



MSM INTERNATIONAL LIMITED
(Company Registration No.: 200918800R)



WORLD WITHOUT
BOUNDARIES

ANNUAL REPORT 2016

ANNUAL REPORT COVER RATIONALE

Just as there are territories yet undiscovered by the world's best explorers, MSM International sees unending opportunities in the uncharted waters we are sailing into. Over the years, we have successfully catapulted ourselves onto the world stage, known by others for our quality integrated metal solutions. With a team dedicated to excellence and innovation, MSM International has a newfound confidence to take on the world, as uncertain as it may be. Mindful that the first wall to demolish is that within our minds, we believe that there are no boundaries in the world that our solutions and services cannot cross.

2016 has been a testament to the success of our reinvention. We tightened our grip in our core competencies, derived new solutions for new markets and also expanded beyond our borders. We believe that, in 2017, with teamwork and collaboration, we will move closer to realising a **world without boundaries** – with limitless potential to be tapped.



This annual report has been prepared by the Company and reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "Sponsor"), for compliance with the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalyst. The Sponsor has not verified the contents of this annual report.

This annual report has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST assume no responsibility for the contents of this annual report including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this annual report.

The contact person for the Sponsor is Mr Lance Tan, Director, Continuing Sponsorship, at 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318, Telephone: (65) 6229 8088.

OUR BUSINESS

Established since 1980s, MSM International Limited (“MSM”) is an integrated metal engineering company, offering a comprehensive suite of services spanning design, product development, prototyping, tool & die fabrication, production and assembly.

Through its 190,000 sq ft of specialised production space in Malaysia and Indonesia, MSM provides solutions to customers in Asia, the USA and Europe across the oil & gas, semiconductor, healthcare, food & beverage and hospitality industries.

MSM’s business activities are segmented as follows:

- OEM contract manufacturing
- Kitchen appliances, equipment and related services
- Oil and gas
- Cleanroom and laboratories

The Group operates a total of six showroom outlets occupying some 29,000 sq ft of floor space in Malaysia, Indonesia and Singapore.

MSM was listed on the Singapore Exchange Catalist on 7 May 2010.

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LETTER TO SHAREHOLDERS



Dear Shareholders,

2016 has been an exciting year for us as we watched our diversification strategy bearing fruit. Despite strong economic headwinds, we are heartened to report encouraging results from some of our business segments. Your unwavering support and belief in us have been instrumental to our transformation and it is my pleasure to give you an update on what has been happening in FY2016.

FINANCIAL REVIEW

Revenue for the Group increased 12.8% to RM92.7 million for the financial year ended 31 December 2016 ("FY2016"), from RM82.2 million in the preceding financial year ("FY2015"). The increase was due to a higher contribution in the OEM contract manufacturing segment ("OEM Segment") and the Kitchen Segment. The Cleanroom & Laboratories Segment was stable while the Oil and Gas Segment recorded a decline in revenue.

Revenue from the OEM Segment grew 27.1% from RM25.8 million in FY2015 to RM32.8 million in FY2016. This was mainly due to an increase in demand and orders from manufacturers seeking greater automation in their processes. Similarly, revenue from the Kitchen Segment grew 13.3% to RM42.4 million, from RM37.4 million a year ago, on the back of improved export sales of our products to Southeast Asia and an increase in projects completed for food outlets and chain restaurants in FY2016.

On the other hand, revenue from the Oil & Gas Segment declined by 14.6% to RM8.8 million due to stagnant demand from our oil and gas customers. Meanwhile, with a stable demand for our laboratory consultation and installation services, the revenue of our Cleanroom & Laboratories Segment held steady at RM8.8 million.

In tandem with the rise in revenue, our cost of sales increased by 11.5% from RM60.6 million in FY2015 to RM67.6 million in FY2016. The gross profit margin of 27.2%, was comparable to the 26.3% achieved in FY2015.

Selling and distribution expenses declined 24.7% to RM5.5 million, from RM7.3 million in FY2015. This was largely due to the reduction in allowance for doubtful debts expense as about RM0.2 million of doubtful debts were recovered in FY2016.

Finance expenses rose 7.4% to RM2.9 million in FY2016, from RM2.7 million in FY2015. This was mainly due to a RM0.4 million increase in bank overdraft and bills payable interest payments, resulting from a higher utilisation of these facilities for payment to suppliers and working capital purposes. This was offset by a RM0.2 million decrease in hire purchase interest and term loan interest.

LETTER TO SHAREHOLDERS

(CONT'D)

On account of the above, we recorded a net profit attributable to shareholders of RM0.1 million in FY2016, versus a net loss of RM1.2 million in FY2015.

We closed FY2016 with net asset value per ordinary share of 47.44 Malaysian sen, versus 46.76 Malaysian sen at the end of FY2015.

REVIEW OF OPERATIONS

Our Kitchen Segment has posted yet another year of positive performance. In Malaysia, our kitchen design and consultation services have been widely utilised by various theme parks, restaurants, hypermarkets and food chains, with a healthy order book going into the current financial year. There is also growing demand for our commercial refrigeration system from regional markets such as Thailand, Vietnam, Myanmar, Indonesia and India.

Buoyed by positive reviews and publicity, the uptake for our mobile food trucks, Meal Box, has remained strong. Overall, our position as a one-stop provider, with mechanical and electrical solutions on top of fully customisable kitchens has given us a competitive edge that has been further strengthened over the past year.

We have also successfully reinvented the OEM Segment by keeping a keen ear to the needs of the market. Riding on the trend of manufacturers automating manufacturing processes to improve productivity, we developed a range of conveyor solutions and module machines to meet their needs. To date, this has grown to become one of the major income streams in the segment for us.

On this note of market responsiveness, we have also become one of the key suppliers of security-related equipment such as security barriers and electronic gates over the past year. This has been largely due to the convenience and expertise we bring to our customers as a one-stop solutions provider, with local manufacturing and high standards of

quality control, leading them to engage us for various major infrastructure projects, some of which have been completed the past year.

Meanwhile, the solid relationships we have developed over the years with our semiconductor clients have also yielded fruit and contributed to the segment's performance amidst challenging macroeconomic factors.

Our Cleanroom & Laboratories Segment continued to find a steady stream of clients from the medical centres and research laboratories. We remain one of the few contractors in Malaysia that is capable of installing facilities of all biosafety levels.

Inevitably, the downturn in the oil and gas industry throughout 2016 has weighed down on the performance of the Oil & Gas Segment, as demand for our oil filters slowed down for much of the year. The silver lining has been a robust partnership with our customers through which we saw a surge in orders in the last quarter of FY2016.

LOOKING AHEAD

With a more diversified portfolio of solutions and services, we maintain a cautiously optimistic outlook for the next twelve months amidst global economic and political uncertainties.

In our Kitchen Segment, we will seek out opportunities to provide kitchen solutions for the major commercial developments in Malaysia that are up and coming. Our strong partnerships forged with various food chains and hypermarkets also stand us in good stead by being their business partner of choice in their expansion plans for the coming months.

We also expect the uptake for our energy-saving commercial refrigeration systems to gain momentum in the regional markets, as we work hard at growing our export revenue through participation in trade shows and exhibitions.



LETTER TO SHAREHOLDERS

(CONT'D)



With a continual rise in inventory needs for online stores and increased demand for automation in various manufacturing sectors, coupled with possible large infrastructure projects in the horizon for Malaysia, such as the Mass Rapid Transit lines in Klang Valley, the future looks bright for our OEM Segment. On top of these, we will continue our legacy of innovation by being proactive in seeking out new applications for our engineering capabilities in our bid to diversify our clientele base.

We remain upbeat about performance of the Cleanroom & Laboratories Segment in the year ahead. The segment has built a healthy order book that should ensure a steady stream of projects for the next two years.

We remain cautious about the performance of our Oil and Gas Segment despite the recent rise in filter orders during the last quarter. With unpredictability in oil prices, despite mildly optimistic projections from industry analysts, we believe the best way forward is to continue to strengthen our existing partnerships, and maintain our commitment to provide innovative products and services for our customers.

APPRECIATION

Looking back at the past year, we could not have thrived without the support of our dynamic and enterprising team at MSM. In a time where fortitude is called for, each of them delivered when called upon. For that, I am deeply grateful.

I would like to thank my fellow Directors for steering the ship with me through these times of uncertainty, and making strategic decisions together with me.

Our appreciation is also extended to all our shareholders, customers, suppliers and business associates, whose unwavering support has kept us driven as we navigate through the challenges. We could not have done it without all of you.

Let us continue to sail towards new horizons together.

CHAN KEE SIENG
EXECUTIVE CHAIRMAN

BOARD OF DIRECTORS

**CHAN KEE SIENG**

Executive Chairman, Age 65

Mr Chan is one of the co-founders of the MSM Group and has over four decades of experience in the OEM contract manufacturing and kitchen equipment industries.

Throughout the years of his career, Mr Chan had garnered extensive industry knowledge and wide business contacts from working as an engineering technician to setting up family companies such as Ban Seng Trading Co. dealing in trading and supply of cooking oil and gas, and eventually Chan Brother Trading Co., a steel trading company, before setting up the flagship subsidiary of MSM Group.

He was appointed as Director of the Company on 30 October 2009 and was last re-elected on 22 April 2016. Mr Chan is presently responsible for charting the Group's business direction as well as corporate and strategic developments of the Group.

Mr Chan also holds directorships in Triumphant Hope Sdn. Bhd., and Widewin Strategy Sdn. Bhd.

Mr Chan has ceased to be the shareholder and director of Eminent Food Industries Sdn. Bhd. with effect from 21 March 2016.

Mr Chan is the father of the Executive Director and Chief Executive Officer, Mr Chan Wen Chau, and elder brother to the Executive Director, Mr Chan Kit Moi.

CHAN KIT MOI

Executive Director, Age 64

Mr Chan is one of the co-founders of the MSM Group and possesses over 40 years' experience in the OEM contract manufacturing and kitchen equipment industries. Prior to co-founding the Company, Mr Chan joined Ban Seng Trading Co. and Chan Brother Trading Co. as Director, where he was in-charge of strategic planning and controls, operations, inventory and administration. He was appointed as Director of the Company on 30 October 2009 and was last re-elected on 22 April 2016.

Mr Chan is presently involved in the corporate planning and business development of the Group. He holds directorships in Triumphant Hope Sdn. Bhd..

Mr Chan has ceased to be the shareholder and director of Eminent Food Industries Sdn. Bhd. with effect from 21 March 2016.

BOARD OF DIRECTORS

(CONT'D)

CHAN WEN CHAU

Executive Director & CEO, Age 42

Mr Chan has been spearheading the expansion and growth of the Group and is responsible for the overall business and strategic development, corporate planning, operations and management of the Group. He possesses over 10 years of extensive experience in the OEM contract manufacturing and kitchen equipment industries and has been closely involved in all levels of operation of the Group. Mr Chan was appointed as Director of the Company on 8 October 2009 and was last re-elected on 29 April 2014.

Mr Chan holds directorships in Triumphant Hope Sdn. Bhd. and Widewin Strategy Sdn. Bhd..

Mr Chan holds a Bachelor of Engineering (Mechanical Engineering) from the University of Portsmouth in the United Kingdom.

LEOW WEE KIA CLEMENT

Lead Independent Director, Age 42

Mr Leow, who is not related to any family member of the directors and staff, was appointed as Independent Director of the Company on 30 October 2009 and was last re-elected on 29 April 2014. Mr Leow possesses over 15 years of corporate finance experience primarily in initial public offerings, mergers & acquisitions as well as advisory transactions. He was appointed as Lead Independent Director on 8 August 2014.

Mr Leow is presently an Executive Director and Chief Executive Officer of Crowe Horwath Capital Pte. Ltd.. Prior to this, Mr Leow has held senior positions in corporate finance and banking in Singapore. He is currently an Independent Director of Overseas Education Limited and Ellipsiz Ltd, companies listed on the Mainboard of the Singapore Exchange. Mr Leow has also been appointed as a member of the Corporate Finance and Securities & Futures industry workgroup of the Institute of Banking and Finance Singapore, which provides guidance and sets the competency standards for the corporate finance industry in Singapore. He also serves as an Executive Committee member and Honorary Treasurer of the Singapore Tennis Association, which oversees the promotion and development of tennis in Singapore.

Mr Leow holds a Bachelor of Science in Applied Economics from Cornell University as well as a Master of Business Administration and a Postgraduate Diploma in Financial Strategy from the University of Oxford. Mr Leow is also a member of the Singapore Institute of Directors and has completed the Governance as Leadership Program at Harvard University. He has also been awarded the Singapore Armed Forces Good Service Medal in 2007.



BOARD OF DIRECTORS

(CONT'D)



BRIAN WONG WYE PONG
Independent Director, Age 43

Mr Wong, who is not related to any family member of the directors or staff, was appointed as Independent Director of the Company on 26 November 2009 and was last re-elected on 24 April 2015. He has more than 20 years of experience in assurance and audit, tax, risk management and corporate finance.

Mr Wong is currently a Council Member of the Malaysian Institute of Accountants (MIA) and Partner of PKF Malaysia, an accounting firm in Malaysia. He is a Fellow of the CPA Australia, a Chartered Accountant of the MIA, a Member of the Kampuchea Institute of Certified Public Accountants and Auditors, and a Certified Financial Planner of the Financial Planning Association of Malaysia.

Mr Wong is presently a director on the board of Privasia Technology Berhad, a corporation listed on the Bursa Malaysia Securities, Merchantrade Asia Sdn Bhd a private corporation in Malaysia, and Rapid Cloud International Plc, a public corporation incorporated in Jersey. He has also been appointed as a Director for Covenant Limited, a company incorporated in Cambodia as well as other Malaysian companies, including PKF Sdn Bhd, PKF Advisory Sdn Bhd, PKF Covenant Sdn Bhd and PKF Tax Services Sdn Bhd.

Mr Wong holds a Bachelor of Commerce from the University of Western Australia.

WONG KOK SEONG
Independent Director, Age 47

Mr Wong, who is not related to any family member of the directors and staff, was appointed as Independent Director of the Company on 24 November 2009 and was last re-elected on 24 April 2015. He has more than 27 years of experience in external and internal auditing, financial accounting, management consultancy, taxation, due diligence and project implementation.

Mr Wong is the Managing Partner of Hasnan THL Wong & Partners., an accounting firm in Malaysia. He is a Member of the Malaysian Institute of Accountants and a Fellow of the Association of Chartered Certified Accountants. He is currently serving on the board of Bursa Malaysia-listed corporations, Bio Osmo Berhad as Independent Director and Audit Committee Chairman and MNC Wireless Berhad as Independent Director and Chairman of the Board. He is also a Director of PNE PCB Berhad and Trive Properties Berhad, companies listed on Bursa Malaysia Securities, and a Director for T H Law Consultants Sdn. Bhd.

He holds a Master of Business Administration from the Open University, United Kingdom.

KEY MANAGEMENT

SOH YEOW SENG

CFO, Age 35

Mr Soh, who is not related to any director and staff, joined the Group in July 2011 as Group Finance Manager and was appointed as Group Financial Controller on 17 August 2011, then promoted to CFO on 17 May 2013. He is responsible for the management of the Group's financial accounts, cash flow, corporate finance, financial reporting, risk management evaluation, audit, tax compliance, human resource management and administration.

Possessing more than 10 years of professional experience specializing in accounting and audit services, Mr Soh has held various accounting and audit positions in the past. Prior to joining the Company, he has been involved in external audit and internal control assurance in public listed companies and small and medium enterprises in Singapore and abroad.

Mr Soh is a member of the Certified Public Accountant Australia. He holds a Bachelor's Degree in Accounting from Monash University in Melbourne Australia.

TANG CHENG HOOI

Vice President, Age 44

Mr Tang, who is not related to any director and staff, joined the Group in 1994 and appointed as Vice President of OEM Contract Manufacturing, oil and gas and cleanroom and laboratories segment on 8 March 2013. He possesses more than 15 years of experience in sheet metal engineering and the OEM contract manufacturing industry and is presently responsible for managing and overseeing the operational aspects of the Group's production facilities and the management of the companies.

Mr Tang holds an Engineering Diploma in Electronic Engineering from the Federal Institute of Technology, Malaysia, and a Certificate of Electrical Engineering from the City & Guilds of London Institute.

CHAN CHOI HAR

General Manager, Age 51

Ms Chan, who is not related to any director and staff, is the General Manager of MSM Kitchen Sdn. Bhd. (MSM Kitchen) and is responsible for the sales, marketing and securing of new customers for the Group, and also the management of MSM Kitchen. She joined the Group in 1987 and has achieved more than 10 years of sales experience in the OEM contract manufacturing and kitchen equipment industries.

Ms Chan holds a Certificate in Human Resource Management from the Centre of Advanced Management Studies and Entrepreneurial Training (Amset), and a Certificate in Business Studies from Advance Tutorial Centre, Malaysia.



KEY MANAGEMENT

(CONT'D)

**ONG SENG JOO**

General Manager, Age 43

Mr Ong, who is not related to any director and staff, joined the Group as General Manager of OMS Technology Sdn. Bhd. (MSM OMS) in November 2008. He is responsible for the management of day-to-day operations, sales and marketing of MSM OMS.

He possesses extensive experience in the designing and building of cleanrooms, biotech facilities, animal research facilities, as well as strong expertise in project and site management, and sales and marketing.

Mr Ong holds a Certificate in Technology (Mechanical Engineering) from Tunku Abdul Rahman College, Malaysia.

MAH SIEW PENG

Operations Manager, Age 44

Ms Mah, who is not related to any director and staff, is the Group's Finance & Administration Manager since 2007, and is presently managing the Group's financial, administration and human resource matters. She joined the Group in 1997 and has more than 10 years of experience in company administration.

