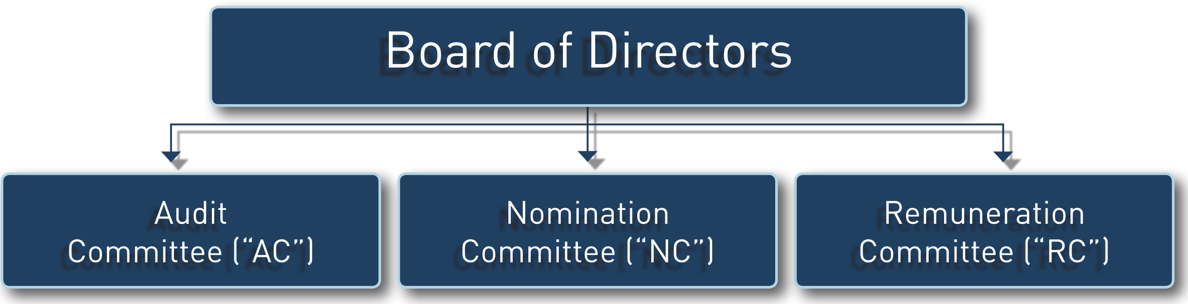
STRATEGIC AIMS, VALUES AND STANDARDS

The Board is responsible for leading the Group and is accountable to the shareholders and stakeholders to create long term sustainability within the Group. The Group's CG framework embeds the right values and standards throughout the Group.

In the Group, there are high levels of interaction between the Board to successfully formulate and implement the Group's business strategy. The Group's setting and review strategy is an integral part of matters reserved for the Board.

The Board will scrutinise the sustainability, effectiveness and implementation of the strategic plans for the financial year under review and provide guidance and input to the management.

In order to ensure orderly and effective discharge of the above functions and responsibilities, the Board has also delegated certain responsibilities to the following Board Committees.



The delegation of authority for Board Committees are stipulated in their respective Terms of Reference ("TOR(s)"). The Board Charter and TORs are reviewed periodically to ensure effective and efficient decision making in the Group.

The Board Committees also act as a reviewing committee, evaluating and recommending matters under their purview for the Board to consider and approve. The Board receives reports at its meetings from the Chairman of each Committee on current activities and it is the general policy of the Group that all major decisions shall be considered by the Board as a whole.

THE CHAIRMAN

Encik Adnan Bin Zainol ("Encik Adnan") was appointed as the Independent Non-Executive Chairman of the Group. Encik Adnan acts as a facilitator to the Board in ensuring the smooth functioning of the Board in the interest of good CG practice.

Encik Adnan works closely with the Executive Directors to plan meeting agendas to keep abreast of the latest market and Group developments. He also ensures that there is frequent interface between the Board and the Management and ensures that his key responsibilities as set out in the Board Charter are adhered to.

Corporate Governance Overview Statement (Cont'd)

CHAIRMAN AND THE MANAGING DIRECTOR

The positions of the Chairman and the Managing Director of the Group are held by different individuals with clear and distinct roles which are formally documented in the Board Charter.

QUALIFIED AND COMPETENT COMPANY SECRETARY

The Board had appointed a qualified secretary who is a member of the Malaysian Institute of Accountants and is qualified to act as Company Secretary under Section 235(2) of the Companies Act, 2016. The Company Secretary is responsible to, amongst other, to provide sound governance advice, adherence to the laws and regulations, as well as directives issued by the regulatory authorities.

ACCESS TO INFORMATION AND ADVICE

The Chairman, with the assistance of the Group's Company Secretary, ensures appropriate information flows to the Board and Board Committees .

The Board received copies of meeting minutes of the Board and Board Committee meetings on a timely manner prior to the Board meetings to enable the Directors to discharge their duties and responsibilities competently and in a well-informed manner. The Key Management are also invited to attend the Board and Board Committees meetings, to brief and provide explanations to the Board on the operations of the Group.

BOARD MEETINGS

The Board intends to meet at least 4 times a year, with additional meetings convened where necessary. Minutes of Board meetings are duly recorded by the Company Secretary. During the FYE 2019, a total of 4 Board meetings were held.

To facilitate the Directors' time planning, an annual meeting calendar is prepared and circulated in advance. The calendar provides Directors with the schedule of all Board and Board Committees meetings, as well as closed periods for dealing in securities by Directors and Principal Officers based on the targeted dates of announcement of the Group's quarterly financial results.

The Directors' commitment in carrying out their duties and responsibilities are affirmed by their attendance at the Board and Board Committee Meetings held during the FYE 2019, as reflected below: -

	Attendance At Meetings of (Attended/Held)			
Name of Director	Board	AC	NC	RC
Adnan Bin Zainol	4/4	4/4	2/2	1/1
Chew Ne Weng	4/4	–	–	1/1
Liew Soo Keang	4/4	–	–	–
Chia Gek Liang	4/4	4/4	2/2	1/1
Hoh Chee Mun	4/4	4/4	2/2	1/1
Maznida Binti Mokhtar (Appointed on 1 August 2019)	3/3*	3/3*	–	–

**Reflect the number of meetings held during the time the Committee member held office.*

The Board is satisfied that each Director had devoted sufficient time to effectively discharge their responsibility.

Corporate Governance Overview Statement (Cont'd)

BOARD CHARTER

The Board implemented its Board Charter on 11 October 2017. It sets out the roles, functions, composition, operation and processes of the Board and is to ensure all Board members acting on behalf of the Group are aware on their duties and responsibilities.

The Board will periodically review and update its Board Charter in accordance with the needs of the Group and to comply with new regulations that may have an impact on the discharge of the Board's responsibilities.

SUMMARY OF KEY BOARD RESERVED MATTERS

Approval of Financial Results and Budgets	Business Continuity & Corporate Plan	Acquisitions, Disposals and Transactions Exceeding the Authority Limit of the Executive Directors	Disposal or Acquisitions of Significant Fixed Assets or Companies within the Company

The Board Charter is available on the Group's corporate website at www.qesnet.com.

CODE OF CONDUCT AND ETHICS

The Board had established a Code of Conduct and Ethics for the Group on 20 March 2018, and together with the management, implemented its policies and procedures which governs, amongst others, dealings with customers and suppliers, managing conflicts of interest, maintaining confidential information, accepting gifts, loans and entertainment, accepting directorship outside the Group, complying with laws and regulations, ensuring a healthy and safe environment, protection and use of the Group's asset, insider information and securities trading and sexual harassment.

The Code of Conduct and Ethics is periodically reviewed and is available on the Group's corporate website at www.qesnet.com.

WHISTLEBLOWING POLICY

The Board had established the policies and procedures on whistleblowing for the Group on 20 March 2018. The Group's whistleblowing policies and procedures provide an avenue for all employees of the Group and members of the public to raise concerns or disclose any improper conduct within the Group and to take appropriate action to resolve them effectively.

The Whistleblowing Policy is periodically reviewed and is available on the Group's corporate website at www.qesnet.com.

SECTION 2: BOARD COMPOSITION

COMPOSITION OF THE BOARD

The Board has 6 members comprising 2 Executive Directors and 4 Independent Non-Executive Directors. The composition not only fulfils the requirements as set out under the AMLR of Bursa Securities which stipulates that at least 2 Directors or 1/3 of the Board, whichever is higher, must be independent and this composition also fulfils the MCCG Practice 4.1 which requires at least half of the Board to be Independent Directors.

The Group practices a division of responsibility between the Executive and Non-Executive Directors. The Executive Directors are responsible for the overall management of the Group, to oversee operations, and to coordinate the development, implementation of business and corporate strategies.

The presence of the Independent Non-Executive Directors assures an element of balance to the Board as they provide an independent view, advice and judgment to ensure that the interests of minority shareholders and the general public are given due consideration in the decision-making progress.

Corporate Governance Overview Statement (Cont'd)

The Board is committed in ensuring that its composition not only reflects the diversity as recommended by the MCCG, as best as it can, but also has the right mix of skills and balance to contribute to the achievement of the Group's goals and missions.

For this purpose, a Board Competency Matrix has been developed and used as reference for the Board's succession planning. Presently, the members of the Board include professionals from diverse ethnicity and age, bringing with them depth, diversity of expertise, a wide range of experience and perspective in discharging their responsibilities by adding positive values to the Group. The profile of each Director is presented in pages 5 to 7 of this Annual Report 2019.

On 24 February 2020, the Board through the NC had conducted an assessment and review of the independence of the Independent Non-Executive Directors which were prepared in accordance with the definition of Independent Director under Rule 1.01 of the AMLR. The Board is satisfied that they are independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgement or the ability to act in the best interests of the Group.

GENDER DIVERSITY POLICY

The Board takes note of the gender diversity recommendations under the MCCG and will continue to prioritise women candidates in future recruitment exercise.

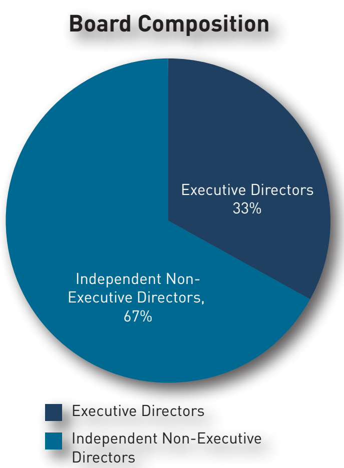
On 1 August 2019, Puan Maznida binti Mokhtar was appointed to the Board as an Independent Non-Executive Director.

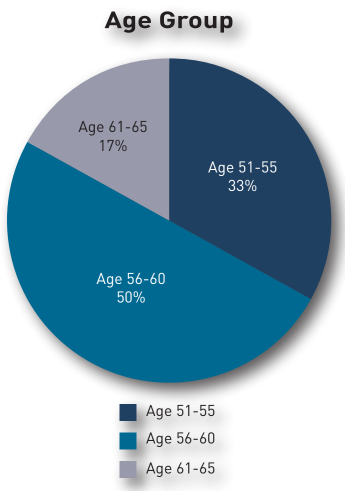
The NC will continue to recommend appointments to the Board based on diversity measured against meritocracy and other objective criteria such as skills and experience the individual offers.

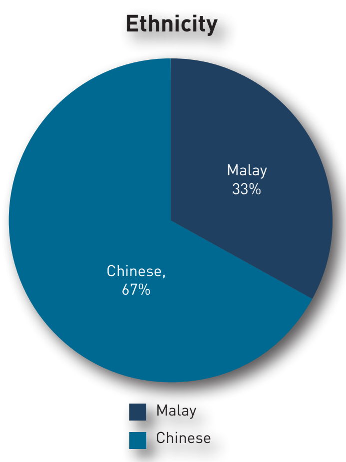
TENURE OF INDEPENDENT DIRECTOR

Currently, none of our Independent Non-Executive Directors had served the Group for a cumulative term of 9 years. The Group similarly did not adopt a policy which limits the tenure of our Independent Non-Executive Directors to a maximum of 9 years. Notwithstanding the recommendation of MCCG, the Board is presently of the view that there is no necessity to fix a maximum tenure limit for Directors as there are significant advantages to be gained from long service directors who possess in-depth insights to the Group's business and affairs. The ability of a Director to serve effectively as an Independent Non-Executive Director is very much dependent on his integrity and objectivity, and has no direct connection to his tenure as an Independent Non-Executive Director.

Board Composition Summary as at 31 December 2019 are set out as below :-







Corporate Governance Overview Statement (Cont'd)

NOMINATION COMMITTEE

The NC was established on 11 October 2017. The primary objective of the NC is to ensure that the Board is comprised of individuals with an optimal mix of qualifications, skills and experience.

Meetings of the NC are held as and when necessary, and at least once a year.

The present composition of the NC consists of 3 members of the Board, all of whom are Independent Non-Executive Directors.

The Terms of Reference of the NC is available at the Group's corporate website at www.qesnet.com.

The NC's key responsibilities are: -

(a) Appointment of New Director

The chart below shows the procedures on appointment of new Director

The appointment of new Director to the Board is based on the recommendations of the NC.

The NC, in making a recommendation to the Board on the candidate as a new Board appointment, shall have regards to:

(i) Size, composition, diversity (including gender diversity) and other qualities of the existing Board, level of commitment, resources and time that the recommended candidate can contribute to the existing Board and the Group;

(ii) The candidate's skills, knowledge, expertise and experience, professionalism, integrity and, in the case of a candidate for the position of Independent Non-Executive Director, the independence criteria as set out in Rule 1.01 of the AMLR; and

(iii) The appropriate number of Independent Non-Executive Directors to fulfil the requirements under AMLR which requires at least 2 or 1/3 of the membership of the Board to be Independent Directors.

The final decision as to who shall be appointed as Director remains the responsibility of the full Board after considering the recommendation of the NC.

(b) Board Evaluation

The evaluation of the effectiveness of the Board, Board Committees as well as individual Directors including Independent Non-Executive Directors was conducted in-house under the purview of the NC and facilitated by the Company Secretary.

The evaluation criteria for the Board, Board Committees and individual Directors are primarily anchored on regulatory requirements and emerging best practices of MCCG as the method of evaluation.

The NC assesses the effectiveness of the Board and the Board Committees, as well as performance of the individual Directors on an annual basis. In addition to these annual assessments, the NC actively identifies the gaps in the Board composition as well as identify and select new members to the Board.

Corporate Governance Overview Statement (Cont'd)

(c) Re-election of Directors

Director's re-election provides an opportunity for shareholders to renew their mandate conferred to the Directors.

The NC is responsible for making recommendation to the Board for the re-election of Directors who retire by rotation. Their recommendations are based on formal reviews on the performance of Directors, taking into consideration the Board Competency Matrix.

The Constitution of the Group provides the Constitution of the Group provides that all Directors shall retire by rotation once in every 3 years or at least 1/3 of the Board shall retire from office and be eligible to offer themselves for re-election at the Annual General Meeting.

Any Director appointed during the year is required under the Company's Constitution to retire and seek re-election by shareholders at the following Annual General Meeting immediately after his/her appointment.

DIRECTORS TRAINING

The training programmes attended by the Directors during the FYE 2019 are as follows:

No.	Name	Course Title	Date (from)	Date (to)	Training Provider
1	Adnan Bin Zainol	Common Offences & Pitfalls To Avoid Under The Companies Act 2016	18 Apr 2019	18 Apr 2019	Bursatra Sdn Bhd
2	Adnan Bin Zainol	Case Study Workshop for Independent Directors	9 Oct 2019	9 Oct 2019	Securities Industry Development Corporation
3	Adnan Bin Zainol	Audit Oversight Board conversation with Audit Committees	22 Nov 2019	22 Nov 2019	Securities Commission
4	Chew Ne Weng	Powertalk 'Revisiting The Misconception of Board Remuneration'	13 Mar 2019	13 Mar 2019	Institute of Corporate Director Malaysia
5	Chew Ne Weng	The Role of the Nomination & Remuneration Committee in Human Capital Management	23 Jul 2019	23 Jul 2019	Institute of Corporate Director Malaysia
6	Liew Soo Keang	FMM Seminar on Doing Business with China	9 Apr 2019	9 Apr 2019	Federation of Malaysian Manufacturers
7	Liew Soo Keang	Common Offences & Pitfalls to Avoid Under The Companies Act 2016	18 Apr 2019	18 Apr 2019	Bursatra Sdn Bhd
8	Liew Soo Keang	The Role of the Nomination & Remuneration Committee in Human Capital Management	23 Jul 2019	23 Jul 2019	Institute of Corporate Director Malaysia

Corporate Governance Overview Statement (Cont'd)

No.	Name	Course Title	Date (from)	Date (to)	Training Provider
9	Liew Soo Keang	Session on Corporate Governance & Anti-Corruption	31 Oct 2019	31 Oct 2019	Securities Commission
10	Chia Gek Liang	Wills, Probate, Letters of Administration and Small Estate Distribution Act	24 Jan 2019	24 Jan 2019	Kuala Lumpur Bar Committee
11	Chia Gek Liang	Malaysian Financial Reporting Standards (MFRS) Made Simple For Directors And Senior Management	22 Mar 2019	22 Mar 2019	Bursatra Sdn Bhd
12	Chia Gek Liang	Common Offences & Pitfalls To Avoid Under The Companies Act 2016	18 Apr 2019	18 Apr 2019	Bursatra Sdn Bhd
13	Chia Gek Liang	Technical Analysis Series: Volatility Based Technical Analysis	17 Aug 2019	17 Aug 2019	CHK Consultancy Sdn Bhd
14	Chia Gek Liang	Session on Corporate Governance & Anti-Corruption	31 Oct 2019	31 Oct 2019	Securities Commission
15	Chia Gek Liang	Audit Oversight Board conversation with Audit Committees	22 Nov 2019	22 Nov 2019	Securities Commission
16	Hoh Chee Mun	Powertalk 'Revisiting The Misconception of Board Remuneration'	13 Mar 2019	13 Mar 2019	Institute of Corporate Director Malaysia
17	Hoh Chee Mun	Common Offences & Pitfalls To Avoid Under The Companies Act 2016	18 Apr 2019	18 Apr 2019	Bursatra Sdn Bhd
18	Maznida Binti Mokhtar	Mandatory Accreditation Programme	30 Oct 2019	31 Oct 2019	The Iclif Leadership and Governance Centre

NC'S ACTIVITIES DURING THE FYE 2019

Below is a summary of the activities undertaken by the NC for the FYE 2019: -

(a) Assessed the overall Board and the Board Committees' performance and effectiveness as a whole;
(b) Reviewed and assessed the independence of Independent Directors and their tenure of service;
(c) Reviewed and assessed the term of office and performance of the AC and each of its members;
(d) Reviewed the succession plan for the Board members;
(e) Reviewed and assessed the performance, and made recommendations to the Board for its approval, regarding the Directors who are seeking for re-election at the upcoming AGM; and
(f) Assessed Directors' training to ensure all Directors receive appropriate continuous training programmes.

Corporate Governance Overview Statement (Cont'd)

SECTION 3: REMUNERATION

REMUNERATION POLICY

The Board has in place policies and procedures to ensure the remuneration of the Directors reflect their responsibilities and commitment undertaken by them and also to attract and retain right talent in the Board. The remuneration packages are regularly evaluated against the Group's performance and market related surveys.

REMUNERATION COMMITTEE

The RC was established on 11 October 2017.

The primary objective of the RC is to establish a documented, formal and transparent procedure for assessing and reviewing the remuneration packages of Executive Directors and Non-Executive Directors in order to ensure the remuneration of the Directors reflect their responsibility and commitment undertaken by them and also to attract and retain right talent in the Board to drive the Group's long term objectives.

Periodic reviews are performed by the RC on the remuneration structure to ensure that the compensation of the Non-Executive Directors is competitive, appropriate and aligned with prevalent market trends and practices. The reviews takes into account the level of responsibility undertaken by the Non-Executive Directors and the complexity of the Group's operations.

The Executive Directors remuneration are structured to link rewards to corporate and individual performance. The RC reviews the performance of the Executive Directors annually and submits their views and recommendations to the Board on any adjustments to the remuneration packages.

The present composition of the RC consists of 4 members of the Board, majority of whom are Independent Non-Executive Directors.

During the FYE 2019, the RC together with the assistance of the Group's GM of Human Resource and Admin reviewed and recommended the remuneration of Directors for FY 2020.

The TOR of the RC is available at the Group's corporate website at www.qesnet.com.

Corporate Governance Overview Statement (Cont'd)

DETAILS OF DIRECTORS REMUNERATION

The details of the total remuneration of the Directors, in aggregate with categorisation into appropriate components for FYE 2019 are set out as follows:

Directors	# Fees (RM)	Salaries & *Other emoluments (RM)	Benefits-in-kind (RM)	Total (RM)
The Company				
Executive Directors				
Chew Ne Weng	–	–	–	–
Liew Soo Keang	–	–	–	–
Non-Executive Directors				
Adnan Bin Zainol	48,000	–	–	48,000
Chia Gek Liang	48,000	–	–	48,000
Hoh Chee Mun	48,000	–	–	48,000
Maznida Binti Mokhtar	20,000	–	–	20,000
The Group				
Executive Directors				
Chew Ne Weng	111,924	951,919	35,200	1,099,043
Liew Soo Keang	87,106	866,006	35,200	988,312
Non-Executive Directors				
Adnan Bin Zainol	48,000	–	–	48,000
Chia Gek Liang	48,000	–	–	48,000
Hoh Chee Mun	48,000	–	–	48,000
Maznida Binti Mokhtar	20,000	–	–	20,000

The Director's fees are subject to the approval by the shareholders of the Group.
* Other emoluments include bonuses and the Group's contributions to the Employees Provident Fund, Social Security and Employment Insurance System contributions.

