Malaysian Pacific Industries Berhad

A Member of the Hong Leong Group

ANNUAL REPORT 2017

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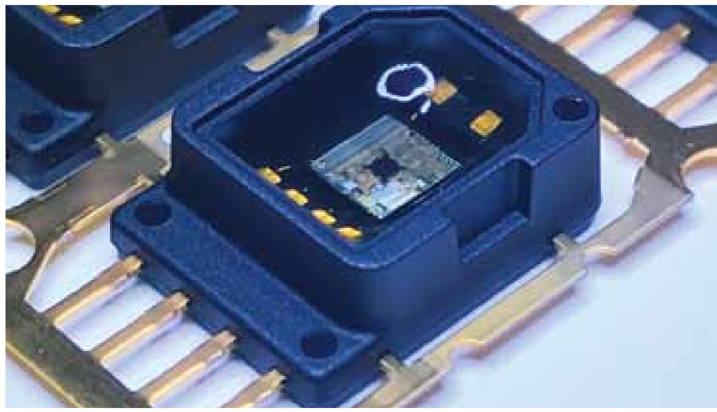
COMPANY PROFILE

MALAYSIAN PACIFIC INDUSTRIES BERHAD ("MPI")

is principally an investment holding company whilst the principal activities engaged by its subsidiaries are that of manufacturing, assembling, testing and sale of integrated circuits, semiconductor devices, electronic components and leadframes to customers worldwide.

MPI is a public listed company and its shares are traded on the Main Market of Bursa Malaysia Securites Berhad.



CORPORATE INFORMATION

DIRECTORS

YBhg Datuk Kwek Leng San
(Chairman)

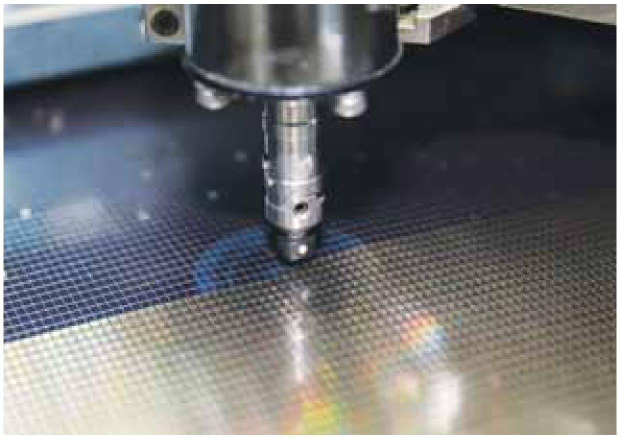
Mr Manuel Zarauza Brandulas
(Group Managing Director)

YBhg Datuk Syed Zaid bin Syed Jaffar Albar

Ms Lim Tau Kien

Ir. Dennis Ong Lee Khian

YBhg Dato' Mohamad Kamarudin bin Hassan



COMPANY SECRETARIES

Ms Joanne Leong Wei Yin
Ms Lee Wui Kien

AUDITORS

KPMG PLT
Level 10, KPMG Tower
8, First Avenue
Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan
Tel: 03-7721 3388
Fax: 03-7721 3399

REGISTRAR

Hong Leong Share Registration Services Sdn Bhd
Level 5, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Tel: 03-2164 1818
Fax: 03-2164 3703

REGISTERED OFFICE

Level 9, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Tel: 03-2164 2631
Fax: 03-2164 2514

COUNTRY OF INCORPORATION/ DOMICILE

A public limited liability company, incorporated and domiciled in Malaysia

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Fifty-sixth Annual General Meeting of Malaysian Pacific Industries Berhad ("the Company") will be held at the Theatrette, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Wednesday, 25 October 2017 at 2.30 p.m. in order:

1. To lay before the meeting the audited financial statements together with the reports of the Directors and Auditors thereon for the financial year ended 30 June 2017.