Ms Mah holds a Bachelor's Degree in Human Resource Management from the Open University, Malaysia, a Certificate in Practical Book-Keeping and Certificate in English for Commerce from Systematic Business Training Centre, Malaysia.

TUNG WAI LOON

General Manager, Age 39

Mr Tung, who is not related to any director and staff, joined the Group in 1998 and was appointed as Factory Manager since 2007, then promoted to General Manager on 1 July 2016. He is responsible for the factory operations of FIC Kitchen Technology Sdn. Bhd. (FIC Kitchen). Mr Tung possesses more than 10 years of factory and general management experience in the OEM contract manufacturing industry and kitchen equipment industry.

Mr Tung holds a Diploma in Electrical and Electronic Engineering from Institute Teknologi Pertama, Malaysia, a Certificate in Programmable Logic Controller and a Certificate in Laser and Holography, both from Master Academy, Malaysia.

CORPORATE INFORMATION



BOARD OF DIRECTORS

CHAN KEE SIENG
(Executive Chairman)

CHAN KIT MOI
(Executive Director)

CHAN WEN CHAU
*(Executive Director and
Chief Executive Officer)*

LEOW WEE KIA CLEMENT
(Lead Independent Director)

BRIAN WONG WYE PONG
(Independent Director)

WONG KOK SEONG
(Independent Director)

AUDIT COMMITTEE

Brian Wong Wye Pong (Chairman)
Leow Wee Kia Clement
Wong Kok Seong

NOMINATING COMMITTEE

Leow Wee Kia Clement (Chairman)
Brian Wong Wye Pong
Wong Kok Seong

REMUNERATION COMMITTEE

Leow Wee Kia Clement (Chairman)
Brian Wong Wye Pong
Wong Kok Seong

COMPANY'S SPONSOR

PrimePartners Corporate Finance Pte. Ltd.
16 Collyer Quay
#10-00 Income at Raffles
Singapore 049318
Tel: +65 6229 8088
Contact Person: Lance Tan

COMPANY SECRETARY

Goh Khai Eung

REGISTERED OFFICE

8 Robinson Road, #03-00
ASO Building
Singapore 048544
Tel No: +65 6538 0779
Fax No: +65 6438 7926

INDEPENDENT AUDITOR

Nexia TS Public Accounting Corporation
100 Beach Road
#30-00 Shaw Tower
Singapore 189702
Director-in-charge: Chan Siew Ting
(Appointment with effect from financial year ended 31
December 2016)

SHARE REGISTRAR

BACS Private Limited
8 Robinson Road, #03-00
ASO Building
Singapore 048544
Tel No: +65 6538 0779
Fax No: +65 6438 7926

REPORT ON CORPORATE GOVERNANCE

The Board of Directors (“**Board**”) of MSM International Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) recognises the importance of corporate governance in ensuring greater transparency, protecting the interests of its shareholders as well as strengthening investors’ confidence in its management and financial reporting and is, accordingly, committed to maintaining a high standard of corporate governance within the Group.

The following report describes the Company’s corporate governance practices which were in place throughout the financial year ended 31 December 2016 (“**FY2016**”) with specific reference to the principles and guidelines set out in the Code of Corporate Governance 2012 (the “**Code**”) and the disclosure guide developed by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) in January 2015 (the “**Guide**”). The Board confirmed that for FY2016, the Company has adhered to the principles and guidelines as set out in the Code and, where applicable, has specified and explained the deviation from the Code and/or Guide in this report. The Company will continually review its corporate governance processes to strive to fully comply with the Code and/or Guide.

Principle 1: The Board’s Conduct of Affairs

Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this and the Management remains accountable to the Board.

The Company is headed by an effective Board to lead and control the Company. The Board has the overall responsibility for corporate governance, strategic direction and investments of the Company. Each individual Director is obliged to act in good faith and exercise independent judgment in the best interests of shareholders of the Company at all times.

The Board’s principal functions include:-

- Determining, reviewing and approving the annual budgets, major investments, divestments, funding proposals, corporate strategies and directions of the Group;
- Overseeing the business and affairs of the Group, establishing the strategies and financial objectives to be implemented by the Management, and monitoring the performance of the Management; and
- Reviewing the Group’s financial performance, risk management processes and systems, financial and human resource requirements and corporate governance practices.

To assist the Board in the execution of its responsibilities, Board Committees, namely the Audit Committee (“**AC**”), Nominating Committee (“**NC**”) and Remuneration Committee (“**RC**”), have been constituted with clear written terms of reference. Matters which are delegated to the Board Committees are reported to and monitored by the Board.

In FY2016, the Board conducted two regular scheduled meetings. Ad-hoc meetings are convened when circumstances require. Directors are free to discuss and voice their concerns on any matter raised at the Board and/or Board Committees meetings. Telephonic and videoconferencing meetings of the Board are allowed under the Company’s Constitution. All Directors are provided with the agenda and a set of the Board papers prior to the Board meetings. These are issued in advance to give the Directors sufficient time to better understand the matters to be discussed and to obtain further clarifications or explanations at the Board meeting where necessary. The Company and the Board acknowledge that an unimpeded flow of relevant information in a timely manner is crucial for the Board to be effective in discharging its duties and responsibilities.

REPORT ON CORPORATE GOVERNANCE

(CONT'D)

The Board has identified, without limitation, the following matters that require its approval:-

- Declaration of dividends and other returns to shareholders of the Company;
- Major corporate policies on key areas of operation;
- Major funding proposals or bank borrowings;
- Corporate or financial restructuring and share issuances;
- Mergers and acquisitions;
- Material acquisitions and disposals;
- Interested person transactions; and
- Appointment of new Directors.

All Directors are regularly updated on changes in the Company's policies and business. Newly appointed Directors will be given appropriate orientation/briefings by the Management on the business activities of the Group, its strategic directions and the Company's corporate governance policies and practices.

The Directors of the Company are provided with briefings from time to time and are kept updated on segmental business operation, strategic and business development of the Group as well as relevant new laws and regulations, including directors' duties and responsibilities, corporate governance matters and developing trends and financial reporting standards, so as to enable them to properly discharge their duties as members of the Board or Board Committees.

The Directors are encouraged to attend other trainings, conferences and seminars which may have a bearing on their duties and contributions to the Board, organised by the professional bodies, regulatory institutions and corporations at the Company's expense.

The attendance of the Directors at meetings of the Board and Board Committees held in FY2016 are as follows:-

Directors	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Chan Kee Sieng*	2	2	2	2	1	NA	1	NA
Chan Kit Moi*	2	2	2	2	1	NA	1	NA
Chan Wen Chau*	2	2	2	2	1	NA	1	NA
Leow Wee Kia Clement	2	2	2	2	1	1	1	1
Brian Wong Wye Pong	2	2	2	2	1	1	1	1
Wong Kok Seong	2	2	2	2	1	1	1	1

* Executive Directors were present at the AC meetings by invitation.

NA – Not applicable

REPORT ON CORPORATE GOVERNANCE

(CONT'D)

Principle 2: Board Composition and Guidance

There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board comprises six Directors of whom three are Executive Directors and three are Independent Directors.

In view that the Executive Chairman of the Board and the Chief Executive Officer (the "CEO") are immediate family members, and the Executive Chairman is part of the management team and is not an Independent Director, Guideline 2.2 of the Code is met as the Independent Directors make up half of the Board. The Board had appointed Mr Leow Wee Kia Clement, an Independent and Non-Executive Director, as the Lead Independent Director on 8 August 2014. Mr Leow will be available to address shareholders' concerns when contact through the normal channels of the Executive Chairman, CEO or Chief Financial Officer ("CFO") has failed to provide a satisfactory resolution or when such contact is inappropriate.

The Board had the appropriate mix of expertise and experience (such as accounting, finance, taxation, management experience, risk management and industry knowledge), and collectively possess the necessary core competencies for effective functioning and informed decision-making. Each Director has been appointed based on the strength of his calibre, experience and stature and is expected to bring a valuable range of experience and expertise to contribute to the development of the Group's strategies and the performance of its business. The profiles of the Directors are found in the "Board of Directors" section of this annual report.

The Board members as of the date of this report are:-

Chan Kee Sieng	Executive Chairman
Chan Kit Moi	Executive Director
Chan Wen Chau	Executive Director and Chief Executive Officer
Leow Wee Kia Clement	Lead Independent Director
Brian Wong Wye Pong	Independent Director
Wong Kok Seong	Independent Director

The size, composition and diversity of the Board are reviewed by the NC. The NC annually reviews the skills and competencies of the Board members, to ensure that each member has the appropriate mix of expertise, skills and attributes to discharge his responsibilities effectively. The Board is of the opinion that its current board size of six Directors is appropriate and provides sufficient diversity of expertise and knowledge, to lead and govern the Company effectively considering the scope and nature of its operations.

The NC also determines and ensures the independence of each Director annually in accordance with the Code. The NC has reviewed and confirmed the independence of the Independent Directors in accordance with the Code. The Independent Directors have also confirmed their independence in accordance with the Code.

The Independent Directors will assist to develop strategies and goals for the Group and regularly assess the performance of the Management.

The Company has no Independent Directors who has served on the Board beyond nine years.

To date, none of the Independent Directors of the Company have been appointed as a director of the Company's principal subsidiaries. The Board and the Management are of the view that the current board structures in the principal subsidiaries are well organised and constituted. The Board and Management will from time to time review the board structures of the principal subsidiaries and make an appropriate corporate decision of considering the appointment of an Independent Director into the principal subsidiaries.

REPORT ON CORPORATE GOVERNANCE

(CONT'D)

Principle 3: Chairman and Chief Executive Officer

There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

The roles of the Chairman and CEO are separate to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making.

Mr Chan Kee Sieng is the Executive Chairman of the Company and one of its co-founders. He leads the Board and is responsible for the management of the Group. The Executive Chairman is in charge of charting the business direction as well as corporate planning and strategic developments of the Group. The Executive Chairman encourages the Board's interaction with the Management, facilitates effective contribution of Non-Executive Directors, encourages constructive relationships among the Directors and promotes high standards of corporate governance. In addition, the Executive Chairman ensures that the Directors receive accurate, timely and clear information and there is effective communication with shareholders of the Company.

Mr Chan Wen Chau, the CEO and Executive Director of the Company, is the son of Mr Chan Kee Sieng. He is responsible for the overall business and strategic development, corporate planning, operations and management of the Group.

When necessary, the Independent Directors will meet without the presence of other Non-Independent Directors to review any matters that must be raised privately before providing feedback to the Chairman of the Board.

Principles 4: Board Membership

There should be a formal and transparent process for the appointment and reappointment of directors to the Board.

The NC's primary roles are to create a formal and transparent process for the appointments and re-nominations of members of the Board, to assess the effectiveness of the Board as a whole and the contribution of each individual Director to the effectiveness of the Board as well as to affirm annually the independence of the Directors.

The NC is regulated by a set of written terms of reference and the NC's members meet at least once a year. The NC comprises the following members, all of whom, including the Chairman, are independent:-

Leow Wee Kia Clement	Chairman
Brian Wong Wye Pong	Member
Wong Kok Seong	Member

The principal functions of the NC as stipulated in its terms of reference are as follows:-

- (a) Reviews and makes recommendations to the Board on all Board appointments and re-appointments;
- (b) Reviews the Board structure, size and composition and makes recommendations to the Board with regards to any adjustments that are deemed necessary;
- (c) Reviews the Board's succession plans for Directors, in particular, the Executive Chairman and CEO;
- (d) Determines on an annual basis, if a Director is independent;
- (e) Assesses the effectiveness of the Board and the contribution of each Director; and
- (f) Reviews training and professional development programmes for the Board.

REPORT ON CORPORATE GOVERNANCE

(CONT'D)

For new appointments to the Board, the NC will consider the current size, composition and diversity of the Board, and decide if the candidate's background, expertise and knowledge will complement the skills and competencies of the existing Directors on the Board. The candidate must be a person of integrity and able to commit sufficient time and attention to the affairs of the Company, especially if he is serving on multiple Boards.

If a vacancy arises under any circumstances, or where it is considered that the Board would benefit from the services of a new Director, the NC, in consultation with the Board, will determine the selection criteria and select the appropriate candidate for the position.

In its search and nomination process for new Director, other than through formal search via external search consultants, if required, the NC will also tap on to the resources of the Directors' personal contacts and their recommendations for potential candidates. The NC will shortlist and interview potential candidates with the appropriate profile to assess his/her suitability before nominating the most suitable candidate to the Board for approval and appointment as a Director.

There was no new Director appointed in FY2016.

The NC is charged with the responsibility of re-nomination having regard to the Director's contribution and performance (e.g. attendance, preparedness, participation and candour) including, if applicable, as an Independent Director. Subject to the NC's satisfactory assessment, the NC would recommend the proposed re-appointment of the Director to the Board for its consideration and approval. All Directors submit themselves for re-nomination and re-election at regular intervals at least once every 3 years. One-third of the Directors will retire at the Company's annual general meeting ("**AGM**") each year. In addition, newly appointed Directors are required to submit themselves for re-nomination and re-election at the next AGM following his appointment. Each member of the NC has abstained from voting on any resolutions in respect of the assessment of his performance or re-nomination as a Director.

At the forthcoming AGM, Mr Chan Wen Chau and Mr Leow Wee Kia Clement will be retiring pursuant to Article 107 of the Company's Constitution. Both of them, being eligible for re-election, have offered themselves for re-election.

Mr Chan Wen Chau will, upon re-appointment as a Director of the Company, remain as Chief Executive Officer of the Group.

Mr Leow Wee Kia Clement will, upon re-appointment as Director of the Company, remain as the Chairman of the Nominating and Remuneration Committees, a member of the Audit Committee and the Lead Independent Director of the Company. The Board considers Mr Leow Wee Kia Clement independent for the purposes of Rule 704(7) of the Catalist Rules.

Please refer to the Notice of AGM for the resolution put forth for their proposed re-election and re-appointment.

REPORT ON CORPORATE GOVERNANCE

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The following table sets out the dates of Directors' initial appointment and last re-election as well as their directorships:-

Name of Director	Date of Initial Appointment	Date of Last Re-election	Present Directorship in Listed Companies	Past (preceding 3 years) Directorship in Listed Companies	Other Principal Commitments, if any
Chan Kee Sieng	30/10/2009	22/04/2016	Nil	Nil	Nil
Chan Kit Moi	30/10/2009	22/04/2016	Nil	Nil	Nil
Chan Wen Chau	08/10/2009	29/04/2014	Nil	Nil	Nil
Leow Wee Kia Clement	30/10/2009	29/04/2014	Overseas Education Limited Ellipsiz Ltd	JB Foods Limited	Executive Director and Chief Executive Officer of Crowe Horwath Capital Pte. Ltd.
Wong Kok Seong	24/11/2009	24/04/2015	Bio Osmo Berhad PNE PCB Berhad Trive Property Group Berhad MNC Wireless Berhad	Nil	Managing Partner of Hasnan THL Wong & Partners, an accounting firm in Malaysia
Brian Wong Wye Pong	26/11/2009	24/04/2015	Privasia Technology Berhad RapidCloud International Plc	Nil	Partner in PKF Malaysia, an accounting firm in Malaysia

Please refer to the "Board of Directors' section in the Annual Report for the profile of the Directors.

The NC has taken cognizance of the Code with regard to the fixing of maximum number of board representations a Director may hold on other listed companies. The NC has reviewed the attendance of the Directors, their contributions at meetings of the Board and Board Committees, and their time commitment to the affairs of the Company, believes that it would not be necessary to put a maximum limit on the number of listed company board representations each Director may hold. However, the NC would continue to review from time to time, the board representations and other principal commitments to ensure that Directors continue to meet the demands of the Group and are able to discharge their duties adequately.

The NC has reviewed the time spent and attention given by each of the Directors to the Company's affairs, and is satisfied that all Directors have discharged their duties adequately for FY2016.

The Company does not have any alternate directors appointed on the Board.

REPORT ON CORPORATE GOVERNANCE

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Principle 5: Board Performance

There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

The Board and NC strive to ensure that Directors on the Board possess the experience, knowledge and skills critical to the Group's business so as to enable the Board to make sound and well-considered decisions.

The NC has implemented a process for evaluating the effectiveness of the Board as a whole, the Board Committees and the contribution by each individual Director to the effectiveness of the Board as well as setting objective performance criteria for such evaluation.

Annually, the Directors will complete a board assessment checklist individually to facilitate the NC in its assessment of the performance of the Board as a whole as well as its Board Committees in its monitoring role and the attainment of the strategic objectives set by the Board. The performance is assessed based on criteria including the size, composition, processes of the Board, Board's access to information, strategic planning and accountability.

Each Director will also complete a self-assessment checklist individually to facilitate the NC in its assessment of the performance of the individual Directors based on factors which include their attendance, preparation and participation in the Board or Board Committees meetings, the quality of their intervention as well as their industry and business knowledge.

Each member of the NC has abstained from voting on any resolutions in respect of the assessment of his performance or re-nomination as a Director. Evaluations of individual Directors aim to assess whether that individual has contributed effectively and demonstrated commitment to the role (including commitment of time for the meetings of Board and Board committees, and any other duties).

The Chairman of the NC evaluates the assessment and shares the results with the rest of the Board members. Areas where the performance and effectiveness of the Board could be enhanced and recommendations for improvement are then submitted to the Board for discussion and implementation.

The Chairman of the NC, in consultation with its members, also acts on the results of the performance evaluation, and where appropriate, propose new members to be appointed to the Board or seek the resignation of existing Directors.

The NC did not propose any changes to the performance criteria for FY2016 as compared to the previous financial year as the economic climate, Board composition and the Group's principal business activities remained the same since FY2015.

The NC has performed the assessment for FY2016 and is of the view that the performance of the individual Directors, the Board Committees and the Board as a whole was satisfactory and the Board has met its performance objectives.