Corporate Governance Overview Statement (Cont'd)

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

SECTION 1: AUDIT COMMITTEE

The AC comprises of 4 Independent Non-Executive Directors. The AC is chaired by an Independent Non-Executive Director, Mr. Hoh Chee Mun. The TOR of the AC is available at the Group's corporate website at www.qesnet.com.

The AC is comprised of members who are financially literate and possess the appropriate level of expertise and experience.

EXTERNAL AUDITORS

Moore Stephens Associates PLT was appointed as the Group's External Auditors for the FYE 2019 to provide relevant and transparent reports to the shareholders. The AC met once during the FYE 2019 with the External Auditors without the presence of the Executive Directors and Management to discuss any key area or issues that require the attention of the AC. The External Auditors confirms that they are and have been independent throughout the conduct of audit engagement in accordance with the terms of all relevant professional and regulatory requirements. An annual assessment on the External Auditors was conducted in February 2020, the AC was satisfied with the performance of the External Auditors and had made recommendation to the Board for the External Auditors re-appointment for FYE 2020.

INTERNAL AUDITOR

Smart Focus Group Sdn. Bhd. is in-charge of the internal audit function and assists the AC in reviewing, evaluating and monitoring the effectiveness of the Group's governance, risk management and internal control process. The AC met once during the FYE 2019 with the Internal Auditor without the presence of the Executive Directors and Management to deliberate any key area or issues that requires the attention of the AC. An annual assessment on the performance of the Internal Auditor was also conducted by the AC in February 2020. Based on the annual evaluation conducted, the AC was satisfied with the performance of the Internal Auditor for the FYE 2019.

SECTION 2: RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Board recognises its overall responsibility for the Group's systems of internal control and for reviewing the adequacy and integrity of those systems. In view of the limitations that are inherent in any systems of internal control, the systems of internal control are designed to manage risks within tolerable levels rather than eliminate the risk of failure to achieve business objectives. Hence, such system by its nature can only provide reasonable but not absolute assurance against material misstatement, error or losses.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced, or potentially exposed to, by the Group in pursuing its business objectives. This process has been in place throughout the financial year and up to the date of approval of the Annual Report 2019. The adequacy and effectiveness of this process have been continually reviewed by the Board.

The Statement on Risk Management and Internal Control as set out in the Annual Report 2019 provides an overview on the state of risk management and internal controls within the Group.

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

SECTION 1: COMMUNICATION WITH STAKEHOLDERS

The Board recognises the importance of maintaining transparency and accountability to its shareholders and to disseminate information on the Group's performance and any significant development on a timely manner.

The Board views the Annual General Meeting as the primary forum to communicate with shareholders while the Extraordinary General Meetings are held as and when required. The Group's corporate website, www.qesnet.com incorporates an Investor Relations section which provides all relevant information about the Group and is accessible by both the shareholders and the public.

Corporate Governance Overview Statement (Cont'd)

SECTION 2: CONDUCT OF GENERAL MEETING

Shareholders will receive notices of Annual General Meetings, which are sent out at least 28 calendar days before the date of the Annual General Meeting. In addition, the Notice of Annual General Meeting or Extraordinary General Meeting will be advertised in the newspaper. The Board encourages shareholders to attend the forthcoming 6th Annual General Meeting and undertakes to answer all questions raised by the shareholders.

The proceedings of the Annual General Meeting includes a question and answer session in which the Chairman of the Annual General Meeting would invite shareholders to raise questions on the Group's Financial Statements and other items for adoption at the AGM, before putting a resolution to vote. The Chairman of the Annual General Meeting will ensure that sufficient opportunities are given for shareholders to raise issues relating to the affairs of the Group and that adequate responses are provided.

The results of all the resolutions set out in the Notice of Annual General Meeting will be announced on the same day via Bursa LINK, which is accessible on Bursa Securities' and the Group's corporate website at www.qesnet.com. The Board ensures that full information of the Directors who are retiring at the Annual General Meeting and willing to serve if re-elected are disclosed in the Annual Report 2019.

An explanatory note facilitating full understanding and evaluation of issues involved in the proposed resolutions accompanying each item of Special Business is included in the Notice of Annual General Meeting.

CORPORATE WEBSITE

The Group maintain a comprehensive and up to date website which includes an Investor Relation Section and complete contact details and information. Regular news, announcements and other relevant information are also posted on the website.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors of the Group are responsible for the preparation of the Group and of the Company's financial statements to ensure a true and fair view is presented in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The Directors are also responsible for the internal control as the Directors deem necessary, to ensure that the preparation of financial statements of the Group and of the Company are free from material misstatement, whether due to fraud or error.

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

COMPLIANCE STATEMENT

The Board has deliberated, reviewed and approved this Corporate Governance Overview Statement. The Board considered that the Corporate Governance Overview Statement provides the information necessary to enable shareholders of the Group to evaluate how the principles and best practices as set out in the MCCG have been complied with since the Group's listing on 8 March 2018. The Board shall remain committed to attaining the highest possible standards through the continuous adoption of the principles and best practices of the MCCG and all other applicable laws and regulations.

This Corporate Governance Overview Statement was approved by the Board of Directors of QES on 18 May 2020.

ADDITIONAL COMPLIANCE INFORMATION

OTHER INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES BERHAD - ACE MARKET LISTING REQUIREMENTS

UTILISATION OF PROCEEDS FROM CORPORATE EXERCISE

In conjunction with its listing on the ACE Market of Bursa Malaysia Securities Berhad, the Company issued its prospectus on the 8 February 2018 and undertook a public issue of 151,661,000 new ordinary shares at an issue price of RM0.19 per ordinary share, raising gross proceeds of RM28.82 million ("IPO Proceeds").

On 28 February 2020, the Company announced its intention to vary the utilisation of the IPO proceeds. The details of the variations of the utilisation are set out below:

No.	Details of utilisation	(i) IPO Proceeds raised RM'000	Actual utilisation RM'000	Balance of IPO Proceeds unutilised RM'000	Variations of the IPO Proceeds utilisation RM'000	After Variations of the IPO Proceeds utilisation RM'000	Expected timeframe for utilisation of proceeds from 8 March 2018	Revised expected timeframe for utilisation of proceeds
(a)	Development of 3 key products(ii)						Within 24 months	(iii) Within 36 months from 8 March 2018
	- Fully automated vision inspection system (FAVIS)	2,250	2,156	94	(ii) 1,980	2,074		
	- Automatic wafer packing system (AWPS)	1,350	620	730	(ii) (730)	–		
	- Automatic wafer identification (AWID)	1,250	–	1,250	(ii) (1,250)	–		
(b)	General working capital requirements	3,250	2,727	523	–	523	Within 24 months	(iv) Within 36 months from 8 March 2018
(c)	Repayment of bank borrowings	7,000	7,000	–	(v) 3,200	3,200	Within 3 months	(v) Within 3 months from 28 February 2020
(d)	Capital expenditure	10,716	5,975	4,741	(v) (3,200)	1,541	Within 24 months	(iv) Within 36 months from 8 March 2018
(e)	Estimated listing expenses	3,000	3,000	–	–	–	Within 1 month	No change
		28,816	**21,478**	**7,338**	**-**	**7,338**		

Notes:

(i) As disclosed in QES prospectus dated 8 February 2018.

(ii) The excess amount of RM0.73 million and RM1.25 million budgeted for AWPS and AWID respectively is reallocated to FAVIS as the earlier allocation for FAVIS was insufficient and the market demand for FAVIS equipment is higher than AWPS and AWID.

(iii) The period of utilisation of IPO Proceeds for the development of 3 key products to be extended to within 36 months from the date of listing as the Company requires additional time for the software engineering resources to complete the development for FAVIS equipment series.

Additional Compliance Information (Cont'd)

Notes: (Cont'd)

(iv) The period of utilisation of IPO Proceeds for general working capital requirements and capital expenditure to be extended to within 36 months from the date of listing to address the slowdown of current market condition.

(v) RM3.20 million is reallocated from capital expenditure to repayment of bank borrowings to reduce QES Group's bank overdrafts and revolving loan. The Group does not need to incur the planned capital expenditure at the moment due to the slower economic growth which impacted the manufacturing activity and global trade in 2019. As such, the Group proposes to reallocate the amount to repayment of bank borrowings. As at financial year ended 2019, QES Group's total bank overdrafts and revolving loan amount to RM4.75 million and RM0.80 million respectively. The expected total annual interest savings is approximately RM0.26 million based on the interest rate of 8.20% per annum for bank overdrafts and 8.30% for revolving loan.

Audit and Non-Audit Fees

The amount of audit and non-audit fees paid/payable to the External Auditors for the services rendered to the Group and the Company for the financial year ended 31 December 2019 are as follows:-

	Group RM'000	Company RM'000
Audit fee	278	35
Non-audit fee	11	11
	289	46

Material Contracts

There were no material contracts entered into by the Group involving Directors' and major shareholders' interests which were still subsisting as at the end of the financial year or which were entered into since the end of the previous financial year.

Employee Share Option Scheme

The Employees' Share Option Scheme of the Company ("ESOS") was established and implemented on 1 July 2019 and the ESOS is governed by its ESOS By-Laws approved by the shareholders at an Extraordinary General Meeting held on 25 June 2019.

The ESOS became effective for a period of five (5) years from 1 July 2019 in accordance with the terms of the ESOS By-Laws.

Further details of ESOS during the financial year ended 31 December 2019 are set out in page 133 of this Annual Report.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

The Malaysian Code on Corporate Governance requires listed companies to maintain a sound system of internal control to safeguard shareholders' investments and the Group's assets. Paragraph 15.26(b) of the Listing Requirements requires the Board of Directors ("Board") of listed companies to include a statement in their Annual Reports on the state of their internal controls. Set out below is the Board's Risk Management and Internal Control Statement.

BOARD RESPONSIBILITY

The Board is committed to ensure the existence of an appropriate risk management framework and sound, efficient and effective system of internal control to safeguard shareholders' investment and the Group's assets. The system is designed to provide reasonable assurance of effective operations and compliance with laws and regulations. The Board ensures the effectiveness of the system through periodic reviews. As there are limitations that are inherent in any system of internal control, this system is designed to manage rather than eliminate risks that may impede the achievement of the Group's business objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss. The system of internal control covers, inter alia, financial, operational and compliance controls and risk management procedures.

CONTROL ENVIRONMENT

The Group has an organisation structure that is aligned to business requirements. The internal control mechanism is embedded in the various work processes at appropriate levels in the Group. The Board is accountable for ensuring the existence and effectiveness of internal control and provides leadership and direction to senior management on the manner the Group controls its businesses, the state of internal control and its activities. In developing the internal control systems, consideration is given to the overall control environment of the Group, assessment of financial and operational risks and an effective monitoring mechanism.

INTERNAL AUDIT

The Board is fully aware of the importance of the internal audit function and has engaged an independent professional firm to provide independent assurance to the Board and Audit Committee in providing an independent assessment on the adequacy, efficiency and effectiveness of the Group's internal control system.

The internal audit firm adopts a risk-based approach and prepares its audit plan based on the risk profiles from the risk assessment of the business units of the Group. Scheduled internal audits are carried out based on the annual audit plan approved by the Audit Committee. On a quarterly basis the internal audit firm presents to the Audit Committee with the internal audit reports.

During the year under review, internal audit reviews were carried out by the Internal Audit team to address the related internal control weaknesses. Significant weaknesses identified during the reviews together with the improvement measures to strengthen the internal controls were reported accordingly.

The main elements in the system of internal control framework included:

- An organisational structure in the Group with formally defined lines of responsibility and delegation of authority;
- Documentation of written policies and procedures for certain key operational areas;
- Quarterly review of financial results by the Audit Committee and the Board;
- Active participation and involvement by the Managing Director and the Executive Director in the day-to-day running of the major businesses and regular discussions with the Key Management of smaller business units on operational issues;
- Review of internal audit reports and findings by the Audit Committee; and
- Monthly review of Group management accounts by Managing Director, Executive Director and Key Management and
- External audit review on the financial segment.

Statement on Risk Management and Internal Control (Cont'd)

The internal audit also periodically reports on the activities performed, key strategic and control issues observed by the internal audit firm to the Audit Committee in order to preserve its independence. The Audit Committee reviews and approves the internal audit plan and human resources requirements to ensure the function maintains an adequate number of internal auditors with sufficient knowledge, skills and experience.

The internal audit in its current practices, complies with the Committee of Sponsoring Organizations of the Treadway Commission (COSO – USA Standard) and The Criteria of Control Board (COCO - Canadian Standard)'s Internal Controls – Integrated Framework. Using this framework, all internal control assessments performed by the internal auditors are based on the internal control elements, scope and coverage. The internal auditors continues to adopt the risk-based audit plan to ensure the programmes carried out are prioritised based on the Group's key risks and core or priority areas. Input from various sources inclusive of the Enterprise Risk Management Framework, business plan, past audit issues, external auditors, management and Board are gathered, assessed and prioritised to derive the annual audit plan.

In 2019, either full audit or follow-up audit reviews were conducted in various areas involving Operations, Information Technology, Finance, Procurement, Human Resources, Research and Development. There were ten (10) reports issued, five (5) Internal Audit and five (5) Risk Management profiling reports. Internal Audit reviews were conducted to establish the state of internal control on various operations within the Group namely in Kuala Lumpur (HQ), Singapore, Penang, Indonesia and Thailand based on the information provided by the management.

The following areas were covered in the Internal Audit coverage during 2019:

- Finance & Accounts
- Human Resource & Admin
- Purchasing
- Information Technology
- Logistics
- Distribution
- Sales and Marketing
- IT Security management
- Service Department

All reports from the internal audit reviews carried out were submitted and presented to the Audit Committee with the feedback and agreed corrective actions to be undertaken by the management. The internal audit firm is committed to equip the internal auditors with sufficient knowledge, skills and competencies to discharge their duties and responsibilities.

QUALITY ASSURANCE

The internal audit firm develops and maintains a quality assurance that covers all aspects of internal audit activities. The quality assurance programme assesses the effectiveness of internal audit processes and identifies opportunities for improvement via both internal and external assessment. It has its own peer reviewer mechanism to ensure consistently good quality output of every audit engagement. The team leader is well experience to manage the internal audit assignments.

INFORMATION AND COMMUNICATION

While the management has full responsibility in ensuring the effectiveness of internal control, which it establishes, the Board has the authority to assess the state of internal control as it deems necessary. In doing so, the Board has the right to enquire information and clarification from the management as well as to seek inputs from the Audit Committee, external and internal auditors, and other experts at the expense of the Group.

Statement on Risk Management and Internal Control (Cont'd)

RISK MANAGEMENT

The Board has an established ongoing process for identifying, evaluating and managing the significant risks encountered by the Group in accordance to the Guidance for Directors of Public Listed Companies on Statement on Risk Management and Internal Control. Risk management is an integral part of the business operations and this process goes through a review process by the Board. Discussions have been conducted during the year involving different levels of managements to identify and address risks faced by the Group. These risks were summarized and included in the Group's risk management report. The Group has an ongoing process for identifying, evaluating and managing the significant risks faced by the Group throughout the financial year under review and up to the date of approval of this statement for inclusion in the annual report by the management. This is to ensure that all high risks are adequately addressed at various levels within the Group.

The Board regards risk management as an integral part of the Group's business operations and has oversight over this critical area through the Audit Committee. The Audit Committee, supported by the Internal Auditor, provides an independent assessment of the effectiveness of the Group's Enterprise Risk Management ("ERM") framework and reports to the Board. The Group's ERM framework is consistent with the ERM framework and involves systematically identifying, analysing, measuring, monitoring and reporting on the risks that may affect the achievement of its business objectives. This framework helps to reduce the uncertainties surrounding the Group's internal and external environment, thus allowing it to maximise opportunities and minimise adverse incidences that may arise. The major risks to which the Group is exposed to are strategic, operational, regulatory, financial, market, technological, products and reputational risks.

The ERM process is based on the following principles:

- Consider and manage risks enterprise-wide;
- Integrate risk management into business activities;
- Manage risk in accordance with the Risk Management framework;
- Tailor responses to business circumstances; and
- Communicate risks and responses to management

All identified risks are displayed on a 1 to 3 risk matrix based on their risk ranking to assist the management in prioritising their efforts and appropriately managing the different classes of risks. The Board and management drive a pro-active risk management culture and regular risk awareness and coaching sessions are held to ensure that the Group's employees have a good understanding and application of risk management principles. There is no dedicated ERM department, however the Managing Director and Head of Finance who work closely with the Group's operational managers to continuously strengthen the risk management initiatives within the Group so that they respond effectively to the constantly changing business environment.

The Board recognises the importance of ERM in enhancing shareholders' value while upholding a high standard of corporate governance. Combining a strong and sustained commitment from the Board and Key Management with a clear direction and oversight from all levels of leadership, the Group embraces a holistic risk management approach to achieve its business targets with minimal surprises.

Risk management policies and practices form part of our overall strategies to chart positive growth in today's rapidly evolving business environment. The Board continues to ensure that risk management is effectively institutionalised and its risk maturity level is elevated. This is achieved via a multitude of ERM initiatives clustered into key strategic areas, as part of the Group's efforts to ensure smooth ERM practice on the ground coupled with continuous tracking and monitoring of risks and controls. It also strengthens its risk culture and practice, harmonise its risks and risk appetites at the operational level wherever possible.

Statement on Risk Management and Internal Control (Cont'd)

RISK STRUCTURE/ACCOUNTABILITY AND RESPONSIBILITY

Further improving our risk governance, ERM structures have been established at each department and subsidiary. The aim is for a risk culture to be internalised through risk ownership and to drive ERM implementation at the functional level. ERM Resource Persons also known as Head of Department / Risk Coordinators, are appointed at each business unit, and act as the single point of contact to liaise directly with the Head of Finance in matters relating to ERM, including the submission of reports on a periodic basis. In addition, they are responsible for assisting their Heads of Department to manage and administer the business units' risk portfolios, which include arranging, organising and coordinating ERM programmes.

ASSURANCE FROM THE MANAGEMENT

As evidenced from the various activities mentioned above, the Board has obtained reasonable assurance from the Managing Director, Head of Finance, and other Department Heads that the Group's risk management and internal control system are operating adequately and effectively, in all material aspects, based on the risk management model adopted by the Group.

CONCLUSION

Pursuant to Paragraph 15.23 of the Listing Requirements, the External Auditors have reviewed this Statement on Risk Management and Internal Control for inclusion in the Annual Report of the Group for FYE 2019 and reported to the Board that nothing has come to their attention that causes them to believe that this statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of the system of internal control.

The Board is pleased to report that there were no major internal control weaknesses identified during the year, nor have any of the reported weaknesses resulted in material losses or contingencies requiring disclosure in the Group's Annual Report. The Board is of the view that the existing system of the internal control is adequate. Nevertheless, the management continues to take measures to strengthen the control environment. This statement is based on the consideration of the audit work performed by both the External Auditors and the Internal Auditors on financial and non-financial matters.

AUDIT COMMITTEE REPORT

The Audit Committee ("AC") was established on 11 October 2017 with the primary objective to provide additional assurance to the Board of the Company by giving an objective and independent review of the financial, operational, administrative controls and procedures, establish and maintain internal controls, reinforce the independence of the Group's External Auditors, evaluate the quality of the Internal Auditors and oversee compliance with laws and regulations together with observance of a proper code of conduct.