2. To approve the payment of Director Fees of RM422,000/- for the financial year ended 30 June 2017 to be divided amongst the Directors in such manner as the Directors may determine and Directors' Other Benefits of up to an amount of RM123,000/- for the period of 31 January 2017 until the next Annual General Meeting. **Resolution 1**

3. To pass the following motions as ordinary resolutions:

   (a) **"THAT** Ir. Dennis Ong Lee Khian, a Director who retires by rotation pursuant to Article 115 of the Company's Constitution, be and is hereby re-elected a Director of the Company." **Resolution 2**

   (b) **"THAT** YBhg Dato' Mohamad Kamarudin bin Hassan, a Director who retires by rotation pursuant to Article 115 of the Company's Constitution, be and is hereby re-elected a Director of the Company." **Resolution 3**

4. To re-appoint Messrs KPMG PLT as Auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 4**

SPECIAL BUSINESS

As special business, to consider and, if thought fit, pass the following motions:

5. **Ordinary Resolution**
   -Approval To Continue In Office As Independent Non-Executive Director

   "THAT approval be and is hereby given for YBhg Datuk Syed Zaid bin Syed Jaffar Albar who has served as an Independent Non-Executive Director of the Company for more than nine (9) years, to continue in office as an Independent Non-Executive Director of the Company until the conclusion of the next Annual General Meeting." **Resolution 5**

6. **Ordinary Resolution**
   -Authority To Directors To Allot Shares

   "THAT subject to the Companies Act 2016, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Company's Constitution and approval of the relevant governmental regulatory authorities, if required, the Directors be and are hereby empowered pursuant to Sections 75 and 76 of the Companies Act 2016 to allot shares in the Company, grant rights to subscribe for shares in the Company, convert any security into shares in the Company, or allot shares under an agreement or option or offer at any time and from time to time, and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued and allotted, to be subscribed under any rights granted, to be issued from conversion of any security, or to be issued and allotted under an agreement or option or offer, pursuant to this resolution does not exceed 10% of the total number of issued shares (excluding treasury shares) of the Company for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so allotted on Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company." **Resolution 6**

NOTICE OF ANNUAL GENERAL MEETING
(cont'd)

7. **Ordinary Resolution**
-Proposed Renewal Of Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature With Hong Leong Company (Malaysia) Berhad ("HLCM") And Persons Connected With HLCM

"**THAT** approval be and is hereby given for the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature as set out in Section 2.3 of Part A of the Circular to Shareholder dated 3 October 2017 with HLCM and persons connected with HLCM ("Hong Leong Group"), provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to the Hong Leong Group than those generally available to and/or from the public, where applicable, and are not, in the Company's opinion, detrimental to the minority shareholders;

AND THAT such approval shall continue to be in force until:

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or

(b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 340(2) of the Companies Act 2016 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or

(c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier;

AND THAT the Directors of the Company be and are hereby authorised to complete and to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution." **Resolution 7**

8. **Ordinary Resolution**
-Proposed Authority For The Purchase Of Own Shares By The Company

"**THAT** subject to the Companies Act 2016 ("Act"), rules, regulations and orders made pursuant to the Act, provisions of the Company's Constitution and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and any other relevant authority, the Directors of the Company be and are hereby authorised to make purchases of ordinary shares in the Company's issued ordinary share capital on Bursa Securities subject further to the following:

(a) the maximum number of shares which may be purchased and/or held by the Company shall be equivalent to ten per centum (10%) of the total number of issued shares of the Company ("Shares") for the time being;

(b) the maximum fund to be allocated by the Company for the purpose of purchasing the Shares shall not exceed the retained profits of the Company based on its latest audited financial statements available up to the date of the transaction. (As of 30 June 2017, the audited retained profits of the Company was RM461,424,000/-); and

NOTICE OF ANNUAL GENERAL MEETING
(cont'd)

(c) the authority conferred by the resolution as set out in paragraphs (a) and (b) above will commence immediately upon passing of this ordinary resolution and will expire at the conclusion of the next Annual General Meeting ("AGM") of the Company, unless earlier revoked or varied by ordinary resolution of the shareholders of the Company in a general meeting or the expiration of the period within which the next AGM after that date is required by law to be held, whichever occurs first and, in any event, in accordance with the provisions of the Main Market Listing Requirements of Bursa Securities or any other relevant authority;

AND THAT the Directors of the Company be and are hereby authorised to take all such steps as are necessary or expedient to implement or to effect the purchase(s) of the Shares;

AND THAT the Directors of the Company be and are hereby authorised to deal with any Shares so purchased and any existing treasury shares ("Said Shares") in the following manner:

(a) cancel the Said Shares; or
(b) retain the Said Shares as treasury shares; or
(c) retain part of the Said Shares as treasury shares and cancel the remainder; or
(d) distribute all or any of the Said Shares as dividends to shareholders; or
(e) resell all or any of the Said Shares in accordance with the relevant rules of Bursa Securities; or
(f) transfer all or any of the Said Shares for the purposes of or under an employees' share scheme; or
(g) transfer all or any of the Said Shares as purchase consideration;

and/or in any other manner as may be prescribed by the Act, rules, regulations and orders made pursuant to the Act and the Main Market Listing Requirements of Bursa Securities and any other relevant authority for the time being in force; **AND THAT** the authority to deal with the Said Shares shall continue to be valid until all the Said Shares have been dealt with by the Directors of the Company." **Resolution 8**