No external facilitator was used in the evaluation process.

REPORT ON CORPORATE GOVERNANCE

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Principle 6: Access to information

In order to fulfill their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decision to discharge their duties and responsibilities.

It is the aim of the Board to provide shareholders with a balanced and understandable assessment of the Company's performance, position and prospects. This responsibility extends to the interim and full-year financial results announcements, other price-sensitive public reports and reports to regulators (if required).

The Board is provided with complete, accurate, and adequate information in a timely manner to enable them to fulfill their responsibilities. Such information includes background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, and internal financial statements. Such information is provided to the Directors to enable them to keep abreast of the Group's operational and financial performance and position, and to facilitate more-informed decision-making. Board members also have a separate and independent access to the Management and company secretary at all times. Board members may, at the Company's expense, obtain independent professional advice as and when necessary in furtherance of their duties.

The company secretary will attend all Board meetings to ensure that Board procedures are followed and applicable rules and regulations, including the requirements of the Companies Act, Chapter 50 of Singapore and the SGX-ST Listing Manual Section B: Rules of Catalist ("Rules of Catalist") are complied with. Under the direction of the Chairman, the company secretary's other responsibilities include ensuring good information flows within the Board and its committees, and between Management and Non-Executive Directors and assisting with professional development as required. The appointment and the removal of the company secretary is a matter for the Board as a whole.

Principle 7: Procedures for Developing Remuneration Policies

There should be a formal and transparent procedure for developing policy on executive re-muneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The RC comprises the following members, all of whom, including the Chairman, are independent:-

Leow Wee Kia Clement	Chairman
Brian Wong Wye Pong	Member
Wong Kok Seong	Member

The principal functions of the RC as stipulated in its terms of reference are as follows:

- recommend to the Board a framework of remuneration for the Directors and key management personnel, and determine specific remuneration packages for each Executive Director and key management personnel, with the recommendations of the RC submitted for endorsement by the entire Board. All aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits-in-kind, shall be covered by the RC; and
- perform an annual review of the remuneration of employees of the Group who are related to the Directors and CEO to ensure that their remuneration packages are in line with the staff remuneration guidelines and commensurate with their respective job scopes and level of responsibilities. They will also review and approve any bonuses, pay increases and/or promotions for these employees.

If necessary, the RC will seek expert advice inside and/or outside the Company on remuneration of all Directors. Each member of the RC has abstained from voting on any resolutions in respect of his remuneration package or that of employees related to him.

No remuneration consultants were engaged by the Company in FY2016.

REPORT ON CORPORATE GOVERNANCE

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Principle 8: Level and Mix of Remuneration

The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

As part of its review, the RC ensures that remuneration packages of the Directors and key management personnel are comparable within the industry as well as with similar companies. The RC considers the Group's relative performance and the contributions and responsibilities of the individual Directors in its review and recommendation of the remuneration of the Directors and key management personnel.

Policy in respect of Executive Directors and Key Management Personnel

Executive Directors do not receive directors' fees. Executive Directors are paid a basic salary pursuant to their respective service agreements, each of which is for an initial appointment period of 3 years with effect from 7 May 2010 and thereafter for such period as the Board may decide. The notice period of each Executive Director is fixed at a period of 6 months and each Executive Director may, in lieu of the 6 months' notice or part thereof, terminate the service agreement by paying an amount equivalent to 6 months' of his last drawn salary. The Executive Directors' service agreements do not contain onerous removal clauses.

The Group advocates a performance-based remuneration system that is highly flexible and responsive to the market and linked to the performance of the Group as well as the individual employee. The total remuneration mix comprises annual fixed cash and annual performance incentive. The annual fixed cash component comprises the annual basic salary plus any other fixed allowances while the annual performance incentive is tied to the performance of the Group and the individual employee.

The Company has no share-based compensation scheme or long-term scheme involving the offer of shares or options.

The Company does not use contractual provisions to allow the Company to reclaim the incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. The Executive Directors owe a fiduciary duty to the Company. The Company should be able to avail itself to remedies against the Executive Directors in the event of such breach of fiduciary duties.

Policy in respect of Non-Executive Directors' remuneration

Non-Executive Directors do not have service agreements with the Company. They are compensated based on fixed directors' fees, which are determined by the Board based on their contribution, taking into consideration factors such as the effort, time spent and responsibilities of these Directors. The Chairman of each Board committee is paid a higher fee as compared with members of the Board Committee in view of the higher responsibilities carried by that office. The directors' fees are subject to approval by the shareholders of the Company at each AGM. Non-Executive Directors do not receive any other remuneration from the Company.

REPORT ON CORPORATE GOVERNANCE

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Principle 9: Disclosure on Remuneration

Each company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel and performance.

The annual reviews of the compensation are carried out by the RC to ensure that the remuneration of the Executive Directors and key management personnel commensurate with their performance and that of the Company, giving due regard to the financial and commercial health and business needs of the Group. The performance of the CEO (together with other key management personnel) is reviewed periodically by the NC and the Board. In structuring the compensation framework, the RC also takes into account the risk policies of the Group, the need for the compensation to be symmetric with the risk outcomes and the time horizon of risks.

Executive Directors do not receive directors' fees but are remunerated as members of the Management. The remuneration package of the Executive Directors and key management personnel comprises a basic salary component and a variable component which is the annual bonus, based on the performance of the Group as a whole and their individual performance. The RC takes into consideration the financial performance of the Group and criteria such as leadership, people development, commitment and teamwork in assessing the individual's performance. This is designed to align the remuneration package with the interests of shareholders and link rewards to corporate and individual performance so as to promote the long-term sustainability of the Group.

The RC has reviewed and is satisfied that the aforementioned performance conditions for the Executive Directors and key management personnel have been met in FY2016.

The level and mix of remuneration of the Directors and key management personnel of the Company for FY2016 are as follows:-

Name	Salary and Other Benefits	Bonus	Directors' Fees	Total
Below S\$250,000				
Executive Directors				
Chan Kee Sieng	94%	6%	–	100%
Chan Kit Moi	94%	6%	–	100%
Chan Wen Chau	94%	6%	–	100%
Non-Executive Directors				
Leow Wee Kia Clement	–	–	100%	100%
Brian Wong Wye Pong	–	–	100%	100%
Wong Kok Seong	–	–	100%	100%
Key Management Personnel				
Below S\$250,000				
Soh Yeow Seng	94%	6%	–	100%
Tang Cheng Hooi	94%	6%	–	100%
Chan Choi Har	95%	5%	–	100%
Ong Seng Joo	95%	5%	–	100%
Mah Siew Peng	94%	6%	–	100%
Tung Wai Loon	95%	5%	–	100%

After reviewing the industry practice and analysing the advantages and disadvantages in relation to the disclosure of remuneration of each Director and key management personnel, the Company is of the view that such disclosure would be prejudicial to its business interest given the highly competitive environment. As such, the Company has not disclosed exact details of the remuneration of each individual Director and key management personnel but instead presented the information in bands of S\$250,000.

REPORT ON CORPORATE GOVERNANCE

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The aggregate of annual remuneration paid to all the above mentioned six (6) key management personnel of the Group for FY2016 was S\$377,000.

There are no termination, retirement and post-employment benefits that were granted to the Directors, CEO and key management personnel in FY2016.

Remuneration of Directors' or CEO's immediate family members

A breakdown of remuneration of an employee who is an immediate family member of the Executive Directors and CEO and whose remuneration exceeded S\$50,000 for FY2016 is set out below:-

Name	Salary and Other Benefits	Bonus	Total
S\$50,000 to S\$100,000			
Chan Wen Yee	94%	6%	100%

Mr Chan Wen Yee is the son of Mr Chan Kit Moi (Executive Director and substantial shareholder), nephew of Mr Chan Kee Sieng (Executive Chairman and substantial shareholder) and cousin of Mr Chan Wen Chau (Executive Director and CEO).

Principle 10: Accountability

The Board should present a balanced and understandable assessment of the Company's performance, position and prospects.

The Board is responsible for providing a balanced and understandable assessment of the Company's performance, position and prospects. Financial reports and other price sensitive information are disseminated to shareholders through announcements via SGXNET and press releases. The Group releases announcements of its financial results in accordance with the requirements of the Rules of Catalyst. The Management provides the Board with management accounts on a monthly basis. Such reports serve to keep the Board informed of, on a balanced and understandable basis, the performance, position and prospects of the Group and enable the Board to discharge its duties efficiently.

Principle 11: Risk Management and Internal Controls

The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Company does not have a Risk Management Committee. However, the Company regularly reviews and improves its business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. The Management reviews all control policies and procedures and highlights all significant matters to the AC as well as the Board.

The AC will review, at least annually, the reports submitted by the external and internal auditors relating to the effectiveness of the Group's system of internal controls, including financial, operational, compliance and information technology controls, risk management, and risks of fraud and irregularities. Any material non-compliance and recommendation for improvement are reported to the AC. A copy of the report is also issued to the relevant department for its follow-up action. The timely and proper implementation of all required corrective, preventive or improvement measures is closely monitored.

The AC will also review the effectiveness of the actions taken by the Management on the recommendations made by the external and internal auditors in this respect.

For the financial year under review, the CEO and CFO have provided their confirmation and assurance to the Board on the integrity of the financial statements for the Group, that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances, and the Company's risk management and internal controls systems are adequate and effective.

REPORT ON CORPORATE GOVERNANCE

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Based on the internal controls established and maintained by the Company, the assurance provided by the CEO and CFO, the work performed by the internal and external auditors and reviews performed by the Management and the various Board Committees, the Board, with the concurrence of the AC, is of the opinion that the Group's risk management and internal controls in place are adequate and effective in addressing the financial, operational, compliance and information technology risks as at 31 December 2016.

The system of internal controls and risk management established by the Company provides reasonable, but not absolute, assurance that the Company will not be adversely affected by any event that can be reasonably foreseen as it strives to achieve its business objectives. The Company is also consistently seeking to improve its internal controls and to adopt the recommendations which were highlighted by the internal and external auditors to further safeguard the Company's assets.

Principle 12: Audit Committee

The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The AC currently comprises the following members, all of whom are Independent Non-Executive Directors:-

Brian Wong Wye Pong	Chairman
Leow Wee Kia Clement	Member
Wong Kok Seong	Member

All members of the AC have accounting and related financial management expertise and experience. None of the AC members were previous partners or directors of the Company's external audit firm within the last twelve months and none of the AC members hold any financial interest in the external audit firm.

The AC has explicit authority to investigate any matter within its terms of reference, full access to and cooperation of the Management, full discretion to invite any persons including a Director or an employee of the Group to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

The AC assists the Board in discharging its responsibility to safeguard the assets of the Company, maintain adequate accounting records, and develop and maintain effective systems of internal control, with the overall objective of ensuring that the Management creates and maintains an effective control environment in the Group. The AC will provide a channel of communication between the Board, the Management and the external auditor on matters relating to audit.

The principal functions of the AC as stipulated in its terms of reference are as follows:-

- Review the scope and results of the audit and its cost effectiveness;
- Review the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance;
- Make recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor;
- Review with the external auditor on the audit plan, audit report and their evaluation of the system of internal accounting controls, letter to Management and the Management's response;
- Review the half yearly and annual, and quarterly, if applicable, financial statements and results announcements before submission to the Board for approval, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards, the Rules of Catalist and any other relevant statutory or regulatory requirements;
- Review the internal control procedures and ensure co-ordination between the external auditor and the Management, and review the assistance given by the Management to the external auditor, and discuss problems and concerns, if any, arising from audits, and any matters which the external auditor may wish to discuss (in the absence of the Management, where necessary);

REPORT ON CORPORATE GOVERNANCE

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- Review and discuss with the external auditor any suspected fraud or irregularities, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results or financial position, and the Management's response;
- Review the adequacy of the Company's internal financial controls, operational, compliance and information technology controls and risk management policies and systems established by the Management;
- Review interested person transactions (if any) falling within the scope of Chapter 9 of the Rules of Catalyst;
- Review potential conflicts of interest (if any);
- Review with the internal auditors on the internal audit plans and their evaluation of the adequacy of the internal controls and accounting system before submission of the results of such review to the Board for approval prior to the incorporation of such results in the annual report;
- Review and establish procedures for receipt, retention and treatment of complaints received by the Group regarding, inter alia, criminal offences involving the Group or its employees, questionable accounting, auditing, business, safety or other matters that impact negatively on the Group;
- Review key financial risk areas, with a view to providing an independent oversight on the Group's financial reporting, the outcome of such review to be disclosed in the annual reports or, where the findings are material, announced immediately via SGXNET;
- Undertake such other reviews and projects as may be requested by the Board, and report to the Board its findings from time to time on matters arising and requiring the attention of the AC; and
- Generally to undertake such other functions and duties, as may be required by statute or the Rules of Catalyst, or by such amendments as may be made thereto from time to time.

The AC is guided by the terms of reference which stipulate its principal functions. The AC meets regularly with the Management and the external auditors to review auditing and risk management matters and discuss accounting implications of any major transactions including significant financial reporting issues. It also reviews the internal audit functions to ensure that an effective system of control is maintained in the Group.

On a half-yearly basis, the AC also reviews the interested person transactions and the financial results announcements before their submission to the Board for approval.

The AC is kept abreast by the Management, the company secretary, the Sponsor and the external auditors of changes to accounting standards, Rules of Catalyst and other regulations which could have an impact on the Group's business and financial statements.

The AC meets with the external auditors and internal auditors, at least once annually, and more frequently, when required, with at least one of the meetings conducted without the presence of the Management. The AC had in FY2016 met the external and internal auditors once without the presence of the Management.

The AC reviews the independence and objectivity of external auditor annually. For the financial year under review, the AC has reviewed the independence of Nexia TS Public Accounting Corporation ("**Nexia TS**") including the volume of all non-audit services provided to the Group, and is satisfied that the nature and extend of such services will not prejudice the independence and objectivity of the external auditors.

The AC constantly bears in mind the need to maintain a balance between the independence and objectivity of the external auditors and the work carried out by the external auditors based on value for money consideration. For the financial year under review, the aggregate amount of fees paid to the external auditors for the audit and non-audit services amounted to RM258,000 and RM67,000 respectively. The non-audit services rendered by the external auditors to the Group in FY2016 were not substantial.

The Group has complied with Rules 712 and 715 of the Rules of Catalyst with regard to the appointment of the external auditors for the Company and its subsidiaries.

REPORT ON CORPORATE GOVERNANCE

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The AC has recommended and the Board has approved the nomination for the re-appointment of Nexia TS as external auditors of the Company at the forthcoming AGM.

The Company has implemented a whistle blowing policy which will provide well-defined and accessible channels in the Group through which employees and any other persons may raise concerns about improper conduct within the Group. The AC will review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The AC's objectives are to ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow-up action.

Principle 13: Internal Audit

The Company should establish an effective internal audit function that is adequately re-sourced and independent of the activities it audits.

The Group has outsourced its internal audit function to Wensen Consulting Asia (S) Pte. Ltd., a qualified professional firm which meets the standards set by internationally recognised professional bodies including the International Professional Practices Framework issued by The Institute of Internal Auditors.

The main objective of the internal audit function is to assist the Group in evaluating and assessing the effectiveness of internal controls and consequently to highlight the areas where control weaknesses exist, if any, and thus improvements could be made.

The internal audit function is independent and it reports directly to the AC on audit matters and to the CEO on administrative matters. The internal auditor assists the Board in monitoring and managing risks and internal controls of the Group.

The AC is responsible for the hiring, removal, evaluation and compensation of the accounting or auditing firm or corporation in which the internal audit function of the Company is outsourced. The AC also reviews and approves the internal auditors' plan of each financial year to ensure that the scope of the plan is adequate and covers the review of the system of internal controls of the Group, including financial, operational, compliance and information technology controls. The internal auditors will report their audit findings and recommendations to the AC.

The Management together with the Board will review all audit reports and findings from internal auditors and external auditors during the AC meetings.

During FY2016, the internal auditors had reviewed and carried out the audit on areas pertaining to inventory, logistic and warehouse management, procurement to payables management and financial statement close processing management, sales and marketing management and credit control and collection management.

The AC had reviewed the adequacy of the internal audit function and is satisfied that the team is adequately qualified, resourced and has appropriate standing within the Company.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Principle 14: Shareholder Rights

Companies should treat all shareholders fairly and equitably, and should recognize, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

Principle 15: Communication with Shareholders

Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

REPORT ON CORPORATE GOVERNANCE

(CONT'D)

Principle 16: Conduct of Shareholder Meeting

Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

The Board believes in regular, timely and effective communication with shareholders. The Company does not practice selective disclosure. In line with continuous obligations of the Company pursuant to the Rules of Catalist, it is the Board's policy that shareholders are kept informed of all important developments concerning the Group that will or expected to have an impact on the Company or the Group through timely dissemination of information via SGXNET announcements, press releases, annual reports and various other announcements made whenever necessary. The Company also maintains a website at <http://www.msmmgroup.com> through which the shareholders can access to information about the Group. The website provides the business profile, corporate announcements, press releases, annual reports and other information of the Group.

Shareholders are encouraged to attend the AGM and general meetings of the Company to stay informed of the Company's goals and strategies and to ensure a high level of accountability by the Management. The Notice of AGM will be dispatched to shareholders, together with explanatory notes or a circular on items of special business (if necessary), at least 14 calendar days before the meeting (excluding the date of notice and the date of meeting). The Board welcomes questions from shareholders either informally or formally before or at the AGM. The Chairman of the AC, RC and NC are normally available at the meeting to answer those questions relating to the work of the respective Board Committees. At the AGM, separate resolutions are set out for each distinct issue.