1. COMPOSITION OF THE AUDIT COMMITTEE

The AC comprises of 4 members, all of whom are Independent Non-Executive Directors. This is in line with the listing requirement of Bursa Malaysia Securities Berhad ("Bursa Securities") and the Malaysian Code of Corporate Governance, which stipulates that the composition of AC must be composed of not fewer than 3 members and all the AC members must be non-executive with a majority of them being independent directors.

The AC Chairman is a member of the Malaysian Institute of Accountants and Malaysian Institute of Certified Public Accountants, which is in compliance with Rule 15.09(1)(c)(i) of the ACE Market Listing Requirements.

2. COMMITTEE MEETINGS

The AC met 4 times for FYE 2019. The details of the AC's meetings held for the financial year are as follows:-

Name	Designation	Membership	Appointment Date	Attendance / Held
Hoh Chee Mun	Chairman	Independent Non-Executive	11 October 2017	4/4
Adnan Binti Zainol	Member	Independent Non-Executive	11 October 2017	4/4
Chia Gek Liang	Member	Independent Non-Executive	11 October 2017	4/4
Maznida Binti Mokhtar	Member	Independent Non-Executive	1 August 2019	3/3*

* Reflects the number of meetings held during the time the AC member held office.

Mr. Chew Ne Weng (Managing Director) and Mr. Liew Soo Keang (Executive Director) are permanent invitees and attend the AC meeting to brief and provide clarification to the AC on their areas of responsibility.

3. SUMMARY OF ACTIVITIES

FINANCIAL REPORTING

(a) Reviewed the unaudited quarterly financial results and announcements of the Group, and recommended them to be submitted for approval by the Board, to release to Bursa Malaysia Securities Berhad ("Bursa Securities") accordingly;

(b) Reviewed any related party transactions and conflict of interest situations that may arise within the Group during the FYE 2019;

(c) Reviewed the audited financial statements for the FYE 2019; and

(d) Reviewed the Corporate Governance Overview Statement, Corporate Governance Report 2019 and Statement on Risk Management and Internal Control to ensure compliance with the ACE Market Listing Requirements of Bursa Securities and recommend to the Board for inclusion in the Annual Report 2019.

Audit Committee Report (Cont'd)

EXTERNAL AUDIT

(a) During the FYE 2019, the AC reviewed the External Auditor, Moore Stephens Associates PLT ("MSA") presentation which were as follows: -

(i) Audit Planning Memorandum which outlined its engagement team, audit approach, audit timeline, the areas of audit emphasis, and their focus on Key Audit Matters with reference to the International Standard on Auditing 701; and

(ii) Audit and Risk Management and Closing Presentation for the FYE 2019 which update the current status of the audit, highlights and explains the disposition of the salient accounting and audit issues, the Key Audit Matters identified during the audit, any significant deficiencies in internal control and highlighted MSA's assessment of the risks or material misstatements and communicate with the Audit Committee on other matters required under ISA 260 Communication with those charged with Government.

(b) Scrutinised potential Key Audit Matters raised by the External Auditors and ensured that adequate work had been done to support the audit conclusions and overall impact on the financial statements.

The Key Audit Matters vetted by the AC were:-

(i) Impairment review of development cost; and

(ii) Impairment review of goodwill.

(c) The AC had undertaken an annual assessment of the suitability and independence of the External Auditor and based on the results of the assessment, the AC is satisfied with the suitability of MSA to be reappointed as External Auditors of the Company and had made recommendation to the Board for the External Auditors re-appointment.

(d) Discussed with the External Auditor on updates or in relation to the new proposed changes in accounting standards, regulatory requirements and considered the implications to the financial statements of the new Financial Reporting System.

(e) The AC met with the External Auditors without the presence of the Executive Directors and management on 21 November 2019 to discuss audit findings and assistance given by the management. There were no major concerns raised by the External Auditor during the session.

INTERNAL AUDIT FUNCTION

The Group outsourced its internal audit function to an independent consulting firm, Smart Focus Group Sdn. Bhd. which reports directly to the Audit Committee. The internal audit function is to ensure a regular review of the adequacy and integrity of the Group's system of internal control, risk management process and compliance with the Group's established policies and procedures to provide reasonable assurance that such systems continue to operate satisfactorily and effectively within the Group. The Internal Auditor undertakes the internal audit function based on the audit plan that is reviewed and approved by the Audit Committee.

Audit Committee Report (Cont'd)

During the FYE 2019, the Internal Auditors conducted the followings:-

Date	Report
26 August 2019	Internal Audit Review on PT. QES Indonesia
21 November 2019	a) Internal Audit Follow up Review on QES (Asia-Pacific) Sdn. Bhd.; b) Internal Audit Follow up Review on QES (Singapore) Pte. Ltd; c) Internal Audit Follow up Review on QES (Thailand) Co. Ltd.;and d) Presented the Internal Audit Plan for the FYE 2019
24 February 2020	a) Internal Audit Review on QES (Intra Pacific) Sdn Bhd – Kulim; and b) Enterprise Risk Management Report (Strategic and Operation) - 5 Reports Group and Subsidiaries.

The final audit reports containing findings and recommendations together with management's responses thereto were reviewed by the Audit Committee and discussed at AC Meetings. Areas of improvement identified and timelines for the outstanding matters to be resolved were communicated to the management for further actions. Follow up reviews would subsequently be performed to ascertain the extent of implementation of the recommended corrective actions for improvements.

The AC met with the Internal Auditor on 21 November 2019 in the absence of the Executive Directors and management to discuss audit issues and reservations arising from the internal audit cycles. There were no major concerns raised by the Internal Auditor during the private session.

The cost incurred for the internal audit function in respect of the FYE 2019 was RM25,000.

FINANCIAL **STATEMENTS**

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 13 to the financial statements.

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

RESULTS

	Group RM'000	Company RM'000
Profit for the financial year	3,454	3,048
Attributable to:-		
Owners of the Company	3,307	3,048
Non-controlling interests	147	–
	3,454	3,048

RESERVES AND PROVISIONS

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

ISSUANCE OF SHARES AND DEBENTURES

The Company has not issued any shares or debentures during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year.

DIVIDENDS

On 11 April 2019, the Directors declared an interim single tier dividend of 0.40 sen per ordinary share for the financial year ended 31 December 2019 amounting to RM3,033,232 which was paid on 24 May 2019.

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

Directors' Report (Cont'd)

DIRECTORS OF THE COMPANY

The Directors in office since the beginning of the financial year to the date of this report are:-

Chew Ne Weng
Liew Soo Keang
Adnan Bin Zainol
Chia Gek Liang
Hoh Chee Mun
Maznida Binti Mokhtar (Appointed on 1 August 2019)

DIRECTORS OF THE SUBSIDIARIES

The following is a list of Directors of the subsidiaries (excluding Directors who are also Directors of the Company) in office since the beginning of the financial year to the date of this report:

Benjamin Santos
Joey T Guyo
Lee Hock Chin
Leong Kook Weng
Lim Chee Keong
Michael Maestrado
Pang See Chian
Ratchata Udomsirimas
Sakda Ruangsant
Tan Meow Shong
Tan Soon Huat
Thersya Lukito

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016 ("Act"), the interest of Directors in office at the end of financial year in shares in of the Company and its related corporations during the financial year were as follows:

	Number of Ordinary Shares			
	At 01.01.2019 Unit	Bought Unit	Sold Unit	At 31.12.2019 Unit
The Company				
Direct interests:				
- Chew Ne Weng	255,270,895	–	–	255,270,895
- Liew Soo Keang	197,856,805	–	–	197,856,805
- Adnan Bin Zainol	40,000	–	–	40,000
- Chia Gek Liang	40,000	–	–	40,000
- Hoh Chee Mun	90,000	–	–	90,000

By virtue of their interest in the Company, Mr Chew Ne Weng and Mr Liew Soo Keang are deemed to be interested in the Company and its subsidiaries, to the extent of their interests in the Company.

The other Directors in the office at the end of the financial year had no interest in the shares of the Company or of its related corporations during the financial year.

Directors' Report (Cont'd)

DIRECTORS' REMUNERATION BENEFITS

The amount of fees and other benefits paid to or receivable by the Directors or past Directors of the Company and the estimated monetary value of any other benefits received or receivable by them otherwise than in cash from the Company and its subsidiaries for their services to the Company and its subsidiaries were as follows:

	Company RM'000	Subsidiaries RM'000
Salaries, bonus and allowances	–	3,955
Fees	164	199
Defined contribution plan	–	714
Social security contributions	–	13
Estimated monetary value of benefits-in-kind	–	129
Others	–	532
Total fees and other benefits	164	5,542

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than Directors' emoluments received or due and receivable as disclosed in the financial statements) by reason of a contract made by the Company or a related corporations with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than as disclosed in Note 32 to the financial statements.

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

OTHER STATUTORY INFORMATION

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

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

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

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

  (i) which would render the amount of written off for bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent;

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

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

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

Directors' Report (Cont'd)

OTHER STATUTORY INFORMATION (CONT'D)

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

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

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

(d) In the opinion of the Directors:

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

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

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

(e) The total amount paid to or receivable by the auditors as remuneration for their services as auditors for the financial year from the Company and its subsidiaries are RM46,000 and RM243,000 respectively.

(f) There was no amount paid to or receivable by any third party in respect of the services provided to the Company or any of its subsidiaries by any Director or past Director of the Company.

(g) There was no indemnity given to or insurance effected for any Director, officer or auditor of the Company.

SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

Details of significant event during the financial year is disclosed in Note 38 to the financial statements.

SUBSEQUENT EVENT AFTER THE FINANCIAL YEAR

Details of subsequent event after the financial year is disclosed in Note 39 to the financial statements.

AUDITORS

The auditors, Messrs. Moore Stephens Associates PLT, have expressed their willingness to continue in the office.

Approved and signed on behalf of the Board in accordance with a resolution of the Directors dated 12 May 2020.

CHEW NE WENG **LIEW SOO KEANG**

STATEMENT BY DIRECTORS

Pursuant to Section 251(2) of the Companies Act, 2016

We, the undersigned, being two of the Directors of the Company, do hereby state that, in the opinion of the Directors, the accompanying financial statements as set out on pages 55 to 134 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 2016 in Malaysia, so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and of their financial performance and cash flows for the financial year then ended.

Approved and signed on behalf of the Board in accordance with a resolution of the Directors dated 12 May 2020.

CHEW NE WENG **LIEW SOO KEANG**

STATUTORY DECLARATION

Pursuant to Section 251(1) of the Companies Act, 2016

I, Yeoh Cheong Yeow, being the officer primarily responsible for the financial management of the Company, do solemnly and sincerely declare that the financial statements as set out on pages 55 to 134 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed
at Kuala Lumpur in the Federal Territory
on 12 May 2020.

YEOH CHEONG YEOW

Before me,
TAN KIM CHOOI W661
Commissioner of Oaths

INDEPENDENT AUDITORS' REPORT

To the Members of QES Group Berhad

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of QES Group Berhad, which comprise the statements of financial position as at 31 December 2019 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 55 to 134.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

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

Key Audit Matters

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

Impairment review of goodwill

As at 31 December 2019, as disclosed in Note 12 to the financial statements, the total carrying amount of goodwill recorded in the Group amounted to RM3,381,000. The Group is required to perform an annual impairment review on the goodwill which arose from the Group's acquisition of a subsidiary.

The Group determined the recoverable amount of the goodwill based on value-in-use ("VIU") method using discounted cash flow projections from approved financial budgets covering a four years period.

We have identified the impairment review of goodwill as a key audit matter as the impairment test involves significant management judgement in estimating the underlying assumptions to be applied in the discounted cash flow projections in arriving at the recoverable amount.

Independent Auditors' Report
To the Members of QES Group Berhad
(Cont'd)

Key Audit Matters (Cont'd)

Impairment review of goodwill (Cont'd)

Our audit procedures performed and responses thereon

We have performed the following audit procedures to evaluate management's methodology and assumptions used in their impairment review: -

- Reviewed the cash flow projections covering a period of 4 years;
- Evaluated and challenged the appropriateness and reasonableness of the assumptions applied to key inputs such as profit margin, future revenue and discount rate applied, which included comparing these inputs with externally derived data as well as our own assessments based on our knowledge of the client and the industry;
- Tested the mathematical accuracy of the cash flow projections; and
- Performed sensitivity analysis for a range of reasonably possible scenarios.

Impairment review of development costs

As at 31 December 2019, as disclosed in Note 12 to the financial statements, the total carrying amount of development costs recorded in the Group amounted to RM3,167,000. These development costs are attributed to the manufacturing division, which experienced unfavourable results during the financial year, and thus giving rise to indications of impairment.

Accordingly, the Group had carried an impairment review on these assets and determined the recoverable amounts based on value-in-use ("VIU") method using discounted cash flow projections from approved financial budgets over a five years period.

We have identified the impairment review of development costs as a key audit matter as the impairment test involves significant management judgement in estimating the underlying assumptions to be applied in the discounted cash flow projections in arriving at the recoverable amount.

Our audit procedures performed and responses thereon

We have performed the following audit procedures to evaluate management's methodology and assumptions used in their impairment review: -

- Reviewed the cash flow projections covering a period of 5 years;
- Evaluated and challenged the appropriateness and reasonableness of the assumptions applied to key inputs such as profit margin, future revenue and discount rate applied, which included comparing these inputs with externally derived data as well as our own assessments based on our knowledge of the client and the industry;
- Tested the mathematical accuracy of the cash flow projections; and
- Performed sensitivity analysis for a range of reasonably possible scenarios.

Recognition of Deferred Tax Assets by the Group's Loss-Making Subsidiaries

As disclosed in Note 15 to the financial statements, the Group recognised net deferred tax assets of RM1,382,000 as at 31 December 2019. The deferred tax assets are mainly contributed by one of the subsidiaries which made loss during the financial year and has recognised net deferred tax assets of RM808,000 arising from unutilised tax losses, unabsorbed capital allowances and other deductible temporary differences.

Independent Auditors' Report
To the Members of QES Group Berhad
(Cont'd)

Key Audit Matters (Cont'd)

Recognition of Deferred Tax Assets by the Group's Loss-Making Subsidiaries (Cont'd)

The recognition of deferred tax assets relies on the application of judgement by the Directors in respect of assessing the probability and sufficiency of future taxable profits of the relevant subsidiaries to utilise such tax losses and deductible temporary differences in future.

We have determined this to be a key audit matter, due to the inherent uncertainty in forecasting the amount and timing of future taxable profits and the reversal of temporary differences.

Our audit procedures performed and responses thereon

We have performed the following procedures:

- Compared management's forecast and projections of future profits to historical results and evaluated the assumptions used in the forecasts and projections;
- Tested the mathematical accuracy of the profits forecast and projections;
- Performed sensitivity analysis around the key inputs that are expected to be most sensitive to the future taxable profits; and
- Assessed the adequacy of the disclosures on the deferred tax assets.

Recoverability of Amounts Due from Subsidiaries

As at 31 December 2019, the gross amounts due from subsidiaries of the Company were RM5,929,000 as disclosed in Note 29 to the financial statements.

We have identified the recoverability of amounts due from subsidiaries as a key audit matter due to the judgements by management as to the likelihood of the recoverability of these amounts due from subsidiaries, which is based on a number of factors, including whether there will be sufficient cash flows in the future to repay the outstanding amounts.

Our audit procedures performed and responses thereon

We have performed the following audit procedures to evaluate the management's assessment about the recoverability of amounts due from subsidiaries:

- Evaluating management's assessment on the sufficiency of future cash flow by comparing management's forecast of future cash flows to historical results and evaluating the assumptions used in those forecasts;
- Tested the mathematical accuracy of the cash flow forecast and projections; and
- Performed a sensitivity analysis by changing certain key assumptions used in the forecast of future cash flows calculations and assessed the impact to the future cash flows.

Independent Auditors' Report
To the Members of QES Group Berhad
(Cont'd)

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

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

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

Responsibilities of Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and of the Company's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

Independent Auditors' Report
To the Members of QES Group Berhad
(Cont'd)

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

(e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 13 to the financial statements.

Other Matter

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

MOORE STEPHENS ASSOCIATES PLT
201304000972 (LLP0000963-LCA)
Chartered Accountants (AF002096)

CHUAH SOO HUAT
03002/07/2020 J
Chartered Accountant

Petaling Jaya, Selangor
Date: 12 May 2020

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 December 2019

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Revenue	4	161,373	193,099	3,300	4,600
Cost of sales		(129,085)	(150,572)	–	–
Gross profit		32,288	42,527	3,300	4,600
Other income		2,393	2,810	453	422
Marketing and distribution expenses		(7,294)	(6,970)	–	–
Administrative expenses		(15,762)	(16,023)	(653)	(887)
Other operating expenses		(5,078)	(2,882)	–	–
Profit from operations		6,547	19,462	3,100	4,135
Finance costs	5	(947)	(871)	–	–
Profit before tax	6	5,600	18,591	3,100	4,135
Tax expense	8	(2,146)	(3,779)	(52)	–
Profit for the financial year		3,454	14,812	3,048	4,135
Other comprehensive income, net of tax					
Actuarial (loss)/gain on provision for post-employment benefits		(47)	9	–	–
Foreign currency translation differences for foreign subsidiaries		403	(10)	–	–
Total other comprehensive income for the financial year		356	(1)	–	–
Total comprehensive income for the financial year		3,810	14,811	3,048	4,135

	Note	Group 2019 RM'000	Group 2018 RM'000
Profit for the financial year attributable to:			
Owners of the Company		3,307	14,071
Non-controlling interests		147	741
		3,454	14,812
Total comprehensive income for the financial year attributable to:			
Owners of the Company		3,640	14,113
Non-controlling interests		170	698
		3,810	14,811
Earnings per share			
Basic (sen)	9	0.44	1.92

The annexed notes form an integral part of, and should be read in conjunction with, these financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2019

	Note	Group 2019 RM'000	Group 2018 RM'000 Restated	Company 2019 RM'000	Company 2018 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	10	9,971	11,076	–	–
Right-of-use assets	11	6,087	–	–	–
Intangible assets	12	6,574	5,617	–	–
Investment in subsidiaries	13	–	–	46,358	46,358
Other investments	14	60	60	–	–
Deferred tax assets	15	1,686	476	–	–
		24,378	17,229	46,358	46,358
Current assets					
Inventories	16	20,178	15,779	–	–
Trade receivables	17	31,552	47,147	–	–
Other receivables	18	3,459	2,507	17	23
Tax recoverable		2,028	649	–	–
Amounts due from subsidiaries	29	–	–	5,929	1,593
Short-term investments	19	18,202	27,198	9,877	11,875
Fixed deposits with financial institutions	20	18,244	20,018	–	2,235
Cash and bank balances		32,204	22,938	140	19
		125,867	136,236	15,963	15,745
TOTAL ASSETS		150,245	153,465	62,321	62,103

Statements of Financial Position
As at 31 December 2019
(Cont'd)

	Note	Group 2019 RM'000	Group 2018 RM'000 Restated	Company 2019 RM'000	Company 2018 RM'000
EQUITY AND LIABILITIES					
Equity					
Share capital	21	61,180	61,180	61,180	61,180
Legal reserve	22	25	25	–	–
Translation reserve	22	(831)	(1,198)	–	–
Merger deficit	23	(20,228)	(20,228)	–	–
Retained earnings		48,932	48,009	795	780
Total equity attributable to Owners of the Company		89,078	87,788	61,975	61,960
Non-controlling interests		1,415	2,133	–	–
Total Equity		90,493	89,921	61,975	61,960
Non-current liabilities					
Borrowings	24	–	1,580	–	–
Lease liabilities	25	4,175	–	–	–
Deferred tax liabilities	15	304	272	–	–
Provision for post-employment benefits	26	831	621	–	–
		5,310	2,473	–	–
Current liabilities					
Trade payables	27	25,956	32,585	–	–
Other payables	28	9,168	11,362	343	143
Borrowings	24	11,454	13,960	–	–
Lease liabilities	25	1,331	–	–	–
Contract liabilities	30	5,883	3,164	–	–
Tax payable		650	–	3	–
		54,442	61,071	346	143
Total liabilities		59,752	63,544	346	143
TOTAL EQUITY AND LIABILITIES		150,245	153,465	62,321	62,103

The annexed notes form an integral part of, and should be read in conjunction with, these financial statements.