9. To consider any other business of which due notice shall have been given.

By Order of the Board

Joanne Leong Wei Yin
Lee Wui Kien
Company Secretaries

Kuala Lumpur
3 October 2017

NOTICE OF ANNUAL GENERAL MEETING
(cont'd)

Notes:

1. *For the purpose of determining members' eligibility to attend this meeting, only members whose names appear in the Record of Depositors as at 19 October 2017 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.*

2. *Save for a member who is an exempt authorised nominee, a member entitled to attend and vote at this meeting is entitled to appoint not more than two (2) proxies to attend, participate, speak and vote in his stead. A proxy may but need not be a member of the Company. A member who is an authorised nominee may appoint not more than two (2) proxies in respect of each securities account it holds. A member who is an exempt authorised nominee for multiple beneficial owners in one securities account ("Omnibus Account") may appoint any number of proxies in respect of the Omnibus Account.*

3. *Where two (2) or more proxies are appointed, the proportions of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies, failing which the appointments shall be invalid.*

4. *The Form of Proxy must be deposited at the Registered Office of the Company at Level 9, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than twenty-four (24) hours before the time appointed for holding of the meeting or adjourned meeting.*

5. *Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR"), all resolutions set out in this Notice will be put to a vote by way of a poll.*

Explanatory Notes:

1. Resolution 1- Director Fees And Other Benefits

   Director Fees of RM422,000/- are inclusive of Board Committee Fees of RM142,000/-; and Directors' Other Benefits refer to Directors' and Officers' Liability Insurance coverage based on premium paid/payable and Directors' training benefits of up to RM63,000/- as well as Chairman's car benefits of up to RM60,000/-.

2. Resolution 5 - Approval To Continue In Office As Independent Non-Executive Director

   The proposed Ordinary Resolution 5, if passed, will enable YBhg Datuk Syed Zaid bin Syed Jaffar Albar to continue in office as an Independent Non-Executive Director of the Company.

   Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012 ("MCCG 2012") provides that approval of shareholders be sought in the event that the Company would like an independent director who has served in that capacity for more than 9 years to continue in office as an independent director.

   The Company has in place an Independence of Directors Policy ("ID Policy") as set out in the Statement on Corporate Governance, Risk Management and Internal Control, and an annual assessment is conducted on the independence of independent directors by the Nominating Committee ("NC") and the Board of Directors ("Board") in accordance with the criteria set out in the MMLR and the ID Policy.

   Pursuant to the MCCG 2012, the NC and the Board have assessed the performance and independence of YBhg Datuk Syed Zaid bin Syed Jaffar Albar who has served on the Board for more than 9 years and determined that he remains objective and continues to bring independent and objective judgment, based on the following justifications:

   - He meets the criteria of "independent director" in accordance with the MMLR and continues to exercise independent judgment in expressing his views and deliberating issues objectively on the conduct of the Group's business and other issues raised at Board and Board Committee meetings.
   - He is free from any conflict of interest with the Company.
   - The Company benefits from the experience of YBhg Datuk Syed Zaid bin Syed Jaffar Albar who has, over time, gained valuable insight into the Group, its market and the industry.

NOTICE OF ANNUAL GENERAL MEETING
(cont'd)

- His knowledge of the Group's various core business operations during his tenure of office will enable him to discharge his duties effectively.
- He exercises due care and diligence as an Independent Non-Executive Director of the Company and carries out his professional duties in the best interest of the Company and its shareholders.

The Board recognises that independence should not be determined solely based on tenure of service and that the continued tenure of service brings considerable stability to the Board. The Company benefits from the mix of skills, experience and competencies for informed and balanced decision-making by the Board.

Accordingly, the NC and the Board recommend that YBhg Datuk Syed Zaid bin Syed Jaffar Albar continues in office as an Independent Non-Executive Director of the Company.

3. Resolution 6 - Authority To Directors To Allot Shares

The proposed ordinary resolution, if passed, will renew the general mandate given to the Directors of the Company to allot ordinary shares of the Company from time to time and expand the mandate to grant rights to subscribe for shares in the Company, convert any security into shares in the Company, or allot shares under an agreement or option or offer, provided that the aggregate number of shares issued and allotted, to be subscribed under any rights granted, to be issued from conversion of any security, or to be issued and allotted under an agreement or option or offer, pursuant to this resolution does not exceed 10% of the total number of issued shares (excluding treasury shares) of the Company for the time being ("Renewed General Mandate"). In computing the aforesaid 10% limit, shares issued or agreed to be issued or subscribed pursuant to the approval of shareholders in a general meeting where precise terms and conditions are approved shall not be counted. The Renewed General Mandate, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting ("AGM") of the Company.