The Company's external auditors are also present to assist the Directors in addressing any relevant queries by shareholders. While there is no limit imposed on the number of proxy votes for nominee companies, the Constitution of the Company allow each shareholder to appoint up to two (2) proxies to attend general meetings. Pursuant to the introduction of the multiple proxies regime under the Singapore Companies (Amendment) Act 2014, indirect investors who hold the Company's shares through a nominee company or custodian bank or through a Central Provident Fund agent bank may appoint more than two proxies to attend and vote at general meetings. The Board will review the Company's Constitution from time to time, and where an amendment to the Company's Constitution is required to align the relevant provisions with the requirements of the Rules of Catalist, shareholders' approval will be obtained.

To enhance shareholder's participation, resolutions put forth at the forthcoming AGM on 28 April 2017 and at all future general meetings will be voted by way of poll. An independent polling agent is appointed by the Company for general meetings who will explain the rules, including the voting procedures, that govern the general meetings of shareholders. Polling results of all votes cast for and against each resolution and its respective percentage will be announced via the SGXNET.

The Company will consider the use of other forums as set out in Guideline 15.4 of the Code such as analyst or investor briefings as and when possible.

The Group does not have a fixed dividend policy at present. The form, frequency and amount of dividends declared each year will take into consideration the Group's profitability, cash position, cash flow in relation to operating activities, projected capital requirements for business growth and other factors as the Board may deem appropriate. The Board has not declared dividends for the FY2016 as the Company has deemed it more appropriate to retain the cash in the Group for its future growth plans.

Dealings in Securities

The Company has adopted an internal code on dealings in securities. The Company and the Group's Directors and officers who have access to price-sensitive, financial or confidential information, or unpublished price-sensitive information on the Group, are not permitted to deal in the Company's securities during the periods commencing one month before the announcement of the Group's half year and full year financial results and ending on the date of announcement of such results. In addition, the Company, its Directors and officers are advised not to deal in the Company's securities for a short term considerations and are expected to observe the insider trading laws at all times even when dealing in the Company's securities within the permitted trading periods. Directors and officers are to consult with the CFO/company secretary before trading in Company's securities and to confirm annually that they have complied with and not in breach of the internal code on dealings in securities. The Board is kept informed when a Director trades in the Company's securities.

REPORT ON CORPORATE GOVERNANCE

(CONT'D)

Interested Person Transactions

The Company has established procedures to ensure that all transactions with interested persons are reported on in a timely manner to the AC and that the transactions are carried out on normal commercial terms and shall not be prejudicial to the interests of the Company and its minority shareholders. When a potential conflict of interest arises, the Director concerned neither takes part in discussions nor exercises any influence over other Board members.

The Company does not have a general mandate for interested persons transactions.

In compliance with Rule 907 of the Rules of Catalist, the aggregate value of recurrent interested persons transactions of revenue or trading nature conducted during FY2016 were as follows:-

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (including transactions less than S\$100,000 and excluding transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted during the financial year under review under shareholders' mandate pursuant to Rule 920 (including transactions less than S\$100,000)
	01-01-2016 to 31-12-2016 RM'000	01-01-2016 to 31-12-2016 RM'000
Sales of goods to:		
Globalink Metal Sdn Bhd	1	-
Globalink Metal Stamping Sdn Bhd	11	-
Welch (M) Sdn Bhd	132	-
Purchase of material from:		
Globalink Metal Sdn. Bhd.	7	-
Service charges charged to:		
Eminent Food Industries Sdn. Bhd.	13	-
Rental expenses paid to:		
Mr Chan Kee Sieng and Mr Chan Kit Moi in respect of the premises No. 3 Taman Kencana, Selangor, Malaysia.	84	-
Chan Strategy Sdn. Bhd. in respect of the premises No. 11, Taman Taming Jaya, Selangor, Malaysia.	17	-
Subcontractors' charges from:		
Globalink Metal Sdn. Bhd.	64	-

Material Contracts

There were no material contracts entered into by the Company or any of its subsidiaries involving the interest of the CEO, any Director or controlling shareholder of the Company, either still subsisting at the end of the financial year, or if not then subsisting, which were entered into since the end of the previous financial year.

Non-Sponsorship Fees

No non-sponsor fees were paid to the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. for FY2016.

FINANCIAL STATEMENTS

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DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

The directors present their statement to the members together with the audited financial statements of the Group for the financial year ended 31 December 2016 and the balance sheet of the Company as at 31 December 2016.

In the opinion of the directors,

- (a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 35 to 86 are drawn up so as to give a true and fair view of the balance sheet of the Company and of the Group as at 31 December 2016 and the financial performance, changes in equity and cash flows of the Group for the financial year covered by the consolidated financial statements; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

DIRECTORS

The directors of the Company in office at the date of this statement are as follows:

Chan Kee Sieng
Chan Kit Moi
Chan Wen Chau
Leow Wee Kia Clement
Brian Wong Wye Pong
Wong Kok Seong

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the 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.

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Holdings registered in name of director		Holdings in which director is deemed to have an interest	
	At 31.12.2016	At 1.1.2016	At 31.12.2016	At 1.1.2016
Company				
<u>(No. of ordinary shares)</u>				
Chan Kee Sieng	187,000	187,000	61,564,747	61,564,747
Chan Kit Moi	130,000	130,000	61,564,747	61,564,747
Chan Wen Chau	2,785,186	2,785,186	–	–

The deemed interests of Chan Kee Sieng and Chan Kit Moi arise from their shareholdings in the holding corporation, Triumphant Hope Sdn. Bhd..

DIRECTORS' STATEMENT

(CONT'D)

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (CONT'D)

	Holdings registered in name of director		Holdings in which director is deemed to have an interest	
	At 31.12.2016	At 1.1.2016	At 31.12.2016	At 1.1.2016
Holding Corporation				
- Triumphant Hope Sdn. Bhd.				
(No. of ordinary shares)				
Chan Kee Sieng	150	150	-	-
Chan Kit Moi	150	150	-	-

By virtue of Section 7 of the Singapore Companies Act (Cap. 50) (the "Act"), Chan Kee Sieng and Chan Kit Moi are deemed to have interests in the shares of all the subsidiary corporations, at the beginning and at the end of the financial year.

The directors' interests in the ordinary shares of the Company as at 21 January 2017 were the same as those as at 31 December 2016.

SHARE OPTIONS

There were no options granted during the financial year to subscribe for unissued shares of the Company or its subsidiary corporations.

No shares have been issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or its subsidiary corporations.

There were no unissued shares of the Company or its subsidiary corporations under option at the end of the financial year.

AUDIT COMMITTEE

The members of the Audit Committee at the end of the financial year were as follows:

Brian Wong Wye Pong (Chairman)
Leow Wee Kia Clement
Wong Kok Seong

All members of the Audit Committee were independent and non-executive directors.

The Audit Committee carried out its functions in accordance with Section 201B(5) of the Act and the Code of Corporate Governance. In performing those functions, the Audit Committee carried out the following:

- Review the scope and results of internal audit procedures with the internal auditor;
- Review the audit plan of the Company's independent auditor and any recommendations on internal accounting controls arising from the statutory audit;
- Review the assistance given by the Company's management to the independent auditor;

DIRECTORS' STATEMENT

(CONT'D)

AUDIT COMMITTEE (CONT'D)

- Review the balance sheet of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2016 before their submission to the Board of Directors, as well as the independent auditor's report on the balance sheet of the Company and the consolidated financial statements of the Group;
- Review transactions falling within the scope of Chapter 9 of the Singapore Exchange Securities Trading Limited ("SGX-ST") Listing Manual Section B: Rules of Catalist ("Catalist Rules");
- Review the half yearly and annual financial statements and results announcement before submission to the Board of Directors for approval, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards and compliance with the Catalist Rules and any other relevant statutory or regulatory requirements;
- Review the independence and objectivity of the independent auditor; and
- Make recommendations to the Board of Directors on the appointment, re-appointment and removal of independent auditor, and approve the remuneration and terms of engagement of the independent auditor.

The Audit Committee has recommended to the Board of Directors that the independent auditor, Nexia TS Public Accounting Corporation, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company.

INDEPENDENT AUDITOR

The independent auditor, Nexia TS Public Accounting Corporation, has expressed its willingness to accept re-appointment.

On behalf of the directors

.....
Chan Kee Sieng
Director

.....
Chan Kit Moi
Director

30 March 2017

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MSM INTERNATIONAL LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of MSM International Limited (the "Company") and its subsidiary corporations (the "Group"), which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 35 to 86.

In our opinion, the accompanying consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key audit matter	How our audit addressed the matter
<p>Valuation of trade receivables</p> <p>As at 31 December 2016, the carrying amount of trade receivables was RM24,100,000, which accounted for 21% of the Group's total assets.</p> <p>Management determines, at each balance sheet date, the existence of any objective evidence that the trade receivables are impaired. In determining this, management uses estimates based on historical loss experience for assets with similar credit risk characteristics, the current creditworthiness and the past collection history of each debtor.</p>	<p>We have evaluated the process in identifying and determining impairment indicators by carrying out the following audit procedures:</p> <ul style="list-style-type: none"> reviewed the aging of trade receivables and assessed the reasonableness of the effort made by management to recover the long outstanding debts. assessed the recoverability of long outstanding trade receivables by comparing management's assumptions used to estimate both the amount and timing of the recoverability of outstanding debts to historical patterns of receipts of the individual debtors. <p>Based on our audit procedures, we noted management's key assumptions and estimates used to assess the recoverability of the outstanding trade receivables to be within a reasonable range of our expectation.</p> <p>We also assessed and validated the adequacy and appropriateness of the related disclosures made in the financial statements.</p>

INDEPENDENT AUDITOR'S REPORT

(CONT'D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

Key Audit Matters (cont'd)

Key audit matter	How our audit addressed the matter
<p>Valuation of trade receivables (cont'd)</p> <p>We focused on this area because:</p> <ul style="list-style-type: none"> significant judgements required in identifying the uncollectible receivables and determining whether there is any impairment loss; and certain customers are experiencing higher average collection period as compared to other customers, increasing the inherent exposure to non-collectability and credit risk. <p>Refer to note 2.10 (e) Impairment of financial assets and note 3 Impairment of trade and other receivables for the relevant accounting policy and a discussion of significant accounting estimates and assumptions.</p>	
<p>Accuracy of inventories costing</p> <p>As at 31 December 2016, the carrying amounts of work-in-progress and finished goods were RM15,915,000 and RM8,582,000 respectively.</p> <p>The cost of work-in-progress and finished goods consist of raw material cost and cost of conversion. The major component of the cost of work-in-progress and finished goods relates to its raw material which mainly comprises of metal steel. Cost of conversion includes direct labour and a systematic allocation of fixed and variable production overheads. The basis of systematic allocation of cost of conversion takes into account normal levels of labour, efficiency and capacity utilisation. They are reviewed and, if necessary, management will revise in the light of current conditions.</p> <p>In view of the Group's manufacturing processes and its numerous product lines, the basis of cost allocation is complex and highly dependent on management's estimates. This, in combination with the significance of the carrying amount of inventories in relation to the Group's total current assets, we considered this as a key audit matter for our audit.</p> <p>Refer to note 2.12 Inventories for the relevant accounting policy.</p>	<p>We evaluated management's process in allocating the conversion cost to each line of product.</p> <p>We performed test of details on the cost of raw material by verifying against suppliers' invoices.</p> <p>We assessed the reasonableness of conversion cost allocated to work-in-progress and finished goods by recomputing the actual conversion costs incurred over the production unit and assessed the reasonableness on actual margin.</p> <p>Based on our audit procedures, we have not noted any material differences over the inventories costing, in particular the basis of allocating the conversion costs to each line of product.</p>

INDEPENDENT AUDITOR'S REPORT

(CONT'D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of Management and Directors of the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

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

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT

(CONT'D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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 current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company and by a subsidiary corporation incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement director on the audit resulting in this independent auditor's report is Ms Chan Siew Ting.

Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants

Singapore

30 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Group 2016 RM'000	2015 RM'000
Revenue	4	92,740	82,181
Cost of sales		(67,555)	(60,606)
Gross profit		25,185	21,575
Other income – net	5	716	2,108
Expenses			
- Selling and distribution		(5,445)	(7,292)
- Administrative		(15,866)	(14,150)
- Finance	8	(2,948)	(2,742)
Profit/(loss) before income tax		1,642	(501)
Income tax expense	9	(1,033)	(680)
Net profit/(loss)		609	(1,181)
Other comprehensive loss:			
Items that may be reclassified subsequently to profit or loss:			
Currency translation difference arising from consolidation		–	(61)
Total comprehensive income/(loss)		609	(1,242)
Profit/(loss) attributable to:			
Equity holders of the Company		146	(1,239)
Non-controlling interests		463	58
		609	(1,181)
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		146	(1,300)
Non-controlling interests		463	58
		609	(1,242)
Earnings/(loss) per share for profit/(loss) attributable to equity holders of the Company (RM cents per share)			
- Basic and diluted	10	0.16	(1.38)

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

BALANCE SHEETS

AS AT 31 DECEMBER 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
ASSETS					
Current Assets					
Cash and bank balances	11	10,032	7,574	*	*
Trade and other receivables	12	25,460	22,585	6,500	6,500
Inventories	13	28,550	27,046	–	–
Other current assets	14	2,911	5,099	15	15
Income tax recoverable		1,079	204	–	–
		68,032	62,508	6,515	6,515
Non-Current Assets					
Property, plant and equipment	15	44,928	43,457	–	–
Investment properties	16	3,755	3,688	–	–
Investments in subsidiary corporations	17	–	–	19,404	19,404
		48,683	47,145	19,404	19,404
Total Assets		116,715	109,653	25,919	25,919
LIABILITIES					
Current Liabilities					
Trade and other payables	19	17,662	15,876	4,941	3,954
Borrowings	20	34,814	30,460	–	–
		52,476	46,336	4,941	3,954
Non-Current Liabilities					
Borrowings	20	21,287	21,006	–	–
Deferred income tax liabilities	22	259	227	–	–
		21,546	21,233	–	–
Total Liabilities		74,022	67,569	4,941	3,954
NET ASSETS		42,693	42,084	20,978	21,965
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	23	26,862	26,862	26,862	26,862
Retained earnings/(accumulated losses)		15,409	15,263	(5,884)	(4,897)
Currency translation reserve		(61)	(61)	–	–
		42,210	42,064	20,978	21,965
Non-controlling interests	17	483	20	–	–
Total Equity		42,693	42,084	20,978	21,965

* Denotes less than RM1,000.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Attributable to equity holders of the Company					Total equity RM'000
	Share capital RM'000	Currency translation reserve RM'000	Retained earnings *	Total RM'000	Non-controlling interests RM'000	
2016						
Beginning of financial year	26,862	(61)	15,263	42,064	20	42,084
Profit for the financial year, representing total comprehensive income for the financial year	–	–	146	146	463	609
End of financial year	26,862	(61)	15,409	42,210	483	42,693
2015						
Beginning of financial year	26,862	–	16,502	43,364	(87)	43,277
(Loss)/profit for the financial year	–	–	(1,239)	(1,239)	58	(1,181)
Other comprehensive loss for the financial year	–	(61)	–	(61)	–	(61)
Total comprehensive (loss)/income for the financial year	–	(61)	(1,239)	(1,300)	58	(1,242)
Issue of subsidiary corporation's shares to non-controlling interests	–	–	–	–	49	49
End of financial year	26,862	(61)	15,263	42,064	20	42,084

* Retained earnings of the Group are distributable.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Group 2016 RM'000	2015 RM'000
Cash flows from operating activities			
Net profit/(loss)		609	(1,181)
Adjustments for:			
- Income tax expense	9	1,033	680
- Depreciation of property, plant and equipment	6	4,179	3,880
- Depreciation of investment properties	6	59	32
- Loss/(gain) on disposal of property, plant and equipment	5	162	(717)
- Property, plant and equipment written off	6	19	-
- Impairment loss on goodwill	6	-	201
- Interest income	5	(42)	(74)
- Interest expense	8	2,948	2,742
- Unrealised currency translation gain		-	(71)
		<hr/> 8,967	<hr/> 5,492
Changes in working capital:			
- Trade and other receivables		(2,875)	2,251
- Inventories		(1,504)	2,090
- Other current assets		648	(919)
- Trade and other payables		1,786	(5,391)
- Bills payable		1,370	3,283
		<hr/> 8,392	<hr/> 6,806
Cash generated from operations			
Interest paid		(811)	(697)
Interest received		42	74
Income tax (paid)/refund		(1,876)	2,170
		<hr/> 5,747	<hr/> 8,353
Net cash provided by operating activities			
Cash flows from investing activities			
Additions to property, plant and equipment		(1,789)	(133)
Addition to investment properties	16	(126)	(229)
Disposal of property, plant and equipment		1,890	905
		<hr/> (25)	<hr/> 543
Net cash (used in)/provided by investing activities			
Cash flows from financing activities			
Proceeds from issuance of subsidiary corporation's shares to non-controlling interests		-	49
(Increase)/decrease in short-term bank deposits pledged		(42)	441
Proceeds from bank borrowings		1,914	472
Repayment of bank borrowings		(2,460)	(3,533)
Repayment of finance lease liabilities		(3,088)	(4,164)
Interest paid		(2,137)	(2,045)
		<hr/> (5,813)	<hr/> (8,780)
Net cash used in financing activities			
Net (decrease)/increase in cash and cash equivalents			
		(91)	116
Cash and cash equivalents			
Beginning of financial year		(2,254)	(2,370)
End of financial year	11	<hr/> (2,345)	<hr/> (2,254)

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL INFORMATION

MSM International Limited (the "Company") is listed on the Catalist, the sponsor-supervised listing platform of Singapore Exchange Securities Trading Limited ("SGX-ST"), which is incorporated and domiciled in Singapore. The address of its registered office is 8 Robinson Road, #03-00, ASO Building, Singapore 048544. The principal place of business of the subsidiary corporations is located at Lot 1909, Jalan KP5, Kawasan Perindustrian Kampung Baru Balakong, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia.