STATEMENTS OF CHANGES IN EQUITY
For the financial year ended 31 December 2019

	<---- Attributable to owners of the Company					---->		
	Non-distributable				Distributable			
	Share capital RM'000	Merger deficit RM'000	Legal reserve RM'000	Translation reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
Group								
At 1 January 2019	61,180	(20,228)	25	(1,198)	48,009	87,788	2,133	89,921
Profit for the financial year	–	–	–	–	3,307	3,307	147	3,454
Other comprehensive income								
- Foreign currency translation differences	–	–	–	367	–	367	36	403
- Remeasurement of defined benefit plan	–	–	–	–	(34)	(34)	(13)	(47)
	–	–	–	367	(34)	333	23	356
Total comprehensive income for the financial year	–	–	–	367	3,273	3,640	170	3,810
Transactions with Owners of the Company								
Dividends (Note 31)	–	–	–	–	(3,033)	(3,033)	(249)	(3,282)
Additional investment in a subsidiary (Note 13)	–	–	–	–	683	683	(639)	44
Total transaction with Owners of the Company	–	–	–	–	(2,350)	(2,350)	(888)	(3,238)
At 31 December 2019	61,180	(20,228)	25	(831)	48,932	89,078	1,415	90,493

Statements of Changes in Equity
For the financial year ended 31 December 2019
(Cont'd)

	<------ Attributable to owners of the Company					------>		
		Non-distributable			Distributable			
	Share capital RM'000	Merger deficit RM'000	Legal reserve RM'000	Translation reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
Group								
As at 1 January 2018	32,592	(20,228)	–	(1,235)	33,958	45,087	1,589	46,676
Profit for the financial year	–	–	–	–	14,071	14,071	741	14,812
Other comprehensive income								
- Foreign currency translation differences	–	–	–	37	–	37	(47)	(10)
- Remeasurement of defined benefit plan	–	–	–	–	5	5	4	9
	–	–	–	37	5	42	(43)	(1)
Total comprehensive income for the financial year	–	–	–	37	14,076	14,113	698	14,811
Transactions with Owners of the Company								
Dividends (Note 31)	–	–	–	–	–	–	(304)	(304)
Legal reserve (Note 22)	–	–	25	–	(25)	–	–	–
Issuance of shares								
- Issuance of shares (Note 21)	28,588	–	–	–	–	28,588	–	28,588
- Subscription and additional investments in a subsidairy (Note 13)	–	–	–	–	–	–	150	150
	28,588	–	–	–	–	28,588	150	28,738
Total transaction with Owners of the Company	28,588	–	25	–	(25)	28,588	(154)	28,434
At 31 December 2018	61,180	(20,228)	25	(1,198)	48,009	87,788	2,133	89,921

Statements of Changes in Equity
For the financial year ended 31 December 2019
(Cont'd)

	Note	Share capital RM'000	(Accumulated loss)/ Retained earnings RM'000	Total equity RM'000
Company				
At 1 January 2018		32,592	(3,355)	29,237
Profit for the financial year, representing total comprehensive income for the financial year		–	4,135	4,135
Transaction with Owners of the Company				
Issuance of shares	21	28,588	–	28,588
At 31 December 2018/1 January 2019		61,180	780	61,960
Profit for the financial year, representing total comprehensive income for the financial year		–	3,048	3,048
Transaction with Owners of the Company				
Dividends	31	–	(3,033)	(3,033)
At 31 December 2019		61,180	795	61,975

The annexed notes form an integral part of, and should be read in conjunction with, these financial statements.

STATEMENTS OF CASH FLOWS

For the financial year ended 31 December 2019

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Cash Flows from Operating Activities					
Profit before tax		5,600	18,591	3,100	4,135
Adjustments for:-					
Amortisation of intangible assets		178	136	–	–
Bad debts written off		2	–	–	–
Depreciation of property, plant and equipment		2,157	2,154	–	–
Depreciation of right-of-use assets		1,426	–	–	–
Gain on disposal of property, plant and equipment		(316)	(1,190)	–	–
(Gain)/Loss on unrealised foreign exchange		(187)	207	–	–
Loss allowance on trade receivables		–	147	–	–
Interest expense		947	871	–	–
Interest income		(1,418)	(1,194)	(453)	(422)
Inventories written back		(115)	–	–	–
Inventories written down		–	393	–	–
Inventories written off		997	–	–	–
Property, plant and equipment written off		3	5	–	–
Provision for post-employment benefits		145	155	–	–
Reversal of loss allowance on trade receivables		(210)	–	–	–
Operating profit before working capital changes		9,209	20,275	2,647	3,713
Inventories		(5,281)	1,006	–	–
Receivables		14,377	(11,611)	6	(23)
Payables		(5,594)	7,467	200	(2,115)
Subsidiaries		–	–	(4,326)	(16,456)
Cash from/(used in) operations		12,711	17,137	(1,473)	(14,881)
Post-employee benefits paid		(24)	–	–	–
Income tax refund		644	9	–	–
Income tax paid		(4,659)	(5,000)	(49)	–
Interest paid		(661)	(732)	–	–
Net cash from/(used in) operating activities		8,011	11,414	(1,522)	(14,881)

Statements of Cash Flows
For the financial year ended 31 December 2019
(Cont'd)

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Cash Flows from Investing Activities					
Acquisition of property, plant and equipment	(i)	(3,972)	(5,686)	–	–
Addition in intangible assets		(1,135)	(1,187)	–	–
Interest received		1,418	1,194	443	422
Issuance of share capital		–	28,588	–	28,588
Subscription of shares by NCI in a subsidiary		44	150	–	–
(Placement)/uplift of fixed deposits with financial institutions		(461)	4,005	–	–
Proceeds from disposal of property, plant and equipment		786	2,326	–	–
Net cash (used in)/from investing activities		(3,320)	29,390	443	29,010
Cash Flows from Financing Activities					
Dividends paid	31	(3,282)	(304)	(3,033)	–
Net repayment of borrowings		(5,578)	(704)	–	–
Interest paid		(286)	(139)	–	–
Repayment of finance lease liabilities		–	(577)	–	–
Repayment of lease liabilities		(1,450)	–	–	–
Repayment of term loans		–	(2,457)	–	–
Net cash used in financing activities		(10,596)	(4,181)	(3,033)	–
Net (decrease)/increase in cash and cash equivalents		(5,905)	36,623	(4,112)	14,129
Foreign currency translation differences		267	(163)	–	–
Cash and cash equivalents at beginning of year		51,297	14,837	14,129	–
Cash and cash equivalents at end of year	(ii)	45,659	51,297	10,017	14,129

Note:

(i) Acquisition of property, plant and equipment

During the financial year, the Group and the Company made the following cash payments to purchase property, plant and equipment:

	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Purchase of property, plant and equipment	3,972	6,583	–	–
Less: Financed by lease arrangement	–	(897)	–	–
Cash payment on purchase of property, plant and equipment	3,972	5,686	–	–

Statements of Cash Flows
For the financial year ended 31 December 2019
(Cont'd)

Note: (Cont'd)

(ii) The cash and cash equivalents of the Group and the Company comprise the following:

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Short-term investments	18,202	27,198	9,877	11,875
Fixed deposits with financial institutions (Note 20)	18,244	20,018	–	2,235
Cash and bank balances	32,204	22,938	140	19
Bank overdrafts (Note 24)	(4,747)	(1,074)	–	–
	63,903	69,080	10,017	14,129
Less: Fixed deposits pledged	(18,244)	(17,783)	–	–
	45,659	51,297	10,017	14,129

Cash outflows for leases as a lessee:

	Group 2019 RM'000
Included in net cash used in operating activities:	
Payment relating to short-term leases	(400)
Included in net cash used in financing activities:	
Interest paid in relation to lease liabilities	(286)
Repayment of lease liabilities	(1,450)
Total cash outflows for leases	(2,136)

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	At 1.1.2018 RM'000	**Net cash from financing cash flows RM'000**	**Financed by finance lease arrangement RM'000**	**Loss on unrealised foreign exchange RM'000**	**At 31.12.2018 RM'000**
Group					
Bankers' acceptance	780	(168)	–	–	612
Trust receipts	9,893	469	–	524	10,886
Revolving loan	1,997	(1,005)	–	–	992
Finance lease liabilities	1,656	(577)	897	–	1,976
Lease liabilities	–	–	–	–	–
Term loan	2,457	(2,457)	–	–	–
Total liabilities from financing activities	16,783	(3,738)	897	524	14,466

Statements of Cash Flows
For the financial year ended 31 December 2019
(Cont'd)

Note: (Cont'd)

Reconciliation of movements of liabilities to cash flows arising from financing activities: (Cont'd)

	At 1.1.2019 (previouly reported) RM'000	Adjustment on initial application of MFRS 16 RM'000	At 1.1.2019 (restated) RM'000	Net cash from financing cash flows RM'000	Gain on unrealised foreign exchange RM'000	Acquisition of new leases RM'000	At 31.12.2019 RM'000
Group							
Bankers' acceptance	612	–	612	(29)	–	–	583
Trust receipts	10,886	–	10,886	(5,357)	(205)	–	5,324
Revolving loan	992	–	992	(192)	–	–	800
Finance lease liabilities	1,976	(1,976)	–	–	–	–	–
Lease liabilities	–	6,222	6,222	(1,450)	–	734	5,506
Total liabilities from financing activities	14,466	4,246	18,712	(7,028)	(205)	734	12,213

The annexed notes form an integral part of, and should be read in conjunction with, these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE INFORMATION

The Company is a public limited company that is incorporated and domiciled in Malaysia. The Company is listed on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 13.

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

The registered office is located at Lot 4.100, Tingkat 4, Wisma Central, Jalan Ampang, 50450 Kuala Lumpur, Malaysia.

The principal place of business is located at No. 9, Jalan Juruukur U1/19, Hicom Glenmarie Industrial Park, Seksyen U1, 40150 Shah Alam Selangor, Malaysia.

The financial statements were approved and authorised for issue by the Board of Directors on 12 May 2020.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs") issued by the Malaysian Accounting Standards Board ("MASB"), International Financial Reporting Standards and complied with the provisions of the Companies Act 2016 in Malaysia.

New and Revised MFRSs, Amendments/Improvements to MFRSs, New IC Interpretations ("IC Int") and Amendments to IC Int

(i) Adoption of New MFRS and Amendments/Improvements to MFRSs and IC Int

The Group and the Company had adopted the following Amendments/Improvements to MFRSs and IC Int that are mandatory as follows:

MFRS 9	Prepayment Features with Negative Compensation
MFRS 16	Leases
MFRS 119	Plan Amendment, Curtailment or Settlement
MFRS 128	Long-term Interests in Associates and Joint Ventures
IC Interpretation 23	Uncertainty over Income Tax Treatments
Annual Improvements to MFRSs 2015-2017 Cycle	

The adoption of the Amendments/Improvements to MFRSs did not have any significant effect on the financial statements of the Group and the Company, except for the adoption of MFRS 16 Leases as disclosed below.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

2. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (Cont'd)

New and Revised MFRSs, Amendments/Improvements to MFRSs, New IC Interpretations ("IC Int") and Amendments to IC Int (Cont'd)

(i) Adoption of New MFRS and Amendments/Improvements to MFRSs and IC Int (Cont'd)

MFRS 16 Leases

The Group has applied MFRS 16 Leases for the first time for the financial year beginning on 1 January 2019.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IC Interpretation 4, Determining Whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under MFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

At 1 January 2019, for leases that were classified as operating lease under MFRS 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedient when applying MFRS 16 to leases previously classified as operating lease under MFRS 117: -

- applied a single discount rate to a portfolio of leases with similar characteristics;
- applied the exemption not to recognise right-to-use assets and liabilities for leases with less than 12 months of lease term as at 1 January 2019;
- leases for low value items are excluded;
- excluded initial direct costs from measuring the right-to-use assets at the date of initial application; and
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

For leases that were classified as finance lease under MFRS 117, the carrying amounts of right-to-use asset and the lease liability at 1 January 2019 are determined to be the same as the carrying amount of the leased asset and lease liability under MFRS 117 immediately before that date.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

2. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (Cont'd)

New and Revised MFRSs, Amendments/Improvements to MFRSs, New IC Interpretations ("IC Int") and Amendments to IC Int (Cont'd)

(i) Adoption of New MFRS and Amendments/Improvements to MFRSs and IC Int (Cont'd)

Impacts on financial statements

Since the Group applied the requirements of MFRS 16 modified retrospective transition approach with the right-of-use assets equal to lease liabilities at date of initial application of January 2019, there are no adjustments made to prior period presented.

The impact on the Group's statements of financial position as at 1 January 2019 is summarised below:

	Previously reported under MFRS 117 RM'000	Effect of adoption MFRS 16 RM'000	Restated under MFRS 16 RM'000
Group			
At 1 January 2019			
Assets			
Property, plant and equipment	11,076	(2,533)	8,543
Right-of-use assets	–	6,779	6,779
Liabilities			
Finance lease liabilities	1,976	(1,976)	–
Lease liabilities	–	6,222	6,222

The following table explains the differences between operating lease commitments disclosed applying MFRS 117 at 31 December 2018, and lease liabilities recognised at the date initial application of 1 January 2019

	Group RM'000
Operating lease commitments as disclosed at 31 December 2018	2,729
Effects from discounting at the incremental borrowing rate between 4.75% to 10.00%	(148)
Add:	
Lease liabilities additionally recognised based on the initial application of MFRS 16	1,932
Transfer from finance lease liabilities upon initial application of MFRS 16	1,976
Less:	
Short-term leases recognised on a straight-line basis of an expense	(267)
Lease liabilities recognised as at 1 January 2019	6,222

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

2. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (Cont'd)

New and Revised MFRSs, Amendments/Improvements to MFRSs, New IC Interpretations ("IC Int") and Amendments to IC Int (Cont'd)

(ii) New MFRS and Amendments/Improvements to MFRSs and IC Int that are issued but not yet effective and have not been early adopted

The Group and the Company have not adopted the following new MFRSs and Amendments/Improvements to MFRSs and IC Int that have been issued as at the date of authorisation of these financial statements but are not yet effective for the Group and the Company:-

Effective for financial period beginning on or after 1 January 2020

Amendments to MFRS 3	Business Combinations – Definition of a Business
Amendments to MFRS 9 and MFRS 7	Interest rate Benchmark Reform
Amendments to MFRS 101	Presentation of Financial Statements – Definition of Material
Amendments to MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material

Amendments to References to the Conceptual Framework in MFRS Standards

Effective for financial period beginning on or after 1 January 2021

MFRS 17	Insurance Contracts

Effective for financial period beginning on or after 1 January 2022

Amendments to MFRS 101	Presentation of Financial Statements – Classification of Liabilities as Current or Non-current

Effective date to be announced

Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Group and the Company will adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are not expected to have any effect to the financial statements of the Group and of the Company upon their initial application.

The Group and the Company do not plan to apply MFRS17, "Insurance Contracts" that is effective for annual periods beginning on or after 1 January 2021 as it is not applicable to the Group and the Company.

(b) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

2. BASIS OF PREPARATION (CONT'D)

(c) Basis of measurement

The financial statements of the Group and of the Company have been prepared on the historical cost basis except as disclosed in accounting policies.

(d) Significant accounting estimates and judgements

The summary of accounting policies as described in Note 3 are essential to understand the Group's and the Company's result of operations, financial position, cash flows and other disclosures. Certain of these accounting policies require critical accounting estimates that involve complex and subjective judgements and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change. The Directors exercise their judgement in the process of applying the Group's and the Company's accounting policies.

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's and of the Company's accounting policies and reported amounts of assets, liabilities, income and expenses, and disclosures made.

Estimates and underlying assumptions are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

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

(i) Impairment of Non-Financial Assets

When the recoverable amount of an asset is determined based on the estimate of the value in use of the cash generating unit to which the asset is allocated, the management is required to make an estimate of the expected future cash flows from the cash generating unit and also to apply a suitable discount rate in order to determine the present value of those cash flows.

(ii) Deferred Tax Assets and Liabilities

Deferred tax implications arising from the changes in corporate income tax rates are measured with reference to the estimated realisation and settlement of temporary differences in the future periods in which the tax rates are expected to apply, based on the tax rates enacted or substantively enacted at the reporting date. While management's estimates on the realisation and settlement of temporary differences are based on the available information at the reporting date, changes in business strategy, future operating performance and other factors could potentially impact on the actual timing and amount of temporary differences realised and settled. Any difference between the actual amount and the estimated amount would be recognised in the profit or loss in the period in which actual realisation and settlement occurs.

(iii) Impairment of Goodwill

Goodwill is tested for impairment annually and at other times when such indicators exist. This requires management to estimate the expected future cash flows of the cash generating unit to which goodwill is allocated and to apply a suitable discount rate in order to determine the present value of those cash flows. The future cash flows are most sensitive to budgeted gross margins, growth rates estimated and discount rate used. If the expectation is different from the estimation, such difference will impact the carrying value of goodwill.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

2. BASIS OF PREPARATION (CONT'D)

(d) Significant accounting estimates and judgements (Cont'd)

(iv) Leases

The Group assesses at lease commencement by applying significant judgement whether it is reasonably certain to exercise the extension options. The Group considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

The Group also applies judgement and assumptions in determining the incremental borrowing rate of the respective leases. The Group first determines the closest available borrowing rates before using significant judgement to determine the adjustments required to reflect the term, security, value or economic environment of the respective leases.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been consistently by the Group and the Company, unless otherwise stated.

Arising from the adoption of MFRS 16, "Leases", there are changes to the accounting policies applied to lease contracts entered by the Group and the Company as compared to those applied in previous financial statements. The impacts arising from the changes are disclosed in Note 2(a)(i).

(a) Basis of consolidation

Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied for like transactions and events in similar circumstances. The Company controls an investee if and only if the Company has all the following:

(i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant power activities of the investee);
(ii) Exposure, or rights, to variable returns from its investment with the investee; and
(iii) The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting rights of an investee, the Company considers the following in assessing whether or not the Company's voting rights in an investee are sufficient to give it power over the investee:

(i) The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
(ii) Potential voting rights held by the Company, other vote holders or other parties;
(iii) Rights arising from other contractual arrangements; and
(iv) Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Subsidiaries are consolidated when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of consolidation (Cont'd)

Consolidation (Cont'd)

When control ceases, the disposal proceeds and the fair value of any retained investment are compared to the Group's share of the net assets disposed. The difference together with the carrying amount of allocated goodwill and the exchange reserve that relate to the subsidiary is recognised as gain or loss on disposal.

Business combination

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree.

The Group elects on a transaction-by-transaction basis whether to measure the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction cost incurred are expensed and included in administrative expenses.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with MFRS 9 either in profit or loss or a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of MFRS 9, it is measured in accordance with the appropriate MFRS.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost, being excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Business combinations under common control are accounted using the predecessor method of merger accounting where the profit or loss and other comprehensive income include the results of each of the combining entities from the earliest date presented or from the date when these entities came under the control of the common controlling party (if later).

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of consolidation (Cont'd)

Business combination (Cont'd)

The assets and liabilities of the combining entities are accounted for based on the carrying amounts from the perspective of the common controlling party, or the combining entities if the common controlling party does not prepare consolidated financial statements.

The difference in cost of acquisition over the aggregate carrying value of the assets and liabilities of the combining entities as of the date of the combination is taken to equity. Transaction cost for the combination is recognised in the profit or loss.

Similar treatment applies in the Company's separate financial statements when assets and liabilities representing the underlying businesses under common control are directly acquired by the Company. In accounting for business combinations in the Company's separate financial statements, the excess of the cost of acquisition over the aggregate carrying amounts of assets and liabilities as of the date of the combination is taken to equity.

Subsidiaries

A subsidiary is an entity over which the Group has all the following:

(i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
(ii) Exposure, or rights, to variable returns from its investment with the investee; and
(iii) The ability to use its power over the investee to affect its returns.