As at the date of this Notice, no new shares in the Company were issued and allotted pursuant to the general mandate given to the Directors at the last AGM held on 25 October 2016 and which will lapse at the conclusion of the Fifth-sixth AGM. The Renewed General Mandate will enable the Directors to take swift action in case of, inter alia, a need for corporate exercises or in the event business opportunities or other circumstances arise which involve the issuance and allotment of new shares, grant of rights to subscribe for shares, conversion of any security into shares, or allotment of shares under an agreement or option or offer, and to avoid delay and cost in convening general meetings to approve the same.

4. Resolution 7 – Proposed Renewal Of Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature

The proposed ordinary resolution, if passed, will empower the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature which are necessary for the day-to-day operations of the Malaysian Pacific Industries Berhad Group, subject to the transactions being in the ordinary course of business and on terms which are not more favourable to the related parties than those generally available to and/or from the public and are not, in the Company's opinion, detrimental to the minority shareholders of the Company ("Proposed Renewal Of Shareholders' Mandate").

Detailed information on the Proposed Renewal Of Shareholders' Mandate is set out in the Circular to Shareholders dated 3 October 2017 which is despatched together with the Company's Annual Report.

5. Resolution 8 – Proposed Authority For The Purchase Of Own Shares By The Company

The proposed ordinary resolution, if passed, will empower the Directors to exercise the power of the Company to purchase its own shares ("Proposed Share Buyback") up to 10% of the total number of issued shares of the Company by utilising its financial resources not immediately required. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next AGM of the Company.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

(Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad)

1. Details of individuals who are standing for election as Directors

   No individual is seeking election as a Director at the Fifty-sixth Annual General Meeting of the Company.

2. Statement relating to general mandate for issue of securities in accordance with Paragraph 6.03(3) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

   Details of the general mandate to allot shares in the Company pursuant to Sections 75 and 76 of the Companies Act 2016 are set out in Explanatory Note 3 of the Notice of the Fifty-sixth Annual General Meeting.

BOARD OF DIRECTORS

YBHG DATUK KWEK LENG SAN

Chairman; Non-Executive/Non-Independent | Age 62, Male, Singaporean

Datuk Kwek Leng San graduated from University of London with a Bachelor of Science (Engineering) degree. He also holds a Master of Science (Finance) degree from City University London. He has extensive business experience in various business sectors, including financial services and manufacturing.

Datuk Kwek is the Chairman of Malaysian Pacific Industries Berhad ("MPI"). He was appointed to the Board of Directors ("Board") of MPI on 27 July 1990 and subsequently as the Group Managing Director of MPI from September 1990 to August 1993. He is a member of the Nominating Committee of MPI.

He is the Chairman of Hong Leong Industries Berhad, Hume Industries Berhad and Southern Steel Berhad, companies listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"). He is also a Director of Hong Leong Company (Malaysia) Berhad and Hong Leong Foundation.

MR MANUEL ZARAUZA BRANDULAS

Group Managing Director/Non-Independent | Age 46, Male, Spanish

Mr Manuel Zarauza Brandulas graduated from University of Westminster, London with a Bachelor of Business BA (Honours) in Finance and Marketing. He also holds a Master of Business Administration from University of Bath, United Kingdom and a Master Degree in Leadership and Organisation from Instituto de la Empresa, Madrid.

Mr Manuel Zarauza brings with him 22 years of working experience across various manufacturing sectors. He started his career in Siemens before joining Osram Opto Semiconductors as Vice President, Sales in Germany, Hong Kong and China. Subsequently, he moved to Seoul Semiconductor as Managing Director in Switzerland and Seoul, Korea.

Mr Manuel Zarauza joined HLMG Management Co Sdn Bhd, a related company, as its Managing Director in April 2015, a position he held until August 2016. Subsequently, he was appointed as Group Managing Director of MPI on 8 August 2016. He does not sit on any committee of MPI.

YBHG DATUK SYED ZAID BIN SYED JAFFAR ALBAR

Non-Executive Director/Independent | Age 63, Male, Malaysian

Datuk Syed Zaid bin Syed Jaffar