The principal activity of the Company is that of investment holding. The principal activities of the subsidiary corporations are disclosed in Note 17.

The Company's holding corporation is Triumphant Hope Sdn. Bhd., incorporated in Malaysia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") under the historical cost convention, except as disclosed in the accounting policies below. The financial statements are presented in Malaysia Ringgit ("RM") and all values are rounded up to the nearest thousand ("RM'000") except as otherwise indicated.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Interpretations and amendments to published standards effective in 2016

On 1 January 2016, the Group adopted the new or amended FRS and Interpretations of FRS ("INT FRS") that are mandatory for application for the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the accounting policies of the Group and the Company and had no material effect on the amounts reported for the current or prior financial years.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Group accounting

(a) *Subsidiary corporations*

(i) *Consolidation*

Subsidiary corporations are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiary corporations are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on that control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the transaction provide evidence of an impairment indicator of the transferred asset. Accounting policies of subsidiary corporations have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests comprise the portion of a subsidiary corporation's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity, and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary corporation, even if this results in the non-controlling interests having a deficit balance.

(ii) *Acquisitions*

The acquisition method of accounting is used to account for business combinations entered into by the Group.

The consideration transferred for the acquisition of a subsidiary corporation or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary corporation measured at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair values of the identifiable net assets acquired is recorded as goodwill. Please refer to the paragraph "Intangible assets - Goodwill on Acquisition" for the subsequent accounting policy on goodwill.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Group accounting (cont'd)

(a) *Subsidiary corporations (cont'd)*

(iii) *Disposals*

When a change in the Group's ownership interest in a subsidiary corporation results in a loss of control over the subsidiary corporation, the assets and liabilities of the subsidiary corporation including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in profit or loss.

Please refer to note 2.3 for the accounting policy on investments in subsidiary corporations in the separate financial statements of the Company.

(b) *Transactions with non-controlling interests*

Changes in the Group's ownership interest in a subsidiary corporation that do not result in a loss of control over the subsidiary corporation are accounted for as transactions with equity owners of the Company. Any difference between the change in the carrying amounts of the non-controlling interests and the fair value of the consideration paid or received is recognised within equity attributable to the equity holders of the Company.

2.3 Investments in subsidiary corporations

Investments in subsidiary corporations are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of the investments in subsidiary corporations, the difference between the disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2.4 Revenue recognition

Sales comprise the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Sales are presented, net of value-added tax, rebates and discounts, and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met as follows:

(a) *Sale of goods*

Revenue from sale of goods is recognised when the Group has delivered the products to its customers and the customers have accepted the products.

(b) *Interest income*

Interest income is recognised using the effective interest method.

(c) *Rental income*

Rental income from operating leases (net of any incentives given to the lessees) is recognised on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Property, plant and equipment

(a) Measurement

(i) Land and buildings

Land and buildings are initially recognised at cost. Freehold land is subsequently carried at cost less accumulated impairment losses. Buildings and leasehold land are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

(ii) Other property, plant and equipment

All other items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

(iii) Components of cost

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also includes borrowing costs (refer to Note 2.7 on borrowing costs).

(b) Depreciation

Freehold land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	<u>Useful lives</u>
Leasehold land and buildings	99 / 50 years
Plant and machinery	5 to 10 years
Renovation and signboard	10 years
Motor vehicles	5 years
Computer, office equipment, fixtures, furniture and fittings	5 to 10 years
Showroom equipment	3 years

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

Construction-in-progress represent the costs of property, plant and equipment under development. When construction-in-progress are completed and are ready for their intended use, they are recognised as property, plant and equipment and depreciated over their useful lives.

Fully depreciated assets are retained in the financial statements until they are no longer in use.

(c) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

(d) Disposal

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss within "Other income - net".

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.6 Intangible assets

Goodwill on acquisitions

Goodwill on acquisitions of subsidiary corporations and businesses, represents the excess of (i) the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over (ii) the fair value of the identifiable net assets acquired. Goodwill on subsidiary corporations is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

Gains and losses on the disposal of subsidiary corporations include the carrying amount of goodwill relating to the entity sold.

2.7 Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method except for those costs that are directly attributable to the construction or development of properties and assets under construction. This include those cost on borrowings acquired specifically for the construction or development of properties and assets under construction, as well as those in relation to general borrowings used to finance the construction or development of properties and assets under construction.

The actual borrowings costs incurred during the period up to the issuance of the temporary occupation permit less any investment income on temporary investment of these borrowings, are capitalised in the cost of the property under development. Borrowing costs on general borrowings are capitalised by applying a capitalisation rate to construction or development expenditures that are financed by general borrowings.

2.8 Investment properties

Investment properties comprise those portions of leasehold land and office buildings that are held for long term rental yields and/or for capital appreciation.

Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated using a straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	<u>Useful lives</u>
Leasehold land	58 years
Leasehold land and building	87 / 50 years

The residual values, useful lives and depreciation method of investment properties are reviewed and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in profit or loss when the changes arise.

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised and the carrying amounts of the replaced components are recognised in profit or loss. The cost of maintenance, repairs and minor improvements is recognised in profit or loss when incurred.

On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.9 Impairment of non-financial assets

(a) *Goodwill*

Goodwill recognised separately as intangible asset is tested for impairment annually and whenever there is indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating units ("CGU") expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised as an expense and is not reversed in a subsequent period.

(b) *Property, plant and equipment* *Investment properties* *Investments in subsidiary corporations*

Property, plant and equipment, investment properties and investments in subsidiary corporations are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.10 Financial assets

(a) *Classification*

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as "Trade and other receivables" (Note 12), "Cash and cash equivalents" (Note 11) and "Other current assets" (Note 14) on the balance sheet.

(b) *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

(c) *Initial measurement*

Financial assets are initially recognised at fair value plus transaction costs.

(d) *Subsequent measurement*

Loan and receivables are subsequently carried at amortised cost, using the effective interest method.

(e) *Impairment*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

Loans and receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The impairment allowance is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.11 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.12 Financial guarantee

The Company has issued corporate guarantees to banks for borrowings of its subsidiary corporations. These guarantees are financial guarantees as they require the Company to reimburse the banks if the subsidiary corporations fail to make principal or interest payments when due in accordance with the terms of their borrowings.

Financial guarantees are initially recognised at their fair values plus transaction costs in the Company's balance sheet.

Financial guarantees are subsequently amortised to profit or loss over the period of the subsidiary corporations' borrowings, unless it is probable that the Company will reimburse the banks for an amount higher than the unamortised amount. In this case, the financial guarantees shall be carried at the expected amount payable to the banks in the Company's balance sheet.

Intra-group transactions are eliminated on consolidation.

2.13 Borrowings

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date, in which case they are presented as non-current liabilities.

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

2.14 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Otherwise, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

2.15 Fair value estimation of financial assets and liabilities

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.16 Leases

(a) *When the Group is the lessee:*

The Group leases motor vehicles, computer and office equipment and certain plant and machinery under finance leases from non-related parties and warehouse and office buildings under operating leases from directors and non-related parties.

(i) *Lessee – Finance leases*

Leases where the Group assumes substantially all risks and rewards incidental to ownership of the leased assets are classified as finance leases.

The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognised on the balance sheet as property, plant and equipment and borrowings respectively, at the inception of the leases based on the lower of the fair value of the leased assets and the present value of the minimum lease payments.

Each lease payment is apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is recognised in profit or loss on a basis that reflects a constant periodic rate of interest on the finance lease liability.

(ii) *Lessee – Operating leases*

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in profit or loss when incurred.

(b) *When the Group is the lessor:*

Lessor – Operating leases

Leases where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in profit or loss on a straight-line basis over the lease term.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

Contingent rents are recognised as an income in profit or loss when earned.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.17 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but exclude borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

2.18 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiary corporations except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date; and
- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

The Group accounts for investment tax credits (for example, productivity and innovative credit) similar to accounting for other tax credits where deferred tax assets is recognised for unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax credit can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

2.20 Employee compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

(a) *Defined contribution plans*

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund and Malaysian Employees Provident Fund, on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

(b) *Short-term compensated absences*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

2.21 Currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in Malaysia Ringgit ("RM"), which is the functional currency of the Company.

(b) *Transactions and balances*

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss. However, in the consolidated financial statements, currency translation differences arising from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment in foreign operations, are recognised in other comprehensive income and accumulated in the currency translation reserve.

When a foreign operation is disposed of or any loan forming part of the net investment of the foreign operation is repaid, a proportionate share of the accumulated currency translation differences is reclassified to profit or loss, as part of the gain or loss on disposal.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income within "finance expense". All other foreign exchange gains and losses impacting profit or loss are presented in profit or loss within 'Other income - net'.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.21 Currency translation (cont'd)

(c) *Translation of Group entities' financial statements*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities are translated at the closing exchange rates at the reporting date;
- (ii) income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in other comprehensive income and accumulated in the currency translation reserve. The currency translation differences are reclassified to profit and loss on disposal or partial disposal of the entity giving rise to such reserve.

Goodwill on fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rates at the reporting date.

2.22 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors who are responsible for allocating resources and assessing performance of the operating segments.

2.23 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash at bank and on hand, deposits with financial institutions which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are presented as current borrowings on the balance sheet. For cash subjected to restriction, assessment is made on the economic substance of the restriction and whether they meet the definition of cash and cash equivalents.

2.24 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital amount.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and assumptions

(a) *Impairment of trade and other receivables*

Management reviews its trade and other receivables for objective evidence of impairment at least twice a year. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired.

In determining this, management has made judgements as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in. Management has made an allowance for impairment amounting to RM314,000 (2015: RM480,000).

If the net present values of estimated cash flows decrease by 10% from management's estimates for all past due but not impaired loans and receivables, the Group's allowance for impairment will increase by RM949,100 (2015: RM767,400).

The carrying amount of trade and other receivables at the balance sheet date is disclosed in Note 12.

(b) *Accuracy of inventories costing*

Management reviews the basis of systematic allocation of cost of conversion at least twice a year. The determination of basis of cost allocation for each type of product over the numerous product lines in the Group's manufacturing involves significant estimates, among other factors, the normal levels of labour, efficiency and capacity utilisation.

If the total conversion cost to be allocated had been higher/lower by 10% from management's basis of systematic allocation, the carrying amount of the Group's inventories would have been higher/lower by RM2,450,000 (2015: RM2,310,000).

The carrying amount of work-in-progress and finished goods at the balance sheet date is disclosed in Note 13.

(c) *Useful life of plant and machinery*

The cost of plant and machinery are depreciated on a straight-line basis over their estimated useful lives which management estimates the useful lives of these assets to be within 5 to 10 years.

Changes in the expected level of usage and technological development could impact the economic useful lives of these assets; therefore, future depreciation charges could be revised. Management reviews the residual values and useful lives of plant and machinery at each balance sheet date in accordance with the accounting policies in Note 2.5. The estimation of the residual values and useful lives involves significant judgements.

If the actual useful lives of these plant and machinery were to differ by 1 year from management estimates, the carrying amount of the plant and machinery would increase by RM227,000 (2015: RM240,000) or decrease by RM284,000 (2015: RM367,000) respectively.

The carrying amount of the Group's plant and machinery at the balance sheet is disclosed in Note 15.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONT'D)

3.2 Critical judgements in applying the entity's accounting policies

Deferred income tax assets

The Group recognises deferred income tax assets on carried forward capital allowances, and investment and reinvestment allowances to the extent there are sufficient estimated future taxable profits and/or taxable temporary differences against which these allowances can be utilised and that the Group is able to satisfy the continuing ownership test. Significant management judgement is required in determining the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The total carrying amount of recognised capital allowances, investment and reinvestment allowances and other temporary differences of the Group amounted to RM1,079,000 (2015: RM908,000) and the unrecognised tax losses, capital allowances, and investment and reinvestment allowances of the Group was RM17,010,000 (2015: RM16,507,000). If the tax authority regards the group entities is not satisfying and/or meeting certain statutory requirements in their respective countries of incorporation, the deferred income tax asset will have to be written off as income tax expense and unrecognised tax losses will be forfeited.

4. REVENUE

	Group	
	2016 RM'000	2015 RM'000
Revenue from:		
- OEM contract manufacturing products	32,772	25,755
- kitchen appliances, equipment and related services	42,432	37,379
- oil and gas products	8,753	10,294
- cleanroom and laboratories products	8,783	8,753
	92,740	82,181

5. OTHER INCOME - NET

	Group	
	2016 RM'000	2015 RM'000
Rental income		
- investment properties (Note 16)	64	37
- factory, hostel and office	431	469
- motor vehicles	51	54
- machineries	1	34
Currency exchange gain - net	227	238
(Loss)/gain on disposal of property, plant and equipment	(162)	717
Insurance claim	-	326
Interest income from bank deposits	42	74
Sale of scrap	6	74
Other	56	85
	716	2,108

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

6. EXPENSES BY NATURE

	Group	
	2016 RM'000	2015 RM'000
Allowance for impairment of trade receivables (Note 28(b)(ii))	314	480
Bad debts written off - trade receivables from non-related parties	2	-
Changes in inventories	(1,504)	1,914
Commission	248	411
Depreciation of property, plant and equipment (Note 15)	4,179	3,880
Depreciation of investment properties (Note 16)	59	32
Directors' fees	230	211
Employee compensation (Note 7)	20,209	20,294
Exhibitions	437	213
Fees on audit services paid/payable to:		
- Auditor of the Company	153	145
- Other auditors*	211	168
Fees on non-audit services paid/payable to:		
- Auditor of the Company	13	8
- Other auditors*	64	28
Freight and forwarding	1,191	1,161
Fuel and gas	716	826
Insurance	502	536
Impairment loss of goodwill (Note 18)	-	201
Property, plant and equipment written off	19	-
Professional fees	1,056	791
Purchases of inventories	48,071	39,601
Rental expense on operating leases	824	771
Reversal of allowance for impairment of trade receivables (Note 28(b)(ii))	(234)	(77)
Subcontractors' cost	5,326	3,830
Travelling and transportation	1,897	1,866
Utilities	1,853	1,867
Upkeep, repair and maintenance	1,849	1,698
Other	1,181	1,193
	<hr/>	<hr/>
Total cost of sales, selling and distribution, and administrative expenses	88,866	82,048
	<hr/>	<hr/>

* Includes the network of member firms of Nexia International.

7. EMPLOYEE COMPENSATION

	Group	
	2016 RM'000	2015 RM'000
Salaries, wages and bonuses	18,294	18,308
Employer's contribution to defined contribution plans	1,116	1,138
Other short-term benefits	799	848
	<hr/>	<hr/>
	20,209	20,294
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

8. FINANCE EXPENSES

	Group	
	2016 RM'000	2015 RM'000
Interest expense		
- Bank overdraft	811	697
- Bank loans	778	840
- Bills payable	888	627
- Finance lease liabilities	471	578
	2,948	2,742

9. INCOME TAX EXPENSES

	Group	
	2016 RM'000	2015 RM'000
Tax expense attributable to profit/(loss) is made up of:		
Profit/(loss) for the financial year		
- Current income tax - Malaysia	841	692
- Deferred income tax (Note 22)	39	16
	880	708
Under/(over) provision in prior financial years		
- Current income tax - Malaysia	160	(28)
- Deferred income tax (Note 22)	(7)	-
	1,033	680

The income tax expense on the Group's profit/(loss) before income tax differs from the theoretical amount that would arise using the Malaysia standard rate of income tax is as follows:

	Group	
	2016 RM'000	2015 RM'000
Profit/(loss) before income tax	1,642	(501)
Tax calculated at Malaysia income tax rate of 24% (2015: 25%)	394	(125)
Effects of:		
- Different tax rates in other countries	83	83
- Tax incentives	(40)	(79)
- Expenses not deductible for tax purposes	322	581
- Income not subject to tax	-	(5)
- Utilisation of previously unrecognised tax losses and allowances	(158)	(181)
- Deferred tax assets not recognised	279	434
- Under/(over) provision of tax in prior financial years	153	(28)
Tax expense	1,033	680

On 28 November 2013, a subsidiary corporation has been granted the Pioneer Status by the Malaysia Investment Development Authority ("Authority") for the period beginning 1 March 2011 to 29 February 2016. Subject to meeting certain requirements, the subsidiary corporation will enjoy exemption from payment of income taxes up to 70% of its statutory income.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

10. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share is calculated by dividing the net profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

For the purpose of calculating diluted earnings/(loss) per share, profit/(loss) attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares during the prior and current financial year.

	Group	
	2016	2015
Net profit/(loss) attributable to equity holders of the Company (RM'000)	146	(1,239)
Weighted average number of ordinary shares outstanding for basic earnings/(loss) per share ('000)	90,000	90,000
Basic and diluted earnings/(loss) per share (RM cents per share)	0.16	(1.38)

11. CASH AND BANK BALANCES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash at bank and on hand	8,723	6,307	*	*
Short-term bank deposits	1,309	1,267	–	–
	10,032	7,574	*	*

* Denotes less than RM1,000.

For the purpose of presenting the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	Group	
	2016 RM'000	2015 RM'000
Cash and bank balances (as above)	10,032	7,574
Less: Short-term bank deposits pledged	(1,309)	(1,267)
Less: Bank overdrafts (Note 20)	(11,068)	(8,561)
Cash and cash equivalents per consolidated statement of cash flows	(2,345)	(2,254)

Short-term bank deposits are pledged in relation to the security granted for certain borrowings (Note 20(a)).