In the Company's separate financial statements, investment in subsidiaries are accounted for at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in the profit or loss.

Non-controlling Interests

Non-controlling interests represents the equity in subsidiaries not attributable directly or indirectly, to owners of the Company, and is presented separately in the consolidated profit or loss and within equity in the consolidated financial position, separately from equity attributable to Owners of the Company.

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

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

Transactions eliminated on consolidation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Foreign currencies

(i) Foreign currency transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Group and of the Company are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in the profit or loss except for exchange differences arising on monetary items that form part of the Group's and of the Company's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to the profit or loss of the Group on disposal of the foreign operation.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in the profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(ii) Group entities

On consolidation, the assets and liabilities of foreign operations are translated into RM at the rate of exchange prevailing at the reporting date and their profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

(c) Revenue and other revenue recognition

Revenue is recognised when or as a performance obligation in the contract with customer is satisfied, i.e. when the "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation is a promise to transfer a distinct goods or service (or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer) to the customer that is explicitly stated in the contract and implied in the Group's and the Company's customary business practices.

Revenue is measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customers, excluding amounts collected on behalf of third parties such as sales taxes. If the amount of consideration varies due to discounts, rebates, refunds, credits, incentives, penalties or other similar items, the Group and the Company estimate the amount of consideration to which it will be entitled based on the expected value or the most likely outcome. If the contract with customer contains more than one performance obligation, the amount of consideration is allocated to each performance obligation based on the relative stand-alone selling prices of the goods or services promised in the contract.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Revenue and other revenue recognition (Cont'd)

The revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainly associated with the variable consideration is subsequently resolved.

The control of the promised goods or services may be transferred over time or at a point in time. The control over the goods or services is transferred over time and revenue is recognised over time if:

- The customer simultaneously receives and consumes the benefits provided by the Group's and the Company's performances as the Group and the Company perform;

- The Group's and the Company's performances create or enhance assets that the customer controls as the assets are created or enhanced; or

- The Group's and the Company's performances do not create assets with alternative use and the Group and the Company have enforceable rights to payment for performance completed to date.

<u>Sale of goods</u>

Revenue from sales of goods is measured at the fair value of the consideration received or receivable, net of returns and provisions, trade discounts, volume rebates and net of taxes.

Revenue is recognised when or as a performance obligation in the contract with customer is satisfied, i.e. when the "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

<u>Revenue from service</u>

Revenue from services provided is recognised net of discount, where applicable, as and when the services are performed. Revenue is recognised over time based on contract.

<u>Dividend income</u>

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

<u>Other revenue</u>

Interest income is recognised using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees. Short-term accumulating compensated absences such as paid annual leave are recognised as a liability when they accrue to the employees. The estimated liability for paid annual leave is recognised for services rendered by employees up to the reporting date. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Group makes contributions to Employee Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

(iii) Provision for post-employment benefits

Certain subsidiaries of the Group operate separate defined retirement benefit schemes for certain employees. Such benefits are unfunded.

The liability recognised in the statements of financial position in respect of post-employment benefit plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. Retirement benefits are assessed annually using the projected unit credit method; the present value of the defined benefit obligation is measured by discounting the estimated future cash outflows using a discount rate by reference to market yields of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and have terms to maturity approximating to the terms of the related pension liability at the reporting date.

Actuarial gains and losses arising from experience adjustments and changes in actual assumptions are charged or credited to equity in other comprehensive income in the period when they arise. Changes in the defined benefit liability arising from service cost and net interest on the defined benefit obligation for the financial year are recognised in profit or loss.

(e) Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group incurred in connection with the borrowing of funds.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Income taxes

(i) Current tax

Tax expense represents the aggregate amount of current and deferred tax. Current tax is the expected amount payable in respect of taxable income for the financial year, using tax rates enacted or substantively enacted by the reporting date, and any adjustments recognised for prior years' tax. When an item is recognised outside profit or loss, the related tax effect is recognised either in other comprehensive income or directly in equity.

(ii) Deferred tax

Deferred tax is recognised using the liability method, on all temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction, which is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to apply in the period in which the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that there are sufficient taxable temporary differences relating to the same taxable entity and the same taxation authority to offset or when it is probable that future taxable profits will be available against which the assets can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will be available for the assets to be utilised.

Deferred tax assets relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transactions either in other comprehensive income or directly in equity and deferred tax arising from business combination is adjusted against goodwill on acquisition or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the acquisition cost.

(g) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held.

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

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Impairment

(i) Financial assets

The Group and the Company recognise loss allowances for expected credit losses ("ECL") on financial assets measured at amortised cost, contract assets and lease receivables. Expected credit losses are a probability-weighted estimate of credit losses.

Loss allowance of the Group is measured on either of the following bases:

(i) 12-month ECL - represents the ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or

(ii) Lifetime ECLs - represents the ECLs that will result from all possible default events over the expected life of a financial instrument or contract asset

The impairment methodology applied depends on whether there has been a significant increase in credit risk.

<u>Simplified approach - trade receivables, lease receivables and contract assets</u>

The Group applies the simplified approach to provide ECLs for all trade receivables, lease receivables and contract assets as permitted by MFRS 9. The simplified approach required expected lifetime losses to be recognised from initial recognition of the receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where applicable.

<u>General approach - other financial instruments and financial guarantee contracts</u>

The Group applies the general approach to provide for ECLs on all other financial instruments and financial guarantee contracts, which requires the loss allowance to be measured at an amount equal to 12-months ECLs at initial recognition.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs. In assessing whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort.

This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward looking information, where available.

If credit risk has not increase significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Impairment (Cont'd)

(i) Financial assets (Cont'd)

General approach - other financial instruments and financial guarantee contracts (Cont'd)

The Group considers an event of default for internal credit risk management purposes when 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).

The Company considers a financial guarantee contract to be in default when the debtor of the loan is unlikely to pay its credit obligations to the creditors and the Company in full, without recourse by the Company to actions such as realising security (if any is held). The Company only applies a discount rate if, and to the extent that, the risks are not taken into account by adjusting the expected cash shortfalls.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Credit Impaired financial assets

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost is credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit impaired includes the observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or significant past due event
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower or a concession that the lender would not otherwise consider (e.g the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise);
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for security because of financial difficulties.

Write-off policy

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Impairment (Cont'd)

(ii) Non-financial assets

The carrying amounts of non-financial assets (except for inventories and intangible assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which such impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

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

Except for goodwill, assets that were previously impaired are reviewed for possible reversal of the impairment at the end of each reporting period. Any subsequent increase in recoverable amount is recognised in the profit or loss unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation reserve. Reversal of impairment loss is restricted by the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

An impairment loss recognised for goodwill is not reversed.

An impairment loss is recognised for the amount by which the carrying amount of the subsidiary, joint venture or associate exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and present value of the estimated future cash flows expected to be derived from the investment including the proceeds from its disposal. Any subsequent increase in recoverable amount is recognised in profit or loss.

(i) Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably.

Subsequent to initial recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such part as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Property, plant and equipment (Cont'd)

All property, plant and equipment are depreciated on the straight-line basis to write off the cost of the property, plant and equipment over their estimated useful lives.

The principal annual rates used for this purpose are:-

Leasehold land*	80 years
Buildings*	2%
Moulds, plant and equipment	12.5% - 20%
Office equipment, furniture, fittings, computer and telecommunication equipment	15% - 30%
Equipment for demonstration	15%
Motor vehicles	12.5% - 20%
Office renovation, electrical and fittings, and signboard	10%

* In the previous year, the leasehold land and buildings was depreciated over their estimated useful life of 80 years and 2% per annum. Upon adoption of MFRS 16 Leases, these leasehold land and building have been reclassified as Right-of Use assets as at the date of initial application, i.e. 1 January 2019.

The residual values, useful lives and depreciation method are reviewed at each reporting date to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

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

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these property, plant and equipment.

(j) Intangible assets

(i) Goodwill on consolidation

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired, by comparing the carrying amount of the cash-generating unit, including the allocated goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Intangible assets (Cont'd)

(i) Goodwill on consolidation (Cont'd)

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

Goodwill and fair value adjustments arising on the acquisition of foreign operation on or after 1 January 2006 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in Note 3(b).

Goodwill and fair value adjustments which arose on acquisitions of foreign operation before 1 January 2006 are deemed to be assets and liabilities of the Company and are recorded in RM at the rates prevailing at the date of acquisition.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Expenditure on development activities, whereby the application of research finding are apply to a plan or design for the production of new or substantially improved products or processes are capitalised only if development costs can be measured reliably, the product or process is technically or commercially feasible, future economic benefits are probable and the Group intended to and has sufficient resources to complete development to use or to sell the asset.

The expenditure capitalised includes the costs of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Capitalised development expenditure is measured at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life.

(iii) Trademark

Trademark acquired is measured on initial recognition at cost. The useful life of the trademark is assessed to be indefinite and are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of trademark is reviewed annually to determine whether the useful life assessment continues to be supportable.

Gain or losses arising from derecognition of an intangible asset except goodwill on consolidation are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Intangible assets (Cont'd)

(iv) Amortisation

The amount subject to amortisation is calculated based on the cost of the asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

Development costs	5 years

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are not amortised but are tested for impairment annually and whenever there is an indication that they may be impaired.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Costs of raw materials and consumables comprise the cost of purchase plus the cost of bringing the inventories to their present location and condition.

In the case of work in progress and manufactured inventories, cost includes materials, direct labour and an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. Where necessary, due allowance is made for all damaged, obsolete and slow-moving items.

(l) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statements of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Financial instruments (Cont'd)

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categories financial instruments as follows:

Financial assets

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Group or the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

(a) Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets as disclosed in Note 3(h)(i).

(b) Fair value through profit or loss

All financial assets not measured at amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a designated and effective hedging instrument). On initial recognition, the Group or the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value. Net gains or losses, including any interest or dividend income, are recognised in the profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to impairment assessment as disclosed in Note 3(h)(i).

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Financial instruments (Cont'd)

(ii) Financial instrument categories and subsequent measurement (Cont'd)

Financial liabilities

The categories of financial liabilities at initial recognition are as follows:

(a) Fair value through profit or loss

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination and financial liabilities that are specifically designated into this category upon initial recognition.

On initial recognition, the Group or the Company may irrevocably designate a financial liability that otherwise meets the requirements to be measured at amortised cost as at fair value through profit or loss:

(a) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise;

(b) a group of financial liabilities or assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel; or

(c) if a contract contains one or more embedded derivatives and the host is not a financial asset in the scope of MFRS 9, where the embedded derivative significantly modifies the cash flows and separation is not prohibited.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any interest expense are recognised in the profit or loss.

For financial liabilities where it is designated as fair value through profit or loss upon initial recognition, the Group and the Company recognised the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income and remaining amount of the change in fair value in the profit or loss, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch.

(b) Amortised cost

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Financial instruments (Cont'd)

(iii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Group or the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and liability simultaneously.

(iv) Financial guarantee contracts

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

Financial guarantees issued are initially measured at fair value. Subsequently, they are measured at higher of:

- the amount of the loss allowance; and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance to the principles of MFRS 15, Revenue from Contracts with Customers.

Liabilities arising from financial guarantees are presented together with other provisions.

(v) Regular way purchase or sale of financial assets

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

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

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

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

(vi) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires.

On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, short-term investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

(n) Leases

The Group has applied MFRS 16 using the modified retrospective approach, under which the Group has chosen to measure the right-of-use asset equals to the lease liability at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported under *MFRS 117, Leases and related interpretations*.

Current financial year

(i) Definition of lease

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

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases, where the decision about how and what purpose the asset is used is predetermined, the Group has the right to direct use of the asset if either the customer has the right to operate the asset; or the Group designed the asset in a way that predetermines how and what purpose it will be used.

(ii) Recognition and initial measurement

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the respective Group entities' incremental borrowing rate.

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

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Leases (Cont'd)

(iii) Subsequent measurement

The right-of-use assets is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any and adjusted for certain remeasurements of the lease liability.

The principal annual depreciation rates are as follows:

Leasehold land	80 years
Leasehold building	50 years
Lease of buildings	2 to 3 years or over the lease term
Motor vehicles	5 to 8 years

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to zero.

Previous financial year

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or asset or the arrangement conveys a right to use the asset, even if that right is not explicitly specific in an arrangement.

<u>Finance lease</u>

Leases in terms of which the Group and the Company assume substantially all the risks and rewards of ownership are classified as finance lease. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the profit or loss. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Leases (Cont'd)

Previous financial year (Cont'd)

Operating lease

Leases, where the Group and the Company do not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

(o) Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of the Group and of the Company after deducting all of their liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(p) Provisions

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

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(q) Contingencies

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

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

(r) Fair value measurement

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Fair value measurement (Cont'd)

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

The Group recognised transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

(s) Contract assets and liabilities

Contract assets and liabilities in services contract represent the timing differences in revenue recognition and the milestone billings. The milestone billings are structured and/or negotiated with customers to reflect physical completion of the contracts.

Contract assets are transferred to receivables when the rights to economic benefits become unconditional. This usually occurs when the Group issues billing to the customer. Contract assets are recognised as revenue when performance obligations are satisfied.

When there is objective evidence of impairment, the amount of impairment losses is determined by comparing the contract asset's carrying amount and the present value of estimated future cash flows to be generated by the contract asset.

Contract liabilities are the obligation to transfer goods or services to customers for which the Group has received the consideration or has billed the customer. In the case of services contract, contract liabilities are the excess of the billings to-date over the cumulative revenue earned. Contract liabilities include down payments received from customers and other deferred income where the Group has billed or has collected the payment before the goods are delivered or services are provided to the customers.

(t) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Board of Directors of the Company, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

(u) Other investments

Club membership

Club membership acquired is measured at cost less any accumulated impairment losses.

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4. REVENUE

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Dividend income	(i)	–	–	3,300	4,600
Sales of goods	(ii)	120,386	151,532	–	–
Service income	(iii)	40,987	41,567	–	–
		161,373	193,099	3,300	4,600

Except for dividend income, these represent the invoiced value of goods sold and service rendered less discounts, return and net of taxes.

The performance obligations and revenue recognition policies for dividend income, sales of goods and service income have been presented as below:

(i) Dividend income

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

(ii) Sales of goods

The Group's revenue encompass sales of goods from the Distribution division, which principally involved in the distribution of inspection, test and measurement equipment, materials and engineering solutions and the Manufacturing division, which includes manufacturing of optical inspection equipment, automated handling equipment and advanced wafer measurement systems and the provision of vision software solutions for automated equipment, mechanical and electrical engineering consultancy and interface software for industrial equipment.

Revenue is recognised when the performance obligation ("PO") is satisfied upon the delivery of the products to the customers which requires customers' acknowledgement that the goods have been accepted by the customers. Only then will the enforceable right for payment be satisfied and revenue is recognised at point in time when a billing is raised, evidencing the transfer of control over the goods to customer. The distinct POs of delivery, service and installation are not material to be considered separately. Payment is generally due within 30 – 120 days from the date the PO is satisfied.

(iii) Service income

The Group provides after sales services such as the training, repairing, maintenance and replacement of equipment parts for its customers, which is on an annual service contract basis or a one-time off contract basis. The contract is comprised of a single PO and is satisfied over the contract period. Revenue of the after sales services are recognised over time based on the contract, whilst revenue from the replacement of equipment parts are recognised at the point in time control of the goods is transferred.

The following table shows unsatisfied performance obligations resulting from service contracts.

	2020 RM'000	2019 RM'000
Group		
Revenue expected to be recognised on service contracts on the next 12 months	2,020	1,811

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5. FINANCE COSTS

	Group 2019 RM'000	Group 2018 RM'000
Bank overdrafts	193	223
Bankers' acceptances	39	103
Finance lease liabilities	–	92
Lease liabilities	286	–
Letter of credit	71	91
Revolving loan	68	71
Term loans	–	47
Trust receipts	290	244
	947	871

6. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):-

	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Amortisation of intangible assets	178	136	–	–
Auditors' remuneration				
- current year	278	255	35	35
- overprovision in prior year	–	(2)	–	–
- other services	11	–	11	–
Bad debts written off	2	–	–	–
Depreciation of property, plant and equipment	2,157	2,154	–	–
Depreciation of right-of-use assets	1,426	–	–	–
Employee benefits (Note 7)	39,064	37,596	164	144
Gain on disposal of property, plant and equipment	(316)	(1,190)	–	–
(Gain)/Loss on foreign exchange				
- realised	569	(516)	–	–
- unrealised	(187)	207	–	–
Loss allowance on trade receivables	–	147	–	–
Interest income	(1,418)	(1,194)	(453)	(422)
Inventories written back	(115)	–	–	–
Inventories written down	–	393	–	–
Inventories written off	997	–	–	–
Property, plant and equipment written off	3	5	–	–
Provision for post employment benefits	145	155	–	–
Short-term leases	400	–	–	–
Rental of premises and motor vehicles	–	1,443	–	–
Reversal of loss allowance on trade receivables	(210)	–	–	–

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7. EMPLOYEE BENEFITS

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Staff cost				
Salaries, bonus, wages, allowances and overtime	26,263	25,420	–	–
Defined contribution plan	2,927	2,702	–	–
Social security contributions	204	192	–	–
Others	4,093	3,983	–	–
	33,487	32,297	–	–
Directors' remuneration				
Salaries, bonus and allowances	3,955	3,796	–	–
Directors' fee	363	335	164	144
Defined contribution plan	714	524	–	–
Social security contributions	13	13	–	–
Others	532	631	–	–
	5,577	5,299	164	144
Total staff costs	39,064	37,596	164	144
Analysis of estimated benefits-in kind:				
- Directors	129	125	–	–

8. TAX EXPENSE

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Current tax:				
- current year	2,703	4,420	13	–
- under/(over)provision in prior years	583	(208)	39	–
	3,286	4,212	52	–
Deferred tax (Note 15)				
- origination of temporary differences	(820)	(305)	–	–
- overprovision in prior years	(320)	(128)	–	–
	(1,140)	(433)	–	–
Tax expense for the financial year	2,146	3,779	52	–

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(Cont'd)

8. TAX EXPENSE (CONT'D)

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2018: 24%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

A reconciliation of income tax expenses applicable to profit before tax at the statutory tax rate to income tax expenses at the effective income tax rate of the Group and the Company are as follows:

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Profit before tax	5,600	18,591	3,100	4,135
Tax at Malaysian tax rate of 24% (2018: 24%)	1,344	4,462	744	992
Effect of tax in foreign jurisdictions	(83)	(53)	–	–
Non-deductible expenses	898	1,533	155	173
Non-taxable income	(405)	(1,873)	(886)	(1,165)
Double deductible expenses	(23)	–	–	–
Deferred tax assets not recognised	152	46	–	–
	1,883	4,115	13	–
Under/(over)provision in prior years:				
- current tax	583	(208)	39	–
- deferred tax	(320)	(128)	–	–
Tax expense for the financial year	2,146	3,779	52	–

Subject to agreement with the Inland Revenue Board, the Group has the following items available for set off against future taxable profits as follows:

	Group	
	2019 RM'000	**2018 RM'000**
Unabsorbed capital allowances	212	51
Unutilised tax losses	3,661	326
Unutilised pioneer losses	42	–
	3,915	377

With effect from Year of Assessment 2019, the unutilised business losses in a year of assessment of the Malaysia incorporated entities can only be carried forward for a maximum period of 7 consecutive years of assessment to be utilised against income from any business source.

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9. EARNINGS PER SHARE

Basic earnings per ordinary share for the financial year is calculated by dividing the profit after tax attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	Group	
	2019	**2018**
Profit after tax attributable to the Owners of the Company (RM'000)	3,307	14,071
Number of ordinary shares at the beginning of the year (unit'000)	758,308	606,647
Effects of ordinary share issue (unit'000)	–	125,484
Weighted average number of ordinary shares at end of the year (unit'000)	758,308	732,131
Basic earnings per ordinary share (sen)	0.44	1.92

Diluted earnings per share is not presented as there are no dilutive potential ordinary shares outstanding during the financial year.