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Trade receivables				
- Non-related parties	24,867	22,118	-	-
- Related parties	72	85	-	-
	24,939	22,203	-	-
Less: Allowance for impairment of trade receivables				
- non-related parties				
(Note 28(b)(ii))	(877)	(840)	-	-
Trade receivables - net	24,062	21,363	-	-
Other receivables				
- Non-related parties	1,398	1,222	-	-
- Subsidiary corporation	-	-	6,500	6,500
	25,460	22,585	6,500	6,500

The amounts due from subsidiary corporation are unsecured, interest free and repayable on demand.

13. INVENTORIES

	Group	
	2016 RM'000	2015 RM'000
Raw materials	4,053	3,979
Work-in-progress	15,915	16,215
Finished goods	8,582	6,852
	28,550	27,046

The cost of inventories recognised as an expense and included in "cost of sales" amounted to RM46,567,000 (2015: RM41,515,000).

14. OTHER CURRENT ASSETS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Deposits	668	2,445	-	-
Prepayments	2,243	2,654	15	15
	2,911	5,099	15	15

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RM'000	Leasehold land and buildings RM'000	Plant and machinery RM'000	Renovation and signboard RM'000	Motor vehicles RM'000	Computer, office equipment, fixtures, furniture and fittings RM'000	Showroom equipment RM'000	Construction work-in-progress RM'000	Total RM'000
Cost									
Beginning of financial year	7,373	19,652	30,895	5,124	3,544	3,602	456	-	70,646
Additions	40	2,057	4,048	73	524	135	-	844	7,721
Written off	-	-	(516)	(1,140)	-	(591)	-	-	(2,247)
Disposals	-	-	(2,782)	-	(152)	-	-	-	(2,934)
End of financial year	7,413	21,709	31,645	4,057	3,916	3,146	456	844	73,186
Accumulated depreciation									
Beginning of financial year	-	2,520	17,676	2,815	1,680	2,282	216	-	27,189
Depreciation charge (Note 6)	-	355	2,295	461	595	353	120	-	4,179
Written off	-	-	(516)	(1,124)	-	(588)	-	-	(2,228)
Disposals	-	-	(747)	-	(135)	-	-	-	(882)
End of financial year	-	2,875	18,708	2,152	2,140	2,047	336	-	28,258
Net book value									
End of financial year	7,413	18,834	12,937	1,905	1,776	1,099	120	844	44,928

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

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

	Freehold land RM'000	Leasehold land and buildings RM'000	Plant and machinery RM'000	Renovation and signboard RM'000	Motor vehicles RM'000	Computer, office equipment, fixtures, furniture and fittings RM'000	Showroom equipment RM'000	Total RM'000
Cost								
Beginning of financial year	7,373	19,652	31,750	5,033	3,533	3,160	216	70,717
Additions	-	-	815	77	921	444	240	2,497
Currency translation differences	-	-	-	16	-	*	-	16
Disposals	-	-	(1,670)	(2)	(910)	(2)	-	(2,584)
End of financial year	7,373	19,652	30,895	5,124	3,544	3,602	456	70,646
Accumulated depreciation								
Beginning of financial year	-	2,188	17,044	2,325	1,990	1,936	216	25,699
Depreciation charge (Note 6)	-	332	2,217	486	499	346	-	3,880
Currency translation differences	-	-	-	6	-	-	-	6
Disposals	-	-	(1,585)	(2)	(809)	*	-	(2,396)
End of financial year	-	2,520	17,676	2,815	1,680	2,282	216	27,189
Net book value								
End of financial year	7,373	17,132	13,219	2,309	1,864	1,320	240	43,457

* Denotes less than RM1,000.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

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

- (a) Included within additions to the consolidated financial statements are the following property, plant and equipment acquired under finance leases:

	Group	
	2016 RM'000	2015 RM'000
Plant and machinery	3,868	690
Motor vehicles	524	851
Computer and office equipment	–	223
	4,392	1,764

- (b) The carrying amounts of property, plant and equipment held under finance leases are as follows:

	Group	
	2016 RM'000	2015 RM'000
Plant and machinery	6,969	10,483
Motor vehicles	1,722	1,775
Computer and office equipment	193	270
	8,884	12,528

- (c) Certain property, plant and equipment of the Group with carrying amounts of RM26,247,000 (2015: RM24,505,000), are provided as security for bank borrowings and bills payable (Note 20(a)).

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

16. INVESTMENT PROPERTIES

	Leasehold land RM'000	Leasehold land and buildings RM'000	Total RM'000
Group			
2016			
Cost			
Beginning of financial year	3,445	903	4,348
Additions	126	–	126
End of financial year	3,571	903	4,474
Accumulated depreciation			
Beginning of financial year	414	246	660
Depreciation charge (Note 6)	46	13	59
End of financial year	460	259	719
Net book value			
End of financial year	3,111	644	3,755
2015			
Cost			
Beginning of financial year	3,216	903	4,119
Additions	229	–	229
End of financial year	3,445	903	4,348
Accumulated depreciation			
Beginning of financial year	395	233	628
Depreciation charge (Note 6)	19	13	32
End of financial year	414	246	660
Net book value			
End of financial year	3,031	657	3,688

Investment properties are leased to related and non-related parties under operating leases (Note 25(c)).

All investment properties are mortgaged to secure bank loans (Note 20(a)).

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

16. INVESTMENT PROPERTIES (CONT'D)

The following amounts are recognised in profit or loss:

	2016 RM'000	Group 2015 RM'000
Rental income (Note 5)	64	37
Direct operating expenses arising from:		
- Investment property that generated rental income	(19)	(17)
- Investment property that did not generate rental income	(50)	(50)

At the balance sheet date, the details of the Group's investment properties are as follows:

Location	Description	Existing use	Tenure	Unexpired term of lease
Lot 1861 Mukim Cheras, Daerah Hulu Langat, Selangor Darul Ehsan	Vacant land	Industrial	Leasehold land	55
No. 14 Jalan Kencana 30 Taman Kencana, 56100 Kuala Lumpur	Factory with 3-storey office	Commercial	Leasehold land and building	67

Fair value hierarchy

	Fair value measurement using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RM'000	RM'000	RM'000
31 December 2016			
- Industrial land	-	7,100	-
- Factory building	-	2,000	-
31 December 2015			
- Industrial land	-	7,100	-
- Factory building	-	2,000	-

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

16. INVESTMENT PROPERTIES (CONT'D)

Valuation techniques used to derive Level 2 fair values

Level 2 fair values of the Group's investment properties have been generally derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input in this valuation approach is the selling price per square meter.

Valuation process of the Group

The finance department of the Group performs the valuation of the investment properties required for financial reporting purposes, including Level 2 fair values. Discussion of valuation processes and results are held between the board of directors based on valuation by independent professional valuer and market transacted data available on a yearly basis.

17. INVESTMENTS IN SUBSIDIARY CORPORATIONS

	Company	
	2016 RM'000	2015 RM'000
<i>Equity investment at cost:</i>		
Beginning of financial year	19,673	19,622
Addition	–	51
	19,673	19,673
Less: Allowance for impairment loss of investment in a subsidiary corporation	(269)	(269)
	19,404	19,404

The movement for allowance for impairment loss are as follows:

	Company	
	2016 RM'000	2015 RM'000
Beginning of financial year	269	–
Addition	–	269
End of financial year	269	269

Management has assessed the recoverable amount of its investments in subsidiary corporations. The recoverable amount has been determined on the basis of their value-in-use. The impairment test was carried out as at 31 December 2015 had revealed that the recoverable amount in one of its subsidiary corporations is lower than its carrying amount, resulting from a decrease in growth margin by 5.8% and a decrease in growth rate by 3.3%. Hence, the related cost of investment was fully impaired.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

17. INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONT'D)

The Group had the following subsidiary corporations as at 31 December 2016 and 2015:

Name of subsidiary corporations	Principal activities	Country of business/ incorporation	Proportion of ordinary shares held by the Group		Proportion of ordinary shares held by non-controlling interests	
			2016 %	2015 %	2016 %	2015 %
Held by the Company						
MSM Metal Industries Sdn. Bhd. ⁽¹⁾	Contract manufacturing of all metal products	Malaysia	100	100	-	-
MSM Equipment Manufacturer Sdn. Bhd. ⁽¹⁾	Contract manufacturing of kitchen equipment and sale of standard kitchen equipment	Malaysia	100	100	-	-
MSM Kitchen Sdn. Bhd. <i>(formerly known as MSM Marketing Sdn. Bhd.)</i> ⁽¹⁾	Sale and servicing of standard kitchen equipment products	Malaysia	100	100	-	-
Toyomi Engineering Sdn. Bhd. <i>(formerly known as Toyomi (M) Sdn. Bhd.)</i> ⁽¹⁾	Sale and servicing of metal parts and kitchen equipment, and design consultancy and installation works	Malaysia	100	100	-	-
FIC Kitchen Technology Sdn. Bhd. ⁽¹⁾	Manufacturing, sale and servicing of refrigeration appliances	Malaysia	100	100	-	-
OMS Technology Sdn. Bhd. ⁽¹⁾	Design, consultancy and installation works for cleanrooms and laboratories	Malaysia	100	100	-	-
Marc Conleth Industries Sdn. Bhd. ⁽¹⁾	Metal engineering work for oil and gas and environmental related industries	Malaysia	100	100	-	-
Marc16 Equipment Manufacturing Sdn. Bhd. ⁽¹⁾	Trading, design and supply of machine	Malaysia	100	100	-	-

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

17. INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONT'D)

The Group had the following subsidiary corporations as at 31 December 2016 and 2015: (cont'd)

Name of subsidiary corporations	Principal activities	Country of business/ incorporation	Proportion of ordinary shares held by the Group		Proportion of ordinary shares held by non-controlling interests	
			2016 %	2015 %	2016 %	2015 %
Held by the Company (cont'd)						
Flexacon Automation System Sdn. Bhd. ⁽¹⁾	Trading, design and supply of machine, conveyor system	Malaysia	51	51	49	49
MSM Metal (S) Pte. Ltd. ⁽²⁾	Trading and servicing of metal parts and kitchen equipment	Singapore	100	100	–	–
Held by MSM Equipment Manufacturer Sdn. Bhd.						
PT. Mulia Sinergi Metalindo ⁽³⁾	Sale and service of metal parts, kitchen equipment	Indonesia	100	100	–	–
MSM R Kitchen Sdn. Bhd. ⁽¹⁾	Trading and servicing of metal parts and kitchen equipment	Malaysia	100	100	–	–

⁽¹⁾ Audited by Nexia SSY/SSY Partners, Malaysia, a member firm of Nexia International

⁽²⁾ Audited by Nexia TS Public Accounting Corporation, Singapore, a member firm of Nexia International

⁽³⁾ Audited by KAP Kanaka Puradiredja, Indonesia, a member firm of Nexia International

Carrying value of non-controlling interests

	Group	
	2016 RM'000	2015 RM'000
Flexacon Automation System Sdn. Bhd.	483	20

Summarised financial information of subsidiary corporation with material non-controlling interests

Set out below are the summarised financial information for subsidiary corporation that has non-controlling interests that are material to the Group. No summarised financial information for subsidiary corporation that has non-controlling interests is presented for the financial year ended 31 December 2015 as the carrying amount of the non-controlling interests is not material to the Group. These are presented before inter-company eliminations.

There were no transactions with non-controlling interests for the financial years ended 31 December 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

17. INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONT'D)

Summarised balance sheet

	Flexacon Automation System Sdn. Bhd. 2016 RM'000
Current	
Assets	1,399
Liabilities	(479)
Total current net assets	<u>920</u>
Non-current	
Assets	75
Liabilities	(10)
Total non-current net assets	<u>65</u>
Net assets	<u>985</u>

Summarised income statement

	Flexacon Automation System Sdn. Bhd. 2016 RM'000
Revenue	6,559
Profit before income tax	1,263
Income tax expense	(318)
Net profit	<u>945</u>
Other comprehensive income	<u>–</u>
Total comprehensive income	<u>945</u>
Total comprehensive income allocated to non-controlling interests	<u>463</u>

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

17. INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONT'D)

Summarised cash flows

	Flexacon Automation System Sdn. Bhd. 2016 RM'000
Cash flows from operating activities	
Cash generated from operations	55
Interest paid	–
Income tax paid	(230)
	<hr/>
Net cash used in operating activities	(175)
	<hr/>
Net cash used in investing activities	(27)
	<hr/>
Net cash used in financing activities	–
	<hr/>
Net decrease in cash and cash equivalents	(202)
Cash and cash equivalents at beginning of year	1,148
	<hr/>
Cash and cash equivalents at end of year	946
	<hr/>

18. INTANGIBLE ASSETS

	Group	
	2016 RM'000	2015 RM'000
Goodwill arising on consolidation	–	–
	<hr/>	<hr/>
	Group	
	2016 RM'000	2015 RM'000
Cost		
Beginning and end of financial year	201	201
	<hr/>	<hr/>
Accumulated impairment		
Beginning of financial year	201	–
Impairment charge (Note 6)	–	201
	<hr/>	<hr/>
End of financial year	201	201
	<hr/>	<hr/>
Net book value	–	–
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

18. INTANGIBLE ASSETS (CONT'D)

The recoverable amount of a CGU was determined based on value-in-use. Cash flow projections used in the value-in-use calculations were based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period were extrapolated using the estimated growth rates stated below. The growth rate did not exceed the long-term average growth rate for the component parts business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	Group	
	2016	2015
Gross margin ¹	–	27.0%
Growth rate ²	–	10.0%
Discount rate ³	–	5.5%

¹ Budgeted gross margin

² Weighted average growth rate used to extrapolate cash flows beyond the budget period

³ Pre-tax discount rate applied to the pre-tax cash flow projections

These assumptions were used for the analysis of each CGU within the business segment. Management determined budgeted gross margin based on past performance and its expectations of market developments. The weighted average growth rates used were consistent with forecasts included in industry reports. The discount rates used were pre-tax and reflected specific risks relating to the relevant segments.

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to countries of operation and business segments.

A segment-level summary of the goodwill allocation is as follow:

Country	Business segment	Group	
		2016 RM'000	2015 RM'000
Malaysia	OEM Contract Manufacturing	–	–

The impairment test carried out as at 31 December 2015 had revealed that the recoverable amount is lower than its carrying amount, resulting from a decrease in growth margin by 5.8% and a decrease in growth rate by 3.3%. Hence, the goodwill has been fully impaired during the financial year and is included within "Administrative expenses" in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Trade payables to				
- Non-related parties	10,353	8,711	-	-
- Related parties	-	*	-	-
	10,353	8,711	-	-
Accruals for operating expenses	2,669	2,838	165	152
Other payables				
- Non-related parties	1,239	1,308	243	220
- Subsidiary corporations	-	-	4,533	3,582
Advances from customers	3,401	3,019	-	-
	17,662	15,876	4,941	3,954

* Denotes less than RM1,000.

The non-trade amounts due to subsidiary corporations are unsecured, interest-free and repayable on demand.

20. BORROWINGS

	Group	
	2016 RM'000	2015 RM'000
Current		
Bank overdrafts (Note 11)	11,068	8,561
Bank loans	2,523	2,271
Bills payable	18,301	16,931
Finance lease liabilities (Note 21)	2,922	2,697
	34,814	30,460
Non-current		
Bank loans	14,326	15,124
Finance lease liabilities (Note 21)	6,961	5,882
	21,287	21,006
Total borrowings	56,101	51,466

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

20. BORROWINGS (CONT'D)

The exposure of the borrowings of the Group to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	Group	
	2016 RM'000	2015 RM'000
6 months or less	32,190	28,092
6 – 12 months	2,624	2,368
1 – 5 years	12,437	11,791
Over 5 years	8,850	9,215
	56,101	51,466

(a) Security granted

Bank overdrafts, bank loans and bills payable are secured by a legal mortgage over the Group's freehold land, leasehold land and buildings (Note 15), investment properties (Note 16), short-term bank deposits of the Group (Note 11), corporate guarantee of the Company and certain personal guarantees of the directors.

Finance lease liabilities of the Group are effectively secured over to the leased plant and machinery, motor vehicles and computer and office equipment (Note 15(b)), as the legal title is retained by the lessor and will be transferred to the Group upon full settlement of the finance lease liabilities.

(b) Fair value of non-current borrowings

	Group	
	2016 RM'000	2015 RM'000
Bank loans	14,363	14,756
Finance lease liabilities	7,460	6,462

The fair values above are determined from the cash flow analyses, discounted at market borrowing rates of an equivalent instrument at the balance sheet date which the directors expect to be available to the Group as follows:

	Group	
	2016 %	2015 %
Bank loans	5.1	5.3
Finance lease liabilities	3.2	3.2

The fair values are within Level 2 of the fair values hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

20. BORROWINGS (CONT'D)

There are ten (2015: eight) secured term loans held by the Group. The terms of repayments are as follows:

	Maturity date	2016 RM'000	2015 RM'000
Group			
Floating rate	May 2017, June 2017, November 2018, October 2019, September 2025, February 2030, May 2031, December 2034, June 2035, October 2040	16,849	17,395

21. FINANCE LEASE LIABILITIES

The Group leases certain plant and machinery, motor vehicles, computer and office equipment from non-related parties under finance lease agreements. The lease agreements do not have renewal clauses but provide the Group with options to purchase the leased assets at nominal values at the end of lease term.