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10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land RM'000	Leasehold building RM'000	Moulds, plant and equipment RM'000	Office equipment, furniture, fittings, computer and telecom-munication equipment RM'000	Equipment for demonstration RM'000	Motor vehicles RM'000	Electrical fittings, office renovation and signboard RM'000	Total RM'000
Group								
2019								
Cost								
At 1 January (previously reported)	118	500	4,578	6,815	13,112	3,099	1,366	29,588
Effect of MFRS 16 adoption (Note 11)	(118)	(500)	–	–	–	(2,554)	–	(3,172)
At 1 January (restated)	–	–	4,578	6,815	13,112	545	1,366	26,416
Additions	–	–	14	1,677	2,260	–	21	3,972
Disposals	–	–	–	(65)	(664)	(19)	–	(748)
Written off	–	–	–	(184)	(433)	–	–	(617)
Reclassification	–	–	–	3	(3)	–	–	–
Exchange differences	–	–	6	21	105	10	13	155
At 31 December	–	–	4,598	8,267	14,377	536	1,400	29,178

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10. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Leasehold land RM'000	Leasehold building RM'000	Moulds, plant and equipment RM'000	Office equipment, furniture, fittings, computer and telecom-munication equipment RM'000	Equipment for demonstration RM'000	Motor vehicles RM'000	Electrical fittings, office renovation and signboard RM'000	Total RM'000
Group								
2019								
Accumulated depreciation								
At 1 January (previously reported)	5	190	4,005	5,174	7,580	769	789	18,512
Effect of MFRS 16 adoption (Note 11)	(5)	(190)	–	–	–	(444)	–	(639)
At 1 January (restated)	–	–	4,005	5,174	7,580	325	789	17,873
Charge for the financial year	–	–	174	464	1,383	26	110	2,157
Disposals	–	–	–	(60)	(199)	(19)	–	(278)
Written off	–	–	–	(181)	(433)	–	–	(614)
Reclassification	–	–	–	3	(3)	–	–	–
Exchange differences	–	–	2	7	47	5	8	69
At 31 December	–	–	4,181	5,407	8,375	337	907	19,207
Net book value								
At 31 December	–	–	417	2,860	6,002	199	493	9,971

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(Cont'd)

10. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Leasehold land RM'000	Leasehold building RM'000	Moulds, plant and equipment RM'000	Office equipment, furniture, fittings, computer and telecom-munication equipment RM'000	Equipment for demonstration RM'000	Motor vehicles RM'000	Electrical fittings, office renovation and signboard RM'000	Total RM'000
Group								
2018								
Cost								
At 1 January	118	500	4,224	6,183	10,213	2,697	1,133	25,068
Additions	–	–	363	674	4,170	1,104	272	6,583
Disposals	–	–	–	(5)	(1,270)	(690)	–	(1,965)
Written off	–	–	–	(34)	–	–	(35)	(69)
Exchange differences	–	–	(9)	(3)	(1)	(12)	(4)	(29)
At 31 December	118	500	4,578	6,815	13,112	3,099	1,366	29,588
Accumulated depreciation								
At 1 January	3	180	3,851	4,779	6,735	992	718	17,258
Charge for the financial year	2	10	160	430	1,057	389	106	2,154
Disposals	–	–	–	(5)	(218)	(606)	–	(829)
Written off	–	–	–	(29)	–	–	(35)	(64)
Exchange differences	–	–	(6)	(1)	6	(6)	–	(7)
At 31 December	5	190	4,005	5,174	7,580	769	789	18,512
Net book value								
At 31 December	113	310	573	1,641	5,532	2,330	577	11,076

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10. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(a) At the reporting date, the leased assets of the Group are as follows:

Comparative information under *MFRS 117 Leases*

The property, plant and equipment of the Group acquired under finance lease arrangements are as follows:

	Group 2018 RM'000
Net book value	
Motor vehicles	2,171
Office equipment, furniture, fittings, computer and telecommunication equipment	60
	2,231

(b) In the previous financial year, the leasehold land of the Group had a remaining lease period of more than 50 years.

(c) In the previous financial year, the leasehold land and building of the Group were pledged for borrowings of the Group as disclosed in Note 24.

11. RIGHT-OF-USE ASSETS

	Leasehold land RM'000	Leasehold building RM'000	Lease of buildings RM'000	Motor vehicles RM'000	Total RM'000
Cost					
At 1 January 2019 (previously stated)	–	–	–	–	–
Effect of adoption MFRS 16 (Note 2(a)(i))	118	500	4,246	2,554	7,418
At 1 January 2019 (restated)	118	500	4,246	2,554	7,418
Addition	-	-	734	-	734
At 31 December 2019	118	500	4,980	2,554	8,152
Accumulated depreciation					
At 1 January 2019 (previously stated)	–	–	–	–	–
Effect of adoption MFRS 16 (Note 2(a)(i))	5	190	–	444	639
At 1 January 2019 (restated)	5	190	–	444	639
Charge for the financial year	2	10	1,028	386	1,426
At 31 December 2019	7	200	1,028	830	2,065
Net book value					
At 31 December 2019	111	300	3,952	1,724	6,087

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11. RIGHT-OF-USE ASSETS (CONT'D)

The Group leases various office buildings that run between 2 years and 5 years, with an option to review the lease after the expiring date.

(d) The expenses charged to profit and loss as per below:

	2019 RM
Depreciation of right-of-use assets	1,426
Interest expense on lease liabilities	286
Expenses relating to short-term leases	400

(e) The leasehold land of the Group has a remaining lease period of more than 50 years.

12. INTANGIBLE ASSETS

	Trademark RM'000	Development costs RM'000	Goodwill RM'000	Total RM'000
Group				
2019				
Cost				
At 1 January	26	2,609	3,381	6,016
Addition	–	1,135	–	1,135
At 31 December	26	3,744	3,381	7,151
Accumulated amortisation				
At 1 January	–	399	–	399
Charge for the financial year	–	178	–	178
At 31 December	–	577	–	577
Carrying value	26	3,167	3,381	6,574
2018				
Cost				
At 1 January	26	1,422	3,381	4,829
Addition	–	1,187	–	1,187
At 31 December	26	2,609	3,381	6,016
Accumulated amortisation				
At 1 January	–	263	–	263
Charge for the financial year	–	136	–	136
At 31 December	–	399	–	399
Carrying value	26	2,210	3,381	5,617

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12. INTANGIBLE ASSETS (CONT'D)

Additions for the year include the following:

	2019 RM'000	2018 RM'000
Capitalised from profit or loss:		
Employee benefits expenses	1,135	1,187

Goodwill

The goodwill arose from the Group's acquisition of a subsidiary, QES (Hong Kong) Limited, and has been wholly allocated to this cash generating unit.

Impairment testing of goodwill

(a) Key assumptions used

The recoverable amount of the CGU has been determined based on value-in-use ("VIU") method using discounted cash flow projections from financial budgets approved by the management covering a four-years period.

The following describes each key assumption on which the management has based its cash flow projections to undertake impairment testing of goodwill.

(i) Budgeted gross margin

The basis used to determine the value assigned to the budgeted gross margin is the average rate achieved in the year immediately before the budgeted year, adjusted for expected efficiency improvements.

(ii) Pre-tax discount rate

The discount rates used are pre-tax of 11.2% (2018: 9%) per annum applied to cash flows was in determined the recoverable amount of the CGU. The discount rated used is based on the weighted average cost of capital the Company.

(iii) Forecasted revenue

Revenue growth assumptions of 2% (2018: 3%) for each of the projection years was based on the approved business plan and reflect the expectation of revenue to be generated and current assessment of market condition.

(b) Sensitivity to changes in assumptions

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount of goodwill is based on would not cause the carrying amount to exceed its recoverable amount.

13. INVESTMENT IN SUBSIDIARIES

	Company	
	2019 RM'000	2018 RM'000
Unquoted shares, at cost		
At 1 January/31 December	46,358	46,358

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13. INVESTMENT IN SUBSIDIARIES (CONT'D)

The details of the subsidiaries are as follows:

Name of companies	Country of Incorporation	Percentage equity held 2019	2018	Principal activities
Held by the Company				
QES (Asia-Pacific) Sdn. Bhd. ("QAP")	Malaysia	100%	100%	Investment holding, marketing and servicing of scientific instruments
QS Instruments Sdn. Bhd. ("QSI")	Malaysia	100%	100%	Marketing and servicing of scientific instruments
QES Intra Pacific Sdn. Bhd. ("QIP")	Malaysia	100%	100%	Trading and servicing of industrial parts and equipment
QES Manufacturing Sdn. Bhd. ("QMG)	Malaysia	100%	100%	Manufacturing, trading and servicing of industrial parts and equipment
Subsidiaries of QAP:				
QAM (Asia-Pacific) Sdn. Bhd. ("QAM")	Malaysia	82.5%	82.5%	Marketing and servicing of scientific instruments and industrial materials
QES (Kuala Lumpur) Sdn. Bhd. ("QKL")	Malaysia	–	100%	Marketing and servicing of scientific instruments
QES (Penang) Sdn. Bhd. ("QPG")	Malaysia	–	100%	Marketing and servicing of scientific instruments
QES (Sarawak) Sdn. Bhd. ("QSR")	Malaysia	–	100%	Marketing and servicing of scientific instruments
VMX Technology Sdn. Bhd. ("VMX")	Malaysia	–	100%	Trading and servicing of industrial parts and equipment
P.T. QES Indonesia ("QID") #	Indonesia	55%	55%	Marketing and servicing of scientific instruments
QES (Hong Kong) Limited ("QHK") #	Hong Kong	100%	100%	Marketing and servicing of scientific instruments
QES (Vietnam) Co. Ltd. ("QVN") #	Vietnam	100%	100%	Marketing and servicing of scientific instruments
QES (Thailand) Co., Ltd. ("QBK") #	Thailand	100%	100%	Marketing and servicing of scientific instruments
QES (Singapore) Pte. Ltd. ("QSG") #	Singapore	70%	70%	Marketing and servicing of scientific instruments
QES Technology Philippines, Inc. ("QTP") #	Philippines	87.74%	40%*	Wholesale, technical testing and analysis of machinery, equipment and supplies

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13. INVESTMENT IN SUBSIDIARIES (CONT'D)

The details of the subsidiaries are as follows (Cont'd):

Name of companies	Country of Incorporation	Percentage equity held 2019	2018	Principal activities
Subsidiaries of QMG:				
Creden Engineering Sdn. Bhd. ("CRE")	Malaysia	–	100%	Manufacturing, trading and servicing of industrial parts and equipment
QES Mechatronic Sdn. Bhd. ("QMC")	Malaysia	100%	100%	Manufacturing and trading of industrial equipment and systems
QES Vision Solutions Sdn. Bhd. ("QVS")	Malaysia	70%	70%	Providing vision software solution for automated equipment

\# *The financial statements of these subsidiaries were audited by auditors other than the auditors of the Company.*

* *In previous year, the Group considered QTP as their subsidiary due to its power on the existing rights that give it the current ability to direct the relevant activities that significantly affect the investee's returns. The Group will also have exposure or rights to the variable returns from its involvement in the investee and have power to affect the amount of its returns.*

(a) Additional investments/incorporation of subsidiaries

2019

QTP

On 5 December 2019, a wholly-owned subsidiary of the Company, QAP had subscribed for an additional 880,000 new ordinary shares in QTP for a consideration of RM702,260 by way of cash. Consequent to the subscription, the effective interest in QTP increased from 40% to 87.74%.

2018

QVS

QMG had on 4 April 2018 incorporated a subsidiary known as QVS. QMG had initially subscribed for 70% of the issued share capital of QVS comprising 70 shares for a total consideration of RM70. Subsequently, the investment was increased to 350,000 ordinary shares by the subscription of an additional 349,930 ordinary shares for a total cash consideration of RM349,930.

(b) Strike-off of subsidiaries

During the year, QKL, QPG, QSR, VMX and CRE had been struck-off. The results of de-recognition of these subsidiaries is insignificant.

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13. INVESTMENT IN SUBSIDIARIES (CONT'D)

(f) The subsidiaries of the Group that have material non-controlling interests ("NCI") are as follows:

	QAM	QID	QTP	QVS	QSG	QBK*	Other adjustments	Total RM'000
2019								
NCI percentage of ownership interest and voting interest	17.50%	45.00%	12.26%	30.00%	30.00%	0.00%		
Carrying amount of NCI (RM'000)	372	968	247	(152)	(40)	80	(59)	1,415
Dividends paid to NCI	(53)	(196)	–	–	–	–	–	(249)
Additional subscription by NCI	–	–	(639)	–	–	–	–	(639)
Other comprehensive income	–	22	2	–	–	–	–	23
Profit/(Loss) allocated to NCI (RM'000)	175	236	(33)	(158)	(103)	–	30	147
2018								
NCI percentage of ownership interest and voting interest	17.50%	45.00%	60.00%	30.00%	30.00%	0.00%		
Carrying amount of NCI (RM'000)	250	906	917	6	63	80	(89)	2,133
Dividends paid to NCI	–	(257)	–	–	–	(47)	–	(304)
Additional subscription by NCI	–	–	–	150	–	–	–	150
Other comprehensive income	–	(44)	(4)	–	4	–	–	(44)
Profit/(Loss) allocated to NCI (RM'000)	146	150	481	(144)	105	–	3	741

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13. INVESTMENT IN SUBSIDIARIES (CONT'D)

(f) The subsidiaries of the Group that have material non-controlling interests ("NCI") are as follows: (Cont'd)

* In the financial year ending 2018, a foreign subsidiary of the Company, QBK distributed total dividend of RM47,171 to the preference shareholder of QBK. According to the QBK's article of association, the holder of preference shares shall have a priority right to receive dividends before ordinary shareholder in any year, when dividends are declared by the Company, QBK at the rate not over 38% of the paid-up value of each share and shall have no further right to receive any other dividends or other profits left over after deducting the dividends amount entitled by the preference shareholder.

(g) The summarised financial information before intra-group elimination of the subsidiaries that have material NCI as at the end of each reporting year are as follows: -

	QAM RM'000	QID RM'000	QTP RM'000	QVS RM'000	QSG RM'000
2019					
Assets and liabilities					
Non-current assets	291	584	461	1,361	494
Current assets	5,454	4,142	3,369	489	5,704
Non-current liabilities	(193)	(712)	(102)	(14)	(248)
Current liabilities	(3,422)	(1,991)	(1,679)	(2,339)	(6,083)
Net assets/(liabilities)	2,130	2,023	2,049	(503)	(133)
Results					
Revenue	8,931	9,525	6,774	523	21,148
Profit/(loss) for the year	999	397	(238)	(525)	(342)
Total comprehensive income	999	445	(224)	(525)	(342)
Cash flows from/(used in):					
Operating activities	1,079	(1,779)	(481)	(753)	470
Investing activities	(7)	101	(85)	(597)	(9)
Financing activities	(345)	(437)	746	1,294	(124)
Foreign currency translation differences	–	69	40	–	(97)
	727	(2,046)	220	(56)	240

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

13. INVESTMENT IN SUBSIDIARIES (CONT'D)

(g) The summarised financial information before intra-group elimination of the subsidiaries that have material NCI as at the end of each reporting year are as follows: (Cont'd)

	QAM RM'000	QID RM'000	QTP RM'000	QVS RM'000	QSG RM'000
2018					
Assets and liabilities					
Non-current assets	337	653	390	723	77
Current assets	4,060	5,220	2,962	276	10,605
Non-current liabilities	(226)	(557)	(55)	–	(13)
Current liabilities	(2,740)	(3,302)	(1,769)	(978)	(10,459)
Net assets	1,431	2,014	1,528	21	210
Results					
Revenue	7,601	13,399	6,492	161	23,863
Profit/(loss) for the year	836	334	802	(479)	350
Total comprehensive income	836	237	793	(479)	364
Cash flows from/(used in):					
Operating activities	513	488	160	(463)	(331)
Investing activities	(23)	(292)	(188)	(741)	–
Financing activities	(72)	(526)	(1)	1,362	18
Foreign currency translation differences	–	(97)	(10)	–	9
	418	(427)	(39)	158	(304)

14. OTHER INVESTMENTS

	Group 2019 RM'000	2018 RM'000
Golf membership in Malaysia		
At cost		
At 1 January/31 December	60	60

Notes to the Financial Statements
As at 31 December 2019

(Cont'd)

15. DEFERRED TAX ASSETS/(LIABILITIES)

	Group 2019 RM'000	Group 2018 RM'000
At 1 January	204	(230)
Recognised in profit or loss (Note 8)	1,140	433
Exchange difference	38	1
At 31 December	1,382	204

Presented after appropriate offsetting:

	Group 2019 RM'000	Group 2018 RM'000
Deferred tax assets	1,686	476
Deferred tax liabilities	(304)	(272)
	1,382	204

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

	Group 2019 RM'000	Group 2018 RM'000
Deferred tax assets		
Provisions*	637	476
Unabsorbed capital allowances	41	–
Unutilised pionner losses	10	–
Unutilised tax losses	647	–
Contract liabilities	351	–
	1,686	476
Deferred tax liabilities		
Difference between carrying amounts of plant and equipment and their tax base	(293)	(272)
Net right-of-use assets	(11)	–
	(304)	(272)
	1,382	204

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

15. DEFERRED TAX ASSETS/(LIABILITIES) (CONT'D)

* Provisions made up of allowance for inventories written down and loss allowance on trade receivables.

The estimated amounts of temporary differences for which no deferred tax assets have been recognised in the statements of financial position are as follows (stated at gross):

	Group	
	2019 RM'000	2018 RM'000
Unutilised tax losses	967	326
Unabsorbed capital allowances	39	13
Other deductible timing differences	58	47
	1,064	386

The comparative figures have been restated to reflect the actual carry forward tax losses and capital allowances of the Group.

16. INVENTORIES

	Group	
	2019 RM'000	2018 RM'000
At cost:		
Raw material	1,658	661
Work in progress	3,889	3,938
Finished goods	14,233	10,443
	19,780	15,042
At net realisable value:		
Finished goods	398	737
	20,178	15,779
Recognised in profit or loss:		
Inventories recognised as cost of sales	96,284	116,477

During the financial year:

(a) The Group has written down inventories of Nil (2018: RM393,000) which was recognised an expense under other operating expen.

(b) The Group has written back inventories of RM115,000 (2018: Nil) which was recognised as other income due to sales during the year.

(c) The Group has written off inventories of RM997,000 (2018: Nil) which was recognised as an expense under other operating expentem due to stocks obsolescence.

Notes to the Financial Statements
As at 31 December 2019

(Cont'd)

17. TRADE RECEIVABLES

	Group 2019 RM'000	Group 2018 RM'000
Trade receivables	31,789	47,589
Less : Loss allowance	(237)	(442)
	31,552	47,147

Included in trade receivables of the Group is retention sum amounting to RM2,655,972 (2018: Nil). The Group's normal trade credit terms range from 30 - 120 days (2018: 30 - 120 days). Other credit terms are assessed and approved on a case-by-case basis.

18. OTHER RECEIVABLES

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Other receivables	1,113	963	–	–
Advances to suppliers	928	–	–	–
Deposits	511	558	–	–
Prepayments	907	986	17	23
	3,459	2,507	17	23

19. SHORT TERM INVESTMENTS

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Investments in cash management funds in Malaysia at fair value through profit or loss	18,202	27,198	9,877	11,875

Investments in unit trust funds represent investments in highly liquid money market instrument and deposits with a financial institution in Malaysia. The distribution income from these funds is tax exempted.

The Group and the Company classified these short-term funds as cash and cash equivalents, as the redemption period is 1 day (2018: 1 day) and are subject to an insignificant risk of changes in value.

20. FIXED DEPOSITS WITH FINANCIAL INSTITUTIONS

Fixed deposits with financial institutions have effective interest rates which range from 1% to 4.00% (2018: 1% to 4.25%) per annum with an average maturity period ranging from 30 to 365 days (2018: 30 to 365 days). The carrying amount of the fixed deposits with financial institutions amounted to RM18,244,000 (2018: RM17,783,000) pledged to secure bank borrowings as disclosed in Note 24.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

21. SHARE CAPITAL

	Group/Company			
	Number of ordinary shares		Amount	
	2019 Unit'000	2018 Unit'000	2019 RM'000	2018 RM'000
Issued and fully paid:				
At 1 January	758,308	606,647	61,180	32,592
Issuance of new shares	–	151,661	–	28,588
At 31 December	758,308	758,308	61,180	61,180

The holders of ordinary shares are entitled to receive dividends as declared from time to time and is entitled to one vote per share at meetings of the Company. All shares rank equally with regards to the Company's residual assets.

In previous financial year, the paid-up share capital of the Company was increased from RM32,592,100 to RM61,179,724 by way of an issuance of 151,661,000 new ordinary shares.

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

22. RESERVES

(i) Legal reserve

In accordance with Thai Civil and Commercial Code ("Thai Code") and the Articles of Association of QES (Thailand) Co., Ltd. ("QBK"), 5% of QBK's profit for all time of dividend payment is required to be transferred to a legal reserve. QBK may resolve to discontinue such transfers when the reserve reaches 10% of its capital. The reserve is not normally available for distribution.

(ii) Translation reserve

The translation reserve is used to record foreign currency exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the of the Group's presentation currency. It is also used to record the exchange differences arising from monetary items, which form part of the Group's net investment in foreign operations, whereby the monetary item is denominated in either the functional currency of the reporting entity on foreign operation.

23. MERGER DEFICIT

The merger deficit arose from the difference between the carrying value of the investments and the nominal value of the shares of subsidiaries upon consolidation under the merger accounting principles.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

24. BORROWINGS

		Group	
		2019 RM'000	2018 RM'000
Secured			
Current liabilities			
Bank overdrafts		4,747	1,074
Bankers' acceptance		583	612
Trust receipts		5,324	10,886
Revolving loan		800	992
Finance lease liabilities	(a)	–	396
		11,454	13,960
Non current liability			
Finance lease liabilities	(a)	–	1,580
Total borrowings		11,454	15,540

(a) Finance lease liabilities

	Group 2018 RM'000
Minimum finance lease payments:	
Repayable within one year	477
Repayable between one and five years	1,587
Repayable above five years	153
	2,217
Less: Future finance charges	(241)
Present value of finance lease liabilities	1,976
Present value of finance lease liabilities :	
Repayable within one year	396
Repayable between one and five years	1,430
Repayable above five years	150
	1,976
Representing finance lease liabilities:	
Current	396
Non-current	1,580
	1,976

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

24. BORROWINGS (CONT'D)

(a) Finance lease liabilities (Cont'd)

The interest rates for borrowings per annum were as follows:

	Group	
	2019	2018
	%	%
Bank overdrafts	8.24 - 8.57	8.34 - 9.07
Bankers' acceptance	5.33 - 5.82	5.96 - 6.22
Trust receipts	1.04 - 8.32	1.06 - 4.41
Revolving loan	8.30	8.30
Finance lease liabilities	–	2.31 - 3.36

The Group's bank borrowings are secured as follows:

- Fixed deposits placed with licensed financial institutions of the Group as disclosed in Note 20;
- Joint and several guarantee by certain Directors of the Company;
- Fresh facility agreement of a subsidiary;
- Corporate guarantee and indemnity of a subsidiary; and
- Legal charge on leasehold land and buildings of the Group as disclosed in Note 10. During the year, the Group has discharged the pledge of the leasehold land and buildings.

25. LEASE LIABILITIES

	Group 2019 RM'000
Minimum lease payments:	
Repayable within one year	1,561
Repayable between one and five years	4,488
Repayable above five years	43
	6,092
Less: Future lease charges	(586)
Present value of lease liabilities	5,506
Present value of lease liabilities :	
Repayable within one year	1,331
Repayable between one and five years	4,132
Repayable above five years	43
	5,506
Representing lease liabilities:	
Current	1,331
Non-current	4,175
	5,506

The lease liabilities of the Group bear interest at rates ranging from 2.31% to 10.00% per annum.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

26. PROVISION FOR POST-EMPLOYMENT BENEFITS

	Group	
	2019 RM'000	2018 RM'000
At 1 January	621	502
Current service cost and interest (Note 6)	145	155
Payment	(24)	–
Actuarial loss/(gain) on remeasurement of defined benefit plan	47	(9)
Exchange differences	42	(27)
At 31 December	831	621

The principal actuarial assumptions used were as follows:

	Group	
	2019	2018
Discount rate	5.21% - 7.74%	7.53% - 8.65%
Annual salary rate increase	4.00% - 6.00%	4.00% - 7.00%

26. PROVISION FOR POST-EMPLOYMENT BENEFITS (CONT'D)

Sensitivity analysis

Reasonably possible changes at the reporting date to two of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts show below:

	Defined benefit obligation	
	Increase RM'000	Decrease RM'000
2019		
Discount rate (1% movement)	9	(9)
Annual salary rate increase (1% movement)	11	(11)
	20	(20)
2018		
Discount rate (1% movement)	11	(11)
Annual salary rate increase (1% movement)	9	(9)
	20	(20)

27. TRADE PAYABLES

The Group's and the Company's normal trade credit terms are within 30-120 days (2018: 30-120 days). Other credit terms are assessed and approved on a case-by-case basis.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

28. OTHER PAYABLES

	Group		Company	
	2019 RM'000	2018 RM'000 Restated	2019 RM'000	2018 RM'000
Other payables	2,296	1,785	187	10
Deposit	21	20	–	–
Accruals	6,851	9,557	156	133
	9,168	11,362	343	143

29. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

These amounts are non-trade in nature, unsecured, interest-free advances except for an amount RM2,304,400 (2018: Nil) which is subject to interest being charged at a rate of 3.46% (2018: Nil) per annum and all these amounts are repayable on demand.

The significant related party transactions are disclosed in Note 32.

30. CONTRACT LIABILITIES

	Group	
	2019 RM'000	2018 RM'000 Restated
Contract liabilities	2,020	1,811
Deposit received from customers	3,863	1,353
	5,883	3,164

The contract liabilities represent the amount received and/or receivable from maintenance services for the customers, which was sold on an annual service contract basis. Revenue arising from the maintenance services will be recognised in the profit and loss over the duration of the service contract, typically for a duration of one year.

The deposit received from customers represents the down payments received from customers, where the Group has billed or collected the payments before the goods are delivered or services are provided to the customers.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

31. DIVIDENDS

	Per ordinary share sen	Total amount RM'000	Date of payment
Attributable to Owner of the Company:			
2019			
Interim single tier dividend for the financial year ended 31 December 2019	0.40	3,033	24 May 2019
Attributable to non-controlling interests:			
2019			
Dividend for the financial year ended 31 December 2019		196	10 May 2019
Dividend for the financial year ended 31 December 2019		53	30 May 2019
		249	
Attributable to non-controlling interest:			
2018			
Dividend for the financial year ended 31 December 2018		257	5 July 2018
Dividend for the financial year ended 31 December 2018		47	1 August 2018
		304	

32. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Identity of related parties

For the purpose of this financial statements, parties are considered to be related to the Group and the Company if the Group and the Company have the ability to directly control the party or exercise significant influence over the party in making financial and operating decision, or vice versa, or where the Group and the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities. Related parties refer to companies in which certain directors of the Company have substantial financial interest and/or are also directors of the companies.

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(Cont'd)

32. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONT'D)

(b) The aggregate value of transactions of the Company were as follows:

	Type of transactions	Transaction value 2019 RM'000	2018 RM'000
Company			
With subsidiaries			
QES (Asia-Pacific) Sdn. Bhd.	Advances from	3,520	3,837
	Repayment to	3,520	(18,700)
QS Instruments Sdn. Bhd.	Advances from	279	2,961
	Repayment from	279	(2,961)
QES Intra Pacific Sdn. Bhd.	Advances from	–	562
	Repayment to	–	(562)
QES Vision Solutions Sdn. Bhd.	Loan interest income	8	–
	Advances to	(1,687)	(453)
QES Mechatronic Sdn. Bhd.	Loan interest income	2	–
	Advances to	(2,639)	(1,140)

Information regarding outstanding balances arising from related party transactions as at 31 December 2019 are disclosed in Note 29.

(c) Compensation of key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and of the Company either directly or indirectly. The key management personnel include all the Executive Directors and key management personnel of the Group.

	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Short-term employee benefits expense	3,964	4,216	164	144
Post employment benefits expense	707	629	-	-
	4,671	4,845	164	144

Notes to the Financial Statements
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(Cont'd)

33. COMMITMENTS

	Group 2019 RM'000	Group 2018 RM'000
Commitment not provided for in the financial statements is as follows:		
Capital expenditure commitment		
- authorised and contracted for	–	381
Lease commitment		
- not later than one year	–	1,197
- between one to two years	–	1,532
	–	2,729
Total	–	3,110

34. SEGMENT INFORMATION

(a) Reporting format

For management purposes, the Group is organised into business units based on their products and services, and has four reportable operating segments as follows:-

Investment holding	Investment in shares.
Distribution division:	
• Equipment	Marketing and servicing of scientific instruments.
• Materials & Engineering Solutions	Trading and servicing of industrial parts and equipment and scientific instruments.
Manufacturing division	Manufacturing, trading and servicing of industrial parts and equipment and providing vision software solution for automated equipment

Segment revenue and results

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment results represent profit or loss before finance costs and tax of the segment. Inter-segment transactions are entered in the ordinary course of business based on terms mutually agreed upon by the parties concerned.

Segment assets

Segment assets are measured based on all assets of the segment, excluding deferred tax assets and tax assets.

Segment liabilities

Segment liabilities are measured based on all liabilities of the segment, excluding deferred tax liabilities and tax liabilities.

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As at 31 December 2019
(Cont'd)

34. SEGMENT INFORMATION (CONT'D)

(b) Allocation basis and transfers

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, liabilities and expenses.

Segment revenue, expenses and results include transfers between business segments. These transfers are eliminated on consolidation. Segment revenue, expenses and results include transfers between business segments. These transfers are eliminated on consolidation.

Except as indicated above, no other operating segments has been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which, in certain respects as explained in the table below, is measured differently from operating profit or loss in the consolidated statement of comprehensive income. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

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(Cont'd)

34. SEGMENT INFORMATION (CONT'D)

		Investment holding RM'000	Equipment RM'000	Materials & Engineering Solutions RM'000	Manufacturing RM'000	Adjustments & Eliminations RM'000	Consolidated RM'000
2019							
External revenue		–	124,598	29,709	7,066	–	161,373
Inter segment revenue	(a)	–	44,536	498	–	(45,034)	–
Total revenue		–	169,134	30,207	7,066	(45,034)	161,373
Results							
Depreciation and amortisation		–	3,041	182	560	(22)	3,761
Other non-cash expenses	(b)	–	1	14	304	–	319
Segment profit/(loss) before tax	(c)	3,100	9,196	1,392	(4,322)	(3,766)	5,600
Assets							
Additions to non-current assets	(d)	–	11,129	95	1,396	–	12,620
Segment assets	(e)	62,321	111,025	18,300	28,668	(70,069)	150,245
Segment liabilities	(f)	346	50,961	9,662	17,178	(18,395)	59,752

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As at 31 December 2019
(Cont'd)

34. SEGMENT INFORMATION (CONT'D)

		Investment holding RM'000	Equipment RM'000	Materials & Engineering Solutions RM'000	Manufacturing RM'000	Adjustments & Eliminations RM'000	Consolidated RM'000
2018							
External revenue		–	127,690	30,017	35,392	–	193,099
Inter segment revenue	(a)	–	54,759	2,145	–	(56,904)	–
Total revenue		–	182,449	32,162	35,392	(56,904)	193,099
Results							
Depreciation and amortisation		–	1,756	132	416	(14)	2,290
Other non-cash expenses	(b)	–	(335)	–	52	–	(283)
Segment profit/(loss) before tax	(c)	4,135	12,312	1,747	6,241	(5,844)	18,591
Assets							
Additions to non-current assets	(d)	–	5,009	759	2,002	–	7,770
Segment assets	(e)	62,103	124,322	21,648	32,809	(87,417)	153,465
Segment liabilities	(f)	143	68,702	13,699	17,466	(36,466)	63,544

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

34. SEGMENT INFORMATION (CONT'D)

(a) Inter-segment revenues are eliminated on consolidation.

(b) Other material non-cash expenses/(income) consist of the following items as presented in the respective notes to the financial statements:

	2019 RM'000	2018 RM'000
Bad debts written off	2	–
(Gain)/Loss on unrealised foreign exchange	(187)	207
Loss allowance on trade receivables	–	147
Inventories written back	(115)	–
Inventories written down	–	393
Inventories written off	997	–
Property, plant and equipment written off	3	5
Provision for post-employment benefits	145	155
Reversal of loss allowance on trade receivables	(210)	–
Gain on disposal of property, plant and equipment	(316)	(1,190)
	319	(283)

(c) The following items are added to/(deducted from) segment profit to arrive at profit before tax presented in the consolidated statement of comprehensive income:

	2019 RM'000	2018 RM'000
Profit from inter-segment sales	245	231
Dividend	(3,787)	(5,631)
Other income	(1,864)	(3,096)
Unallocated corporate expenses	1,640	2,652
	(3,766)	(5,844)

(d) Additions to non-current assets consist of:

	2019 RM'000	2018 RM'000
Property, plant and equipment	3,972	6,583
Intangible assets	1,135	1,187
Right-of-use assets:		
- First time adoption of MFRS 16	6,779	–
- Addition during the year	734	–
	7,513	–
	12,620	7,770

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(Cont'd)

34. SEGMENT INFORMATION (CONT'D)

(e) Reconciliation of assets:

	2019 RM'000	2018 RM'000
Segment operating assets	146,531	152,340
Deferred tax assets	1,686	476
Tax recoverable	2,028	649
Total assets	150,245	153,465

The following items are deducted from segment assets to arrive at total assets reported in the consolidated statement of financial position:

(f) Reconciliation of liabilities:

	2019 RM'000	2018 RM'000
Segment operating liabilities	58,798	63,272
Deferred tax liabilities	304	272
Tax payable	650	–
Total liabilities	59,752	63,544

Geographical Information

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

	2019 RM'000	2018 RM'000
Malaysia	60,412	56,160
Singapore	22,894	27,953
Vietnam	22,523	22,869
Thailand	20,503	17,100
Philippines	13,757	32,141
Indonesia	12,539	15,522
China	3,490	6,761
Morocco	2,326	6,938
Others	1,451	1,553
Taiwan	742	4,624
Germany	736	1,478
	161,373	193,099

Major customers' information

The Group has five customers which contributes approximately RM32.1 million or 19.9% (2018: five customers, RM51.7 million or 26.7%) of the Group's revenue during the financial year.

34. SEGMENT INFORMATION (CONT'D)

The following is the analysis of non-current assets other than financial instruments and deferred tax assets analysed by the Group's geographical segment:

	Malaysia RM'000	Indonesia RM'000	Vietnam RM'000	Hong Kong RM'000	Thailand RM'000	Singapore RM'000	Philippines RM'000	Consolidated RM'000
2019								
Plant and equipment	8,176	406	166	7	861	60	295	9,971
Right-of-use assets	5,344	–	284	–	25	434	–	6,087
Intangible assets	3,193	–	–	3,381	–	–	–	6,574
Other investments	60	–	–	–	–	–	–	60
	16,773	406	450	3,388	886	494	295	22,692
2018								
Property, plant and equipment	9,104	513	209	3	899	77	271	11,076
Intangible assets	2,236	–	–	3,381	–	–	–	5,617
Other investments	60	–	–	–	–	–	–	60
	11,400	513	209	3,384	899	77	271	16,753

Notes to the Financial Statements
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35. FINANCIAL INSTRUMENTS

Categories of financial instruments

The Group's and the Company's financial assets and financial liabilities are all categorised as amortised costs except for short-term investments are categorised as fair value through profit or loss.

Financial risks management objectives and policies

The Group's and the Company's activities are exposed to a variety of financial risks which include credit risk, liquidity risk and foreign currency risk. The Group's and the Company's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's and the Company's financial performance.

Risk management is integral to the whole business of the Group and of the Company. Management continually monitors the Group's and the Company's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and the Group's and the Company's activities.

There have been no changes to the Group's and the Company's exposure to these financial risks or the manner in which it manages and measures the risk.

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from their receivables (which consist of trade receivables and other receivables). For other financial assets (including cash and bank balances, deposits placed with licensed banks and short-term fund), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's and the Company's objective are to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group and the Company trade only with recognised and creditworthy third parties. It is the Group's and the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's and the Company's exposure to bad debts is not significant. For transactions that do not occur in the country of the relevant operating units, the Group and the Company do not offer credit terms without the approval of the executive Directors.

Trade receivables

Exposure to credit risk, credit quality and collateral

As the Group does not hold any collateral, the maximum exposure to credit risk is represented by the carrying amount of the financial assets as at the end of the reporting period.

Concentration of credit risk

The Group determines concentration of credit risk by monitoring the profiles of its receivables on an ongoing basis.

At the end of the reporting period, there are 6 customers with balances amounting to 26% (2018: 6 customers amounting to 42%) of the Group's gross trade receivables.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

35. FINANCIAL INSTRUMENTS (CONT'D)

Credit risk (Cont'd)

Recognition and measurement of impairment loss

The Group and the Company apply the MFRS 9 simplified approach to measure Expected Credit Losses ("ECL") which uses a lifetime expected loss allowance for trade receivables.

The Group and the Company assess impairment of trade receivables on individual and collective basis. In previous financial year, the Group and the Company assessed impairment on individual and collective basis.

For individual assessment, it is due to the number of debtors is minimal and these debtors can be individually managed by the Group in an effective and efficient manner. The Group has reasonable and supportable information available to assess the impairment individually. All these customers have low risk of default.

For collective assessment, the Group and the Company used an allowance matrix to measure ECL of collective assessed receivables as they are grouped based on shared credit risk characteristics, the days past due and similar types of contracts which have similar risk characteristics.

Loss rates under collective assessment are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to 180 days past due. Loss rates are based on actual credit loss experienced over the past years. The Group and Company also consider differences between (a) economic conditions during the period over which the historic data has been collected, (b) current conditions and (c) the Group's and Company's view of economic conditions over the expected lives of the receivables.

Consistent with the debt recovery process, the Group and the Company have set an observation period of 180 days from the date of invoices, balances which are past due after the observation period will be considered as credit impaired.

	Gross amount RM'000	Loss allowance RM'000	Carrying value RM'000
Group			
2019			
Not past due	25,472	(23)	25,449
Past due:			
1 to 30 days	3,593	(17)	3,576
31 to 60 days	750	(8)	742
61 to 90 days	348	(10)	338
More than 90 days	1,125	(14)	1,111
	5,816	(49)	5,767
Credit impaired			
Exceeding observation period	501	(165)	336
	31,789	(237)	31,552

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

35. FINANCIAL INSTRUMENTS (CONT'D)

Recognition and measurement of impairment loss (Cont'd)

	Gross amount RM'000	Loss allowance RM'000	Carrying value RM'000
Group			
2018			
Not past due	31,067	(23)	31,044
Past due:			
1 to 30 days	7,440	(17)	7,423
31 to 60 days	2,103	(28)	2,075
61 to 90 days	537	(10)	527
More than 90 days	5,994	(201)	5,793
	16,074	(256)	15,818
Credit impaired			
Exceeding observation period	448	(163)	285
	47,589	(442)	47,147

The movements in the loss allowance on trade receivables are shown below.

	2019 RM'000	2018 RM'000
Group		
At beginning of the financial year	442	297
Addition	–	147
Reversal	(210)	–
Written off	–	(2)
Exchange difference	5	–
At end of the financial year	237	442

Cash and cash equivalents

The cash and cash equivalents are held with banks and financial institutions. As at the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statements of financial position. These banks and financial institutions have low credit risks. Hence, a loss allowance is not necessary.