	Group	
	2016 RM'000	2015 RM'000
Minimum lease payments due		
- Not later than one year	3,414	3,119
- Between one and five years	7,306	6,025
- Later than five years	308	370
	11,028	9,514
Less: Future finance charges	(1,145)	(935)
Present value of finance lease liabilities	9,883	8,579

The present values of finance lease liabilities are analysed as follows:

	Group	
	2016 RM'000	2015 RM'000
Not later than one year (Note 20)	2,922	2,697
Later than one year (Note 20)		
- Between one and five years	6,667	5,640
- Later than five years	294	242
	6,961	5,882
Total	9,883	8,579

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

22. DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting and their movement during the financial year, are shown on the balance sheets as follows:

	Group	
	2016 RM'000	2015 RM'000
Deferred income tax liabilities - net		
- to be settled after one year	259	227

Movement in deferred income tax account is as follows:

	Group	
	2016 RM'000	2015 RM'000
Beginning of financial year	227	211
Tax charged to profit or loss (Note 9)	32	16
End of financial year	259	227

Deferred income tax assets are recognised for tax losses, capital allowances and reinvestment allowances carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of RM5,177,000 (2015: RM5,183,000), capital allowances of RM3,444,000 (2015: RM3,993,000) and reinvestment allowances of RM8,389,000 (2015: RM7,331,000) at the balance sheet date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses, capital allowances and reinvestment allowances in their respective countries of incorporation. The tax losses, capital allowances and reinvestment allowances have no expiry date.

The movement in deferred income tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) is as follows:

Deferred income tax liabilities

	Accelerated tax depreciation RM'000
2016	
Beginning of financial year	294
Credited to profit or loss	(14)
End of financial year	280
2015	
Beginning of financial year	281
Charged to profit or loss	13
End of financial year	294

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

22. DEFERRED INCOME TAXES (CONT'D)

Deferred income tax assets

	Tax losses RM'000
2016	
Beginning of financial year	(67)
Charged to profit or loss	46
	<hr/>
End of financial year	(21)
	<hr/>
2015	
Beginning of financial year	(70)
Charged to profit or loss	3
	<hr/>
End of financial year	(67)
	<hr/>

No deferred tax liabilities has been recognised for withholding taxes that would be payable on unremitted earnings of the Group's subsidiary corporations (established in Malaysia and Indonesia) as the Group is in the position to control the timing of the remittance of earning and it is not probable that these subsidiary corporations will distribute such earnings in the foreseeable future.

23. SHARE CAPITAL

	Number of ordinary shares '000	Amount RM'000
Group and Company		
2016 and 2015		
Beginning and end of financial year	90,000	26,862
	<hr/>	<hr/>

All issued ordinary shares are fully paid. There is no par value for these ordinary shares.

Fully paid ordinary shares carry one vote per share and carry a right to dividends as and when declared by the Company.

24. CONTINGENT LIABILITIES

	Company	
	2016 RM'000	2015 RM'000
Corporate guarantee provided to banks on subsidiary corporations' loans	64,498	61,863
	<hr/>	<hr/>

The Company has issued corporate guarantees to certain banks and financial institutions for credit facilities granted to the subsidiary corporations. The Company has evaluated the fair value of the corporate guarantees and is of the view that the consequential benefit derived from its guarantees to the banks and the fair value with regard to the subsidiary corporations is minimal. The subsidiary corporations have not defaulted in the payment of borrowings in the financial years ended 31 December 2015 and 2016. As at the balance sheet date, no claims on the financial guarantee are expected.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

25. COMMITMENTS

(a) Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognised in the financial statements, are as follows:

	Group	
	2016 RM'000	2015 RM'000
Property, plant and equipment	44	1,573

(b) Operating lease commitments – where the Group is a lessee

The Group leases warehouse and office buildings from directors and non-related parties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future minimum lease payables under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are as follows:

	Group	
	2016 RM'000	2015 RM'000
Not later than one year	466	517
Between one and five years	294	680
Later than five years	–	312
	760	1,509

(c) Operating lease commitments – where the Group is a lessor

The Group leases out office space to related and non-related parties under non-cancellable operating lease agreements.

The future minimum lease receivables under non-cancellable operating leases contracted for at the balance sheet date but not recognised as receivables, are as follows:

	Group	
	2016 RM'000	2015 RM'000
Not later than one year	336	60
Between one and five years	212	–
	548	60

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

26. RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

(a) Sales and purchases of goods and services and other expenses

	Group	
	2016 RM'000	2015 RM'000
Sales of goods to related parties	12	23
Service charges charged to a related party	13	22
Rental expenses paid to directors	(84)	(83)
Rental expenses paid to a related party	(17)	(14)
Purchases of material from a related party	(7)	(86)
Subcontractors' cost paid to related parties	(64)	(3)

Related parties comprise mainly companies which are controlled or significantly influenced by the Group's key management personnel and their close family members.

Outstanding balances as at 31 December 2016, arising from sale/purchase of goods and services, are unsecured and receivable/payable within 12 months from balance sheet date and are disclosed in Notes 12 and 19 to the financial statements respectively.

(b) Key management personnel compensation

Key management personnel compensation is as follows:

	Group	
	2016 RM'000	2015 RM'000
Salaries, bonuses and allowances	2,104	2,159
Directors' fees	230	211
Employer's contribution to defined contribution plans	189	211
Other short-term benefits	270	278
	2,793	2,859

Included in the above is total compensation to directors of the Company amounting to RM1,627,000 (2015: RM1,601,000).

27. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. For each of the strategic business units, the Board of Directors (the chief operating decision maker) reviews internal management reports on at least half-annually.

The Board of Directors comprises three independent directors and three non-independent directors. The Board of Directors considers the business from both a geographic and business segment perspective. Geographically, management manages and monitors the business in four primary geographic areas: Malaysia, United States of America, Singapore and Indonesia. All geographic locations are engaged in the Original Equipment Manufacturer contract manufacturing ("OEM contract manufacturing"), kitchen appliances, equipment and related services, oil and gas and cleanroom and laboratories.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

27. SEGMENT INFORMATION (CONT'D)

The Board of Directors has organised the business of the Group in four business segments as set out below:

- OEM contract manufacturing;
- Kitchen appliances, equipment and related services;
- Oil and gas; and
- Cleanroom and laboratories.

Except as disclosed above, no operating segments have been aggregated to form the above reportable operating segments.

The segment information provided to the Board of Directors for the reportable segments are as follows:

	OEM contract manufacturing RM'000	Kitchen appliances, equipment and related services RM'000	Oil and gas RM'000	Cleanroom and laboratories RM'000	Total RM'000
2016					
Revenue					
- Sales to external parties	32,772	42,432	8,753	8,783	92,740
Adjusted EBITDA					
Depreciation of property, plant and equipment	1,848	4,518	2,279	141	8,786
Finance expense	2,265	859	953	102	4,179
	1,683	462	766	37	2,948
2015					
Revenue					
- Sales to external parties	25,755	37,379	10,294	8,753	82,181
Adjusted EBITDA					
Depreciation of property, plant and equipment	822	2,265	1,986	1,207	6,280
Impairment loss on goodwill	2,053	774	954	99	3,880
Finance expense	201	-	-	-	201
	1,496	338	864	44	2,742

As the amounts of total assets and liabilities for each reportable segment is not regularly provided to Board of Directors, such information is not presented in the financial statements.

There are no inter-business segment sales. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the consolidated statement of comprehensive income.

The Board of Directors assesses the performance of the operating segments based on measure of earnings before interest, tax, depreciation and amortisation ("adjusted EBITDA"). Interest income and depreciation of investment properties are not allocated to segments, as this type of activity is driven by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), who manage the cash position of the Group.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

27. SEGMENT INFORMATION (CONT'D)

A reconciliation of adjusted EBITDA to profit/(loss) before income tax is provided as follows:

	Group	
	2016 RM'000	2015 RM'000
Adjusted EBITDA for reportable segments	8,786	6,280
Depreciation of property, plant and equipment	(4,179)	(3,880)
Depreciation of investment properties	(59)	(32)
Impairment loss of goodwill	–	(201)
Finance expense	(2,948)	(2,742)
Interest income	42	74
Profit/(loss) before income tax	1,642	(501)

Geographical information

The Group's four business segments operate in four primary geographical areas:

- Malaysia – the Group is headquartered and has operations in Malaysia. The operations in this area are principally in the manufacturing and sales of OEM contract manufacturing products, kitchen appliances, equipment and related services, oil and gas products and cleanroom and laboratories products;
- United States of America – the operations include the sale of kitchen appliances, equipment and related services and oil and gas products;
- Singapore – the operations include the sale of OEM contract manufacturing products and kitchen appliances, equipment and related services;
- Indonesia – the operations include the sale of OEM contract manufacturing products and kitchen appliances, equipment and related services; and
- Other countries – the operations include the sale of OEM contract manufacturing products in New Zealand, France and Australia, and the sale of kitchen appliances and equipment in Thailand, Myanmar, Brunei, Vietnam, India, Sri Lanka and Cambodia and the sale of cleanroom and laboratories in Philippines.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

27. SEGMENT INFORMATION (CONT'D)

	Group	
	2016 RM'000	2015 RM'000
Revenue		
Malaysia	78,109	76,161
United States of America	6,244	2,277
Singapore	1,526	1,000
Indonesia	3,144	492
Other countries	3,717	2,251
	92,740	82,181
Non-current assets		
Malaysia	48,642	47,094
Indonesia	-	1
Singapore	41	50
	48,683	47,145

Revenues of approximately RM8,454,000 (2015: RM10,135,000) are derived from a single external customer which is attributable to the sale of oil and gas products in the geographical segments of Malaysia and United States of America.

28. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to market risk (including currency risk, price risk and interest rate risk), credit risk, liquidity risk and capital risk. The Group's overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group. The Board of Directors then establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, exposure limits and hedging strategies.

The overall business strategies of the Group, its tolerance for risk and its general risk management philosophy are determined by the management in accordance with prevailing economic and operating conditions. In determining its risk management policies, the management ensures that an acceptable balance is made between the cost of risks occurring and the cost of managing the risks.

The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below:

(a) Market risk

(i) Currency risk

The Group mainly operates in Malaysia. Entities in the Group regularly transact in currencies other than their respective functional currencies ("foreign currencies").

Currency risk arises when transactions are denominated in foreign currencies such as United States Dollar ("USD"), Singapore Dollar ("SGD"), Euro ("EUR") and Indonesia Rupiah ("IDR"). As the transactions in foreign currencies are minimal, the Group manages the foreign exchange exposure arising from future commercial transactions and recognised assets and liabilities by a policy of matching, as far as possible, receipts and payments in each individual currency.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

28. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Market risk (cont'd)

(i) Currency risk (cont'd)

The Group's currency exposure based on the information provided to key management is as follows:

	RM RM'000	USD RM'000	SGD RM'000	EUR RM'000	IDR RM'000	Total RM'000
31 December 2016						
Financial assets						
Cash and bank balances	9,178	510	21	280	43	10,032
Trade and other receivables	22,216	1,348	8	273	1,615	25,460
Other current assets	620	–	–	–	48	668
Inter-companies receivables	9,615	–	–	–	–	9,615
	41,629	1,858	29	553	1,706	45,775
Financial liabilities						
Trade and other payables	11,709	–	187	–	2,365	14,261
Borrowings	56,101	–	–	–	–	56,101
Inter-companies payables	9,615	–	–	–	–	9,615
	77,425	–	187	–	2,365	79,977
Net financial (liabilities)/assets	(35,796)	1,858	(158)	553	(659)	(34,202)
Less: Net financial liabilities denominated in the respective entities' functional currencies	35,796	–	–	–	–	35,796
Currency exposure of financial assets/ (liabilities) net of those denominated in the respective entities' functional currencies	–	1,858	(158)	553	(659)	1,594

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

28. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Market risk (cont'd)

(i) Currency risk (cont'd)

	RM RM'000	USD RM'000	SGD RM'000	EUR RM'000	IDR RM'000	Total RM'000
31 December 2015						
Financial assets						
Cash and bank balances	7,246	150	79	1	98	7,574
Trade and other receivables	21,971	89	8	–	517	22,585
Other current assets	2,398	–	–	–	47	2,445
Inter-companies receivables	6,467	–	–	–	–	6,467
	38,082	239	87	1	662	39,071
Financial liabilities						
Trade and other payables	12,120	156	25	–	556	12,857
Borrowings	51,246	–	–	220	–	51,466
Inter-companies payables	6,467	–	–	–	–	6,467
	69,833	156	25	220	556	70,790
Net financial (liabilities)/assets	(31,751)	83	62	(219)	106	(31,719)
Less: Net financial liabilities denominated in the respective entities' functional currencies	31,751	–	–	–	–	31,751
Currency exposure of financial assets/ (liabilities) net of those denominated in the respective entities' functional currencies	–	83	62	(219)	106	32

The Company does not have any significant exposure to currency risk as the transactions in foreign currencies are minimal.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

28. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Market risk (cont'd)

(i) Currency risk (cont'd)

If the USD, SGD, EUR and IDR change against the RM by 5% (2015: 5%) respectively, with all other variables including tax rate being held constant, the effects arising from net financial liabilities/assets position will be as follows:

	← Increase/(Decrease) →			
	2016		2015	
	Net profit RM'000	Equity RM'000	Net profit RM'000	Equity RM'000
USD against RM				
- strengthened	71	71	3	3
- weakened	(71)	(71)	(3)	(3)
SGD against RM				
- strengthened	(6)	(6)	2	2
- weakened	6	6	(2)	(2)
EUR against RM				
- strengthened	21	21	(8)	(8)
- weakened	(21)	(21)	8	8
IDR against RM				
- strengthened	(25)	(25)	4	4
- weakened	25	25	(4)	(4)

(ii) Price risk

The Group does not have exposure to equity price risk as it does not hold any equity financial assets.

(iii) Cash flow and fair value interest rate risks

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Group's interest rate risk mainly arises from bank borrowings at variable interest rates. The Group manages its interest rate risk by keeping bank borrowings to the minimum required to sustain the operations of the Group.

The Group's exposure to cash flow interest rate risk arises mainly from non-current variable rate borrowings. The Group is not exposed to changes in interest rates for fixed rate financial assets and financial liabilities.

The Group's borrowings at variable rates are denominated in RM. If the RM interest rate increase/decrease by 1% (2015: 1%) with all other variables including tax rates being held constant, the net profit and equity will be lower/higher by RM351,000 (2015: RM386,000).

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

28. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The major classes of financial assets of the Group and of the Company are bank deposits and trade receivables. For trade receivables, the Group adopts the policy of dealing only with recognised and creditworthy third parties. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

As the Group and the Company do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet, except as follows:

	Group	
	2016 RM'000	2015 RM'000
Corporate guarantees provided to banks on subsidiary corporations' loans	64,498	61,863

The trade receivables of the Group comprise 1 debtor (2015: 1 debtor) that represented 9% (2015: 11%) of trade receivables.

The credit risk for trade receivables based on the information provided to key management is as follows:

	Group	
	2016 RM'000	2015 RM'000
<u>By geographical areas</u>		
Malaysia	19,601	19,299
Indonesia	2,945	1,782
Singapore	153	166
United States of America	1,289	*
Other countries	74	116
	24,062	21,363
<u>By types of customers</u>		
Related parties	72	85
Non-related parties		
- Multi-national companies	9,508	6,637
- Other companies	14,482	14,641
	24,062	21,363

* Denotes less than RM1,000.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

28. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (cont'd)

(i) Financial assets that are neither past due nor impaired

Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies. Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

(ii) Financial assets that are past due and/or impaired

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

The age analysis of trade receivables past due but not impaired is as follows:

	Group	
	2016 RM'000	2015 RM'000
Past due 0 to 3 months	3,018	3,260
Past due 3 to 6 months	1,523	784
Past due over 6 months	4,950	3,630
	9,491	7,674

The carrying amount of trade receivables individually determined to be impaired and the movements in the related allowance for impairment are as follows:

	Group	
	2016 RM'000	2015 RM'000
Gross amount	923	860
Less: Allowance for impairment (Note 12)	(877)	(840)
	46	20
Beginning of financial year	840	443
Allowance made (Note 6)	314	480
Allowance utilised	(43)	(6)
Reversal of allowance of impairment (Note 6)	(234)	(77)
End of the financial year	877	840

The impaired trade receivables arises from sales to companies that mainly relate to customers that are in financial difficulties and whose payments are not forthcoming.

The Group believes that the trade receivables that are past due but not impaired are collectible, based on historical payment behavior and credit worthiness of the customers.

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

28. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and having an adequate amount of committed credit facilities (Note 20) to enable it to meet its normal operating commitments. The Group's objective is to maintain a balance between continuing of funding and flexibility through the use of bank borrowings, bank overdrafts and finance lease liabilities. As at balance sheet date, assets held by the Group and the Company for managing liquidity risks included cash and short-term bank deposits as disclosed in Note 11.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

	Less than 1 year RM'000	Between 1 and 2 years RM'000	Between 2 and 5 years RM'000	Over 5 years RM'000
Group				
31 December 2016				
Trade and other payables	14,261	–	–	–
Borrowings	36,092	5,949	9,314	10,905
	50,353	5,949	9,314	10,905
31 December 2015				
Trade and other payables	12,857	–	–	–
Borrowings	31,739	5,626	8,963	12,703
	44,596	5,626	8,963	12,703
Company				
31 December 2016				
Trade and other payables	4,941	–	–	–
Corporate guarantees	64,498	–	–	–
	69,439	–	–	–
31 December 2015				
Trade and other payables	3,954	–	–	–
Corporate guarantees	61,863	–	–	–
	65,817	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

28. FINANCIAL RISK MANAGEMENT (CONT'D)

(d) Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce borrowings.

Management monitors capital based on a gearing ratio. The Group's policy, which is unchanged from 2015, is to maintain gearing ratio of not exceeding 2.0 times.

Gearing ratio is calculated as total borrowings divided by total net equity. Net equity is defined as total assets minus total liabilities.

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Total borrowings	56,101	51,466	–	–
Net equity	42,693	42,084	20,978	21,965
Gearing ratio (times)	1.31	1.22	–	–

The Group is in compliance with all externally imposed capital requirements where the Company is not subject to any externally imposed capital requirements for the financial years ended 31 December 2016 and 2015.

(e) Financial instruments by category

The carrying amount of the different categories of financial instruments is as disclosed on the face of the balance sheet, except for the following:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Loans and receivables	36,160	32,604	6,500	6,500
Financial liabilities at amortised cost	70,362	64,323	4,941	3,954

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

29. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS

Below are the mandatory standards, amendments and interpretations to existing standards that have been published and are relevant for the Group's accounting periods beginning on or after 1 January 2017 or later periods:

Effective for annual periods beginning on or after 1 January 2017

- Amendments to FRS 7 *Disclosure Initiative*
- Amendments to FRS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*
- Improvements to FRSs (December 2016)
 - Amendments to FRS 112 *Disclosure of Interests in Other Entities*

Effective for annual periods beginning on or after 1 January 2018

- FRS 109 *Financial Instruments*
- FRS 115 *Revenue from Contracts with Customers*
- Amendments to FRS 40 *Transfers of Investment Property*
- Amendments to FRS 102 *Classification and Measurement of Share-based Payment Transactions*
- Amendments to FRS 115 *Clarifications to FRS 115 Revenue from Contracts with Customers*
- Improvements to FRSs (December 2016)
 - Amendments to FRS 28 *Investments in Associates and Joint Ventures*
 - Amendments to FRS 101 *First-Time Adoption of Financial Reporting Standards*
- INT FRS 122 *Foreign Currency Transactions and Advance Consideration*

Effective for annual periods beginning on or after 1 January 2019

- FRS 116 *Leases*

Effective date: to be determined*

- Amendments to FRS 110 and FRS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

* The mandatory effective date of this Amendment had been revised from 1 January 2016 to a date to be determined by the Accounting Standards Council Singapore (ASC) in December 2015 via Amendments to Effective Date of Amendments to FRS 110 and FRS 28.

The management anticipates that the adoption of the above FRSs, INT FRSs and amendments to FRS in the future periods will not have a material impact on the financial statements of the Group in the period of their initial adoption except for the following:

- FRS 115 *Revenue from contracts with customers* (effective for annual periods beginning on or after 1 January 2018)

This is the converged standard on revenue recognition. It replaces FRS 11 *Construction contracts*, FRS 18 *Revenue*, and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of FRS 115 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

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

NOTES TO THE FINANCIAL STATEMENTS

(CONT'D)

29. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS (CONT'D)

- FRS 115 *Revenue from contracts with customers* (cont'd)

FRS 115 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessment of the impact over the next twelve months.

- FRS 109 *Financial instruments* (effective for annual periods beginning on or after 1 January 2018)

The complete version of FRS 109 replaces most of the guidance in FRS 39. FRS 109 retains the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income (OCI) and fair value through Profit or Loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI.

The Group does not expect the new guidance to have a significant impact on the classification of its financial assets.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, for liabilities designed at fair value through profit or loss. There will be no impact on the Group's accounting for financial liabilities as the Group does not have any such liabilities.

In relation to the impairment of financial assets, FRS 109 requires an expected credit loss model, as opposed to an incurred credit loss model under FRS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each balance sheet date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Management anticipates that the initial application of the new FRS 109 will result in changes to the accounting policies relating to the impairment provisions of financial asset. Management will consider whether a lifetime or 12-month expected credit losses on financial assets should be recognised, which is dependent on whether there has been a significant increase in the credit risk of the assets from initial recognition to the date of initial application of FRS 109. Additional disclosures will also be made. It is currently impracticable to disclose any further information on the known or reasonably estimable impact to the Group's financial statements in the period of initial application as management has yet to complete its detailed assessment.

- FRS 116 *Leases* (effective for annual periods beginning on or after 1 January 2019)

FRS 116 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

The standard will affect primarily the accounting for the Group's operating leases. As at the balance sheet date, the Group has non-cancellable operating lease commitments of RM760,000 (Note 25(b)). However, the Group has yet to determine to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under FRS 116.

30. AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the Board of Director of MSM International Limited on 30 March 2017.

STATISTICS OF SHAREHOLDINGS

AS AT 17 MARCH 2017

ISSUED AND FULLY PAID-UP SHARES EXCLUDING TREASURY SHARES	:	90,000,000
NO. OF TREASURY SHARES	:	NIL
CLASS OF SHARES	:	ORDINARY SHARES
VOTING RIGHTS	:	ONE VOTE PER SHARE

SUBSTANTIAL SHAREHOLDERS

	Direct Interest		Deemed Interest	
	No. of shares	%	No. of shares	%
Triumphant Hope Sdn. Bhd.	61,564,747	68.41	–	–
Chan Kee Sieng	187,000	0.21	61,564,747	68.41
Chan Kit Moi	130,000	0.14	61,564,747	68.41

Notes:

Messrs Chan Kee Sieng and Chan Kit Moi are shareholders of Triumphant Hope Sdn. Bhd. ("Triumphant Hope") (each holding 50% of shares in the capital of Triumphant Hope) and they are deemed to have an interest in the shares held by Triumphant Hope.

Shareholdings Held in the Hands of Public

Based on information available to the Company as at 17 March 2017, approximately 26.26% of the issued ordinary shares of the Company is held by the public and therefore, Rule 723 of the SGX-ST Listing Manual (Section B: Rules of Catalyst) is complied with.

DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 99	1	0.81	3	0.00
100 - 1,000	2	1.63	1,900	0.00
1,001 - 10,000	29	23.58	234,000	0.26
10,001 - 1,000,000	85	69.10	13,300,623	14.78
1,000,001 & ABOVE	6	4.88	76,463,474	84.96
TOTAL	123	100.00	90,000,000	100.00

STATISTICS OF SHAREHOLDINGS

(CONT'D)

TWENTY LARGEST SHAREHOLDERS

Name of Shareholders	No. of Shares	% of Shares
TRIUMPHANT HOPE SDN. BHD.	61,564,747	68.41
CIMB SECURITIES (SINGAPORE) PTE LTD	6,926,106	7.70
CHAN WEN CHAU	2,785,186	3.09
LIM CHYE HUAT @ BOBBY LIM CHYE HUAT	2,780,000	3.09
PHILLIP SECURITIES PTE LTD	1,325,000	1.47
CHAN WEN YAW	1,082,435	1.20
CHOO KOK CHENG	950,000	1.06
RHB SECURITIES SINGAPORE PTE LTD	887,003	0.99
CHAN WEN YEE	883,810	0.98
ONG SENG JOO	883,810	0.98
LEE KAY HUAN HOLDINGS PTE LTD	840,000	0.93
KOK SHAW TERK (GUO SHAODE)	764,000	0.85
CHIN JIT SIN	750,000	0.83
KAM FOONG KENG	750,000	0.83
UOB KAY HIAN PTE LTD	560,000	0.62
LIM POH HOCK ERIC	500,000	0.56
GERALD CHEW KIN MUN	400,000	0.45
CHAN SIEW LING	361,000	0.40
CHUA KENG LOY	250,000	0.28
DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	227,000	0.25
TOTAL	85,470,097	94.97

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting (“**AGM**”) of the Company will be held at Park Avenue Changi, South Meeting Room, 2 Changi Business Park Avenue 1, Singapore 486015 on Friday, 28 April 2017 at 10.30 a.m. to transact the following business:

ORDINARY BUSINESS

- | | | |
|----|--|---------------------|
| 1. | To receive and adopt the Audited Financial Statements for the financial year ended 31 December 2016 together with the Directors’ Statement and Independent Auditor’s Report thereon. | Resolution 1 |
| 2. | To approve the Directors’ fees of S\$83,000 for the financial year ending 31 December 2017 (2016: S\$83,000). | Resolution 2 |
| 3. | To re-elect Mr Chan Wen Chau who is retiring pursuant to Article 107 of the Company’s Constitution.
(See Note 1) | Resolution 3 |
| 4. | To re-elect Mr Leow Wee Kia Clement who is retiring pursuant to Article 107 of the Company’s Constitution.
(See Note 2) | Resolution 4 |
| 5. | To re-appoint Nexia TS Public Accounting Corporation as the Auditor of the Company and authorise the Directors to fix their remuneration. | Resolution 5 |
| 6. | To transact any other ordinary business which may be properly transacted at an AGM. | |

SPECIAL BUSINESS

To consider and, if thought fit, to approve the following Ordinary Resolution, with or without modifications:

7. Authority to allot and issue shares

THAT pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore (the “**Act**”) and Rule 806 of the Listing Manual Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) (“**Catalist Rules**”), the Directors of the Company be authorised and empowered to:

- | | | | |
|-----|------|--|---------------------|
| (I) | (i) | allot and issue shares in the capital of the Company (“ Shares ”) whether by way of rights, bonus or otherwise; and/or | Resolution 6 |
| | (ii) | make or grant offers, agreements or options (collectively, “ Instruments ”) that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into Shares, | |

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

- | | | |
|------|--|--|
| (II) | (notwithstanding that the authority conferred by this Resolution 6 may have ceased to be in force) issue Shares in pursuance of any Instruments made or granted by the Directors while this Resolution 6 was in force, | |
|------|--|--|

NOTICE OF ANNUAL GENERAL MEETING

(CONT'D)

provided that:

- (a) the aggregate number of Shares to be issued pursuant to this Resolution 6 (including Shares to be issued in pursuance of Instruments, made or granted pursuant to this Resolution 6), shall not exceed one hundred per cent (100%) of the total number of issued Shares in the capital of the Company (excluding treasury shares) (as calculated in accordance with sub-paragraph (b) below), of which the aggregate number of Shares to be issued other than on a pro-rata basis to the existing shareholders of the Company (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution 6) shall not exceed fifty per cent (50%) of the total number of issued Shares (excluding treasury shares) (as calculated in accordance with sub-paragraph (b) below);
- (b) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of Shares (including Shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution 6) that may be issued under sub-paragraph (a) above, the percentage of the issued Shares shall be based on the total number of issued Shares (excluding treasury shares) at the time this Resolution 6 is passed, after adjusting for:
 - (i) new Shares arising from the conversion or exercise of any convertible securities;
 - (ii) new Shares arising from the exercise of share options or vesting of share awards which are outstanding and/or subsisting at the time of the passing of this Resolution 6, provided the share options or share awards (as the case may be) were granted in compliance with Part VIII of Chapter 8 of the Catalist Rules; and
 - (iii) any subsequent bonus issue, consolidation or subdivision of Shares;
- (c) in exercising the authority conferred by this Resolution 6, the Company shall comply with the provisions of the Catalist Rules for the time being in force (unless such compliance has been waived by the SGX-ST), all applicable legal requirements under the Act and the Constitution for the time being of the Company; and
- (d) the authority conferred by this Resolution 6 shall, unless revoked or varied by the Company in general meeting, continue to be in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier.

(See Explanatory Note 1)

By Order of the Board

Chan Kee Sieng
Executive Chairman
Singapore
12 April 2017

NOTICE OF ANNUAL GENERAL MEETING

(CONT'D)

Explanatory Notes:

1. The Ordinary Resolution 6 above, is to authorise the Directors of the Company from the date of the forthcoming AGM until the next AGM of the Company to issue shares and convertible securities in the Company up to an amount not exceeding in aggregate 100% of the total number of issued shares excluding treasury shares of which the total number of shares issued other than on a pro-rata basis to existing shareholders shall not exceed 50% of the total number of issued shares excluding treasury shares for such purposes as they consider would be in the interests of the Company. Rule 806(3) of the Catalist Rules currently provides for the percentage of the total number of issued shares excluding treasury shares to be calculated on the basis of the total number of issued shares at the time that the Resolution 6 is passed (taking into account the conversion or exercise of any convertible securities or employee share options at the time that the Resolution 6 is passed, which were issued pursuant to previous shareholder approval), adjusted for any subsequent bonus issue, consolidation or subdivision of shares. This authority will, unless revoked or varied at a general meeting, expire at the next AGM of the Company.

Notes:

- (1) Except for a member who is a Relevant Intermediary as defined under Section 181 (6) of the Act, a member of the Company entitled to attend and vote at the AGM is entitled to appoint not more than two proxies to attend and vote on his/her behalf. A member of the Company which is a corporation is entitled to appoint its authorised representative or proxy to vote on its behalf. A proxy need not be a member of the Company.
- (2) Pursuant to Section 181 (1C) of the Act, a member who is a Relevant Intermediary is entitled to appoint more than two proxies to attend, speak and vote at the AGM provided that each proxy is appointed to exercise the rights attached to different shares held by such member. In such event, the Relevant Intermediary shall submit a list of its proxies together with the information required in the proxy form to the Company.
- (3) If a proxy is to be appointed, the instrument appointing a proxy must be duly deposited at the office of the Company's Share Registrar at 8 Robinson Road #03-00, ASO Building, Singapore 048544 not later than 48 hours before the time appointed for holding the AGM.
- (4) The instrument appointing a proxy must be signed by the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy is executed by a corporation, it must be executed either under its common seal or under the hand of any office or attorney duly authorised.
- (5) A Depositor's name must appear on the Depository Register maintained by The Central Depository (Pte) Limited as at 72 hours before the time appointed for holding the AGM in order for the Depositor to be entitled to attend and vote at the AGM.

Personal data privacy:

By submitting a proxy form appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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MSM INTERNATIONAL LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No.: 200918800R)

**ANNUAL GENERAL MEETING
PROXY FORM**

Important:

1. Pursuant to Section 181(1C) of the Companies Act, Chapter 50 of Singapore (the "Act"), Relevant Intermediary may appoint more than two proxies to attend, speak and vote at the Annual General Meeting.
2. For investors who have used their CPF monies to buy shares in the Company, this Proxy Form is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors are requested to contact their respective Agent Banks for any queries they may have with regard to their appointment as proxies.

I/We _____ (Name) _____ (NRIC/Passport No.)
of _____ (Address),

being a member/members of MSM International Limited (the "**Company**"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

*and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing the person, or either or both of the persons, referred to above, the Chairman of the Annual General Meeting ("AGM"), as my/our proxy/proxies to attend, speak and vote for me/us on my/our behalf at the AGM of the Company to be held at Park Avenue Changi, South Meeting Room, 2 Changi Business Park Avenue 1, Singapore 486015 on Friday, 28 April 2017 at 10.30 a.m. and at any adjournment thereof.

(Please indicate with an "X" in the spaces provided below whether you wish your vote(s) to be cast for or against the resolutions as set out in the Notice of AGM. In the absence of specific directions, the proxy/proxies will vote or abstain as he/they may think fit, as the proxy/proxies will on any other matter arising at the AGM).

Please tick here if more than two proxies will be appointed (Please refer to note 4). This is only applicable for intermediaries such as banks and capital markets licence holders which provide custodial services.

No.	Ordinary Resolutions	No. of Votes For**	No. of Votes Against**
ORDINARY BUSINESS			
1	To receive and adopt the Financial Statements for the financial year ended 31 December 2016, the Directors' Report and the Auditors' Report thereon.		
2	To approve the Directors' fees for the financial year ending 31 December 2017.		
3	To re-elect Mr Chan Wen Chau as a Director of the Company.		
4	To re-elect Mr Leow Wee Kia Clement as a Director of the Company.		
5	To re-appoint Nexia TS Public Accounting Corporation as the Auditors of the Company and authorise the Directors to fix their remuneration.		
SPECIAL BUSINESS			
6	To authorise Directors to allot and issue shares pursuant to section 161 of the Companies Act Chapter 50 of Singapore.		

** Voting will be conducted by Poll. If you wish to exercise all your votes "For" or "Against", please indicate an "X" within the box provided. Alternatively, please indicated the number of votes as appropriate.

Dated this _____ day of _____ 2017

Signature(s) of member(s) or Common Seal

Total Number of Shares Held in	
CDP Register	
Register of Members	



IMPORTANT: PLEASE READ THE FOLLOWING NOTES.

Notes:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81F of the Securities and Futures Act, Chapter 289), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, this form of proxy will be deemed to relate to all the Shares held by you.
2. Except for a member who is a Relevant Intermediary as defined under Section 181(6) of the Act, a member of the Company entitled to attend and vote at the AGM is entitled to appoint not more than two (2) proxies to attend and vote on his/her behalf. Such proxy need not be a member of the Company.
3. Where a member appoints more than one (1) proxy, he shall specify the proportion of his shareholding to be represented by each proxy. If no proportion of shareholdings is specified, the proxy whose name appears first shall be deemed to carry 100% of the shareholdings of his/its appointor and the proxy whose name appears after shall be deemed to be appointed as the alternate.
4. Pursuant to Section 181(1C) of the Act, a member who is a Relevant Intermediary is entitled to appoint more than two (2) proxies to attend, speak and vote at the AGM provided that each proxy is appointed to exercise the rights attached to different shares held by such member. In such event, the Relevant Intermediary shall submit a list of its proxies together with the information required in this proxy form to the Company.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of an officer or attorney duly authorised.
6. A corporation which is a member of the Company may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM of the Company, in accordance with Section 179 of the Act.
7. The instrument appointing a proxy or proxies, together with the power of attorney or other authority (if any) under which it is signed, or notarially certified copy thereof, must be deposited at the office of the Company's Share Registrar at 8 Robinson Road #03-00, ASO Building, Singapore 048544 not less than 48 hours before the time set for the AGM.
8. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of members of the Company whose Shares are entered against their name in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if such members are not shown to have Shares entered against their names in the Depository Register as at 72 hours before the time appointed for holding the AGM as certified by The Central Depository (Pte) Limited to the Company.
9. An investor who buys shares using CPF monies ("CPF Investor") and/or SRS monies ("SRS Investor") (as may be applicable) may attend and cast his vote(s) at the AGM in person. CPF and SRS Investors who are unable to attend the AGM but would like to vote may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the AGM to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the AGM.

Personal data privacy:

By submitting a proxy form appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.



MSM INTERNATIONAL LIMITED

Company Registration No.: 200918800R

Principal Place of Business:

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