Other receivables and deposits

Expected credit loss of other receivable is determined individually after considering the financial strength of the other receivable. As at the end of the reporting period, the maximum exposure to credit risks is represented by their carrying amounts in the statement of financial position. The Group believes that generally no loss allowance is necessary in respect of other receivables and deposits that are neither past due nor impaired as these receivables and deposits are mainly arising from debtors that have good records of payment in the past.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

35. FINANCIAL INSTRUMENTS (CONT'D)

Financial guarantees

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured financial guarantees to banks in respect of banking facilities granted to certain subsidiaries. The Company monitors the ability of the subsidiaries to service their loans on an individual basis.

Exposure to credit risk, credit quality and collateral

The maximum exposure to credit risk amounts to RM11,454,000 (2018: RM2,900,000) representing the outstanding banking facilities of the subsidiaries as at the end of the reporting period.

The financial guarantees are provided as credit enhancements to the subsidiaries' secured loans.

Recognition and measurement of impairment loss

The Company assumes that there is a significant increase in credit risk when subsidiaries' financial position deteriorates significantly. The Company considers a financial guarantee to be credit impaired when:

- The subsidiary is unlikely to repay its credit obligation to the bank in full; or
- The subsidiary is continuously loss making and is have a deficit shareholders' fund.

The Company determines the probability of default of the guaranteed loans individually using internal information available.

These guarantees are subject to the impairment requirement under MFRS 9. The Company assessed that its subsidiaries have strong financial capacity to meet the contractual cash flows obligations in the near future and hence, does not expect significant credit losses arising from these guarantees.

Inter-company loans and advances

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured loans and advances to subsidiaries. The Company monitors the ability of the subsidiaries to repay the loans and advances on an individual basis.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position. Loans and advances provided are not secured by any collateral or supported by any other credit enhancements.

Recognition and measurement of impairment loss

Intercompany loans between entities within the Group are repayable on demand. For loans that are repayable on demand, expected credit losses are assessed based on the assumption that repayment of the loan is demanded at the reporting date.

Generally, the Company considers loans and advances to subsidiaries have low credit risk. The Company assumes that there is a significant increase in credit risk when a subsidiary's financial position deteriorates significantly. As the Company is able to determine the timing of payments of the subsidiaries' loans and advances when they are payable, the Company considers the loans and advances to be in default when the subsidiaries are not able to pay when demanded.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

35. FINANCIAL INSTRUMENTS (CONT'D)

Inter-company loans and advances (Cont'd)

Recognition and measurement of impairment loss (Cont'd)

The Company determines the probability of default for these loans and advances individually using internal information available.

As at the year end, there was impairment loss required in respect of amounts due from subsidiaries.

Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet their financial obligations as they fall due. The Group's and the Company's exposure to liquidity risk arises principally from its various payables and lease liabilities.

The Group and the Company practice prudent risk management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities.

The following table sets out the maturity profile of the financial liabilities as at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period):

Group	Carrying amount RM'000	Contractual cash flows RM'000	Within 1 year RM'000	1 - 5 years RM'000	More than 5 years RM'000
2019					
Trade payables	25,956	25,956	25,956	–	–
Other payables	9,168	9,168	9,168	–	–
Borrowings:					
- Bank overdrafts	4,747	5,149	5,149	–	–
- Bankers' acceptances	583	583	583	–	–
- Trust receipts	5,324	5,364	5,364	–	–
- Revolving loan	800	800	800	–	–
Lease liabilities	5,506	6,092	1,561	4,488	43
Contract liabilities	5,883	5,883	5,883	–	–
	57,967	58,995	54,464	4,488	43
2018 (restated)					
Trade payables	32,585	32,585	32,585	–	–
Other payables	11,362	11,362	11,362	–	–
Borrowings:					
- Bank overdrafts	1,074	1,167	1,167	–	–
- Bankers' acceptances	612	612	612	–	–
- Trust receipts	10,886	10,975	10,975	–	–
- Revolving loan	992	992	992	–	–
- Finance lease liabilities	1,976	2,217	477	1,587	153
Contract liabilities	3,164	3,164	3,164	–	–
	62,651	63,074	61,334	1,587	153

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

35. FINANCIAL INSTRUMENTS (CONT'D)

Company	Carrying amount RM'000	Contractual cash flows RM'000	Within 1 year RM'000	1 - 5 years RM'000	More than 5 years RM'000
2019					
Other payables	343	343	343	–	–
2018					
Other payables	143	143	143	–	–

Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has transactional currency exposures that are denominated in a currency other than respective functional currencies of Group entities, primarily Ringgit Malaysia ("RM"), United States Dollar ("USD"), Thai Baht ("THB"), Vietnam Dong ("VND"), Philippine Peso ("Peso"), Indonesia Rupiah ("IDR") and Singapore Dollar ("SGD"). The foreign currencies in which these transactions are denominated are mainly USD, Euro Dollar ("EUR"), Japanese Yen ("YEN"), Hong Kong Dollar ("HKD") and Great Britain Pound ("GBP").

The Group does not have any formal hedging policy for its foreign exchange exposure and did not actively engage in activities to hedge its foreign currency exposures during the financial year. The Group seeks to manage the foreign currency risk by constructing natural hedges where it matches revenue and expenses in any single currency.

The Group is also exposed to currency translation risk arising from its net investments in foreign operations. The Group's net investment in Philippine, Thailand, Singapore, Vietnam, Hong Kong and Indonesia are not hedged as currency position in Peso, THB, SGD, USD, VND and IDR are considered to be long-term in nature.

The Group's exposure to foreign currency (a currency which is other than functional currency of the Group entities) risk, based on carrying amounts as at end of the reporting period was:

	USD RM'000	EUR RM'000	YEN RM'000	GBP RM'000	Total RM'000
Group					
2019					
Financial assets					
Trade receivables	15,072	537	765	–	16,374
Cash and bank balances	7,075	2,413	6,449	–	15,937
	22,147	2,950	7,214	–	32,311
Financial liabilities					
Trade payables	(12,757)	(2,308)	(6,985)	(1,056)	(23,106)
Other payables	(81)	–	–	–	(81)
	(12,838)	(2,308)	(6,985)	(1,056)	(23,187)
Net exposure	9,309	642	229	(1,056)	9,124

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

35. FINANCIAL INSTRUMENTS (CONT'D)

Foreign exchange risk (Cont'd)

The Group's exposure to foreign currency (a currency which is other than functional currency of the Group entities) risk, based on carrying amounts as at end of the reporting period was: (Cont'd)

	USD RM'000	EUR RM'000	YEN RM'000	GBP RM'000	Total RM'000
Group					
2018					
Financial assets					
Trade receivables	27,282	5,191	2,576	–	35,049
Other receivables	4	–	–	–	4
Cash and bank balances	9,843	480	3,964	–	14,287
	37,129	5,671	6,540	–	49,340
Financial liabilities					
Trade payables	(16,391)	(3,723)	(9,167)	(996)	(30,277)
Other payables	(89)	–	–	–	(89)
	(16,480)	(3,723)	(9,167)	(996)	(30,366)
Net exposure	20,649	1,948	(2,627)	(996)	18,974

Foreign currency risk sensitivity analysis

The sensitivities of the Group's profit after tax and equity to the possible change in the following foreign currencies against the respective functional currencies of the Group entities are shown below. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

A 10% strengthening of the foreign currencies of the Group entities against the functional currency at the end of the reporting period would have increased/(decreased) profit after tax and equity by the amounts shown below:

	2019		2018	
	Profit after tax RM'000	Equity RM'000	Profit after tax RM'000	Equity RM'000
Group				
Foreign currencies/Functional currency				
USD/RM	707	707	1,569	1,569
EUR/RM	49	49	148	148
YEN/RM	17	17	(200)	(200)
GBP/RM	(80)	(80)	(76)	(76)

A 10% weakening of the foreign currencies of the Group entities against the functional currency at the end of the reporting period would have equal but opposite effect on profit after tax and equity.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

35. FINANCIAL INSTRUMENTS (CONT'D)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk arises mainly from interest-bearing financial assets and liabilities. The Group's policies are to obtain the most favourable interest rates available. Any surplus funds of the Group and of the Company will be placed with licensed financial institutions to generate interest income.

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates its effective interest rates at the reporting date and the periods in which they reprice or mature, whichever is earlier:

Exposure in interest rate risk

The interest rate profile of the Group's and the Company significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Floating rate instruments				
Financial assets				
Fixed deposits with financial institutions	18,244	20,018	–	2,235
Short-term investments	18,202	27,198	9,877	11,875
	36,446	47,216	9,877	14,110
Financial liabilities				
Borrowings				
- Bank overdrafts	(4,747)	(1,074)	–	–
- Bankers' acceptances	(583)	(612)	–	–
- Trust receipts	(5,324)	(10,886)	–	–
- Revolving loan	(800)	(992)	–	–
	(11,454)	(13,564)	–	–
Net exposure	24,992	33,652	9,877	14,110

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates as the reporting period would not affect profit or loss.

35. FINANCIAL INSTRUMENTS (CONT'D)

Interest rate risk (Cont'd)

Interest rate risk sensitivity analysis (Cont'd)

Cash flow analysis for variable rate instruments

A change of 10 basis points ("bp") in interest rates at the end of the reporting period would have increased/(decrease) equity and profit after tax by amount shown below.

The following table details the sensitivity analysis to a reasonably possible change in the interest rates as at the end of the reporting period, with all other variables held constant:

	Group		Company	
	2019 Increase/ (Decrease) RM'000	2018 Increase/ (Decrease) RM'000	2019 Increase/ (Decrease) RM'000	2018 Increase/ (Decrease) RM'000
Effect on profit after tax				
Increase of 10 basis points	19	26	8	11
Decrease of 10 basis points	(19)	(26)	(8)	(11)
Effect on equity				
Increase of 10 basis points	19	26	8	11
Decrease of 10 basis points	(19)	(26)	(8)	(11)

36. FAIR VALUES

The aggregate fair values and the carrying amounts of other financial assets and liabilities carried on the statements of financial position as at 31 December are as below:

Financial instrument other than those carried at fair value

Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of short term receivables and payable, cash and cash equivalents and short term borrowings approximate their fair value due to the relatively short term nature of these financial instruments and insignificant impact of discounting.

Table below analyses assets and liabilities carried at fair value and those not carried at fair value for which fair value is disclosed together with the carrying amounts shown in the statements of financial position.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

36. FAIR VALUES (CONT'D)

	Financial assets and liabilities carried at fair value				Financial assets and liabilities not carried at fair value			
	2019		2018		2019		2018	
	Carrying amount RM'000	Fair value Level 2 RM'000	Carrying amount RM'000	Fair value Level 2 RM'000	Carrying amount RM'000	Fair value Level 3 RM'000	Carrying amount RM'000	Fair value Level 3 RM'000
Group								
Financial assets								
Short term investments	18,202	18,202	27,198	27,198	–	–	–	–
Financial liability								
Borrowings								
- Finance lease liabilities	–	–	–	–	–	–	1,580	1,525
Company								
Financial asset								
Short term investments	9,877	9,877	11,875	11,875	–	–	–	–

Level 2:

The fair values of other investments are valued using the net asset value of the investment funds.

Level 3:

The fair value of finance liabilities is determined by discounting the relevant cash flows using interest rates for similar instruments at the end of the reporting period. As permitted by MFRS 9, the disclosure of fair value for lease liabilities are not required. In the previous financial year, the interest rate used to discount the estimated cash flows for finance lease liabilities was 2.92% to 3.31%.

There was no material transfer between Level 1, Level 2 and Level 3 during the financial year.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

37. CAPITAL MANAGEMENT

The Group manages their capital to ensure the Group will maintain an optimal capital structure so as to support the businesses and maximise shareholder value. To achieve this objective, the Group may make adjustments to the capital structure in view of changes in economic conditions, such as adjusting the amount of dividend payment, returning of capital to shareholders or issuing new shares.

The Group are in compliance with all externally imposed capital requirements.

The Group and the Company monitor capital using net debt-to-equity ratio which is the net debt divided by total capital. Net debt includes borrowings and lease liabilities less cash and cash equivalents balances whilst total capital is defined as equity attributable to Owners of the Company.

The net debt-to-equity ratios at end of the reporting period are as follows:

	Group	
	2019 RM'000	**2018 RM'000**
Borrowings	11,454	15,540
Lease liabilities	5,506	–
Less: short-term investments	(18,202)	(27,198)
Less: fixed deposits with financial institutions	(18,244)	(20,018)
Less: cash and bank balances	(32,204)	(22,938)
Net debts	(51,690)	(54,614)
Total equity attributable to the Owners of the Company	89,078	87,788
Gearing ratio (times)	*	*

* Not meaningful to disclose negative gearing ratio.

38. SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

On 25 June 2019, the Company has obtained shareholders' approval via the Extraordinary General Meeting ("EGM") held to establish an employees' share option scheme ("ESOS") involving up to 15% of the total number of issued shares of the Company (excluding treasury shares, if any) for eligible Directors and employees of the Company and its subsidiaries. The ESOS involves the granting of ESOS options to the Executive Directors, Non-Executive Directors and employees of the Group who meet the criteria of eligibility and are employed by entities that are not dormant.

On 1 July 2019, the Company announced that the final copy of the by-laws of the ESOS has been submitted to Bursa Malaysia Securities Berhad on 1 July 2019. Accordingly, the effective date of implementation of the ESOS shall be 1 July 2019.

No ESOS options were granted during the financial year.

Notes to the Financial Statements
As at 31 December 2019
(Cont'd)

39. SUBSEQUENT EVENT AFTER THE FINANCIAL YEAR

The Group's expectations on the global economic growth may sink to all time low levels as the Covid-19 outbreak is foreseen to impact worldwide demand and supply, creates uncertainties and suspends business operations worldwide especially in the first half of 2020. Nevertheless, the Group is conservatively optimistic that should the outbreak of Covid-19 subdue, there should be a possible up-tick in the second half of 2020 especially with the foreseeable recovery of the semiconductor, electrical and electronics industries. The long-term future of the global economy will depend on how these challenges are addressed.

The Group considers the Covid-19 outbreak to be a non-adjusting event subsequent to the reporting date and does not result in any adjustments to the financial statements for the year end 31 December 2019. To date, due to the unresolved uncertainties at this current stage, any material estimate of the financial impact for the financial year ending 31 December 2020 is unable to be reliably determined.

40. COMPARATIVE FIGURES

Certain comparative figures of the Group for the financial year ended 31 December 2018 have been reclassified to conform with the current presentation.

	As previously reported RM'000	Reclassification RM'000	As restated RM'000
Statements of financial position			
Group			
Current liabilities			
Other payables	12,715	(1,353)	11,362
Deferred income	1,811	(1,811)	–
Contract liabilities	–	3,164	3,164

LIST OF PROPERTY

Particulars of the property	
Description / Address	3-storey intermediate unit shop office building situated on a piece of leasehold land held under HSD 14891, PT 2935, Mukim 11, District of Seberang Perai Tengah, Pulau Pinang, with a postal address of No 19, Tingkat Bukit Jambul, Bukit Jambul Indah, 11950 Penang
Owner	QES (Asia-Pacific) Sdn. Bhd.
Age of building (years)	21
Tenure / Expiry	Leasehold for 99 years Expiring on 10 April 2095
Existing Use	Utilised by QES (Asia-Pacific) Sdn. Bhd.'s Penang branch as office premises
Land Area	1,410.07 sq. ft.
Built Up Area	3,422.92 sq. ft.
Audited Net Book Value	RM410,625.00

ANALYSIS OF SHAREHOLDINGS

As at 4 May 2020

SHARE CAPITAL

Total Number of Issued shares : 758,308,000 ordinary shares
Class of shares : Ordinary shares
Voting rights : One vote per ordinary share

ANALYSIS BY SIZE OF SHAREHOLDINGS

Size of shareholdings	No. of shareholders	%	No. of shares held	%
Less than 100 shares	4	0.10	124	0.00
100 – 1,000 shares	461	11.27	242,976	0.03
1,001 – 10,000 shares	1,249	30.53	8,299,100	1.09
10,001 – 100,000 shares	1,959	47.89	78,761,600	10.39
100,001 to less than 5% of issued shares	415	10.14	233,744,500	30.82
5% and above of issued shares	3	0.07	437,259,700	57.66
Total	4,091	100.00	758,308,000	100.00

LIST OF THIRTY LARGEST SHAREHOLDERS

	Name	No. of shares held	%
1.	LIEW SOO KEANG	187,988,805	24.79
2.	CHEW NE WENG	147,270,895	19.42
3.	CHEW NE WENG	102,000,000	13.45
4.	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR HONG LEONG GROWTH FUND	17,000,000	2.24
5.	LIEW SOO KEANG	10,762,300	1.42
6.	TOKIO MARINE LIFE INSURANCE MALAYSIA BHD AS BENEFICIAL OWNER (TMEF)	10,500,000	1.38
7.	CHEW NE WENG	8,000,000	1.05
8.	TOKIO MARINE LIFE INSURANCE MALAYSIA BHD AS BENEFICIAL OWNER (PF)	7,000,000	0.92
9.	APRECINIA MATIAS PABLO	6,000,000	0.79
10.	KEOH BENG HUAT	5,884,500	0.78
11.	CGS-CIMB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHIANG FONG WEI (MY3410)	4,500,000	0.59
12.	CGS-CIMB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TEE JOE EE (MY3357)	4,439,400	0.59

Analysis of Shareholdings
As at 4 May 2020
(Cont'd)

LIST OF THIRTY LARGEST SHAREHOLDERS (CONT'D)

	Name	No. of shares held	%
13.	RHB NOMINEES (TEMPATAN) SDN BHD OSK CAPITAL SDN BHD FOR YAYASAN ISLAM TERENGGANU	4,000,000	0.53
14.	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD PEMBANGUNAN SUMBER MANUSIA BERHAD	3,950,000	0.52
15.	KHOO BOON TIONG	3,750,000	0.49
16.	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR HONG LEONG BALANCED FUND	2,500,000	0.33
17.	CHAN GIM HIN	2,186,000	0.29
18.	CHYE CHOON FONG	2,180,000	0.29
19.	LIM BOON LENG	2,000,000	0.26
20.	CHONG PAU LOONG	2,000,000	0.26
21.	CGS-CIMB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NG KOK WENG (MY2166)	2,000,000	0.26
22.	GLOBAL ASSET TRUSTEE (M) BERHAD RONFIELD LIMITED	2,000,000	0.26
23.	TEH SOON LEONG	1,818,000	0.24
24.	LAI LENG LEAN	1,768,000	0.23
25.	LIEW TAT YANG	1,748,300	0.23
26.	LIM HIAN HO	1,555,000	0.21
27.	LIM KANG BENG	1,500,000	0.20
28.	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR GAN YONG SIN (E-KLG/TSK)	1,500,000	0.20
29.	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHOONG HOOI HONG (E-KBU)	1,500,000	0.20
30.	CGS-CIMB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SAW HEEN CHOOI (SS2 PJ-CL)	1,230,000	0.16
	Total	550,531,200	72.58

Analysis of Shareholdings
As at 4 May 2020
(Cont'd)

SUBSTANTIAL SHAREHOLDERS (AS SHOWN IN THE REGISTER OF SUBSTANTIAL SHAREHOLDERS)

Name of substantial shareholders	No. of ordinary shares			
	Direct	%	Indirect	%
1) Chew Ne Weng	257,270,895	33.93	–	–
2) Liew Soo Keang	198,751,105	26.21	–	–

STATEMENT OF DIRECTORS' SHAREHOLDINGS

Directors' name	No. of ordinary shares			
	Direct	%	Indirect	%
1) Chew Ne Weng	257,270,895	33.93	–	–
2) Liew Soo Keang	198,751,105	26.21	–	–
3) Adnan bin Zainol	40,000	0.01	–	–
4) Chia Gek Liang	40,000	0.01	–	–
5) Hoh Chee Mun	90,000	0.01	–	–
6) Maznida binti Mokhtar	–	–	–	–

www.**qesnet**.com

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Company No. 201401042911 (1119086-U)
(Incorporated in Malaysia under the Companies Act, 1965)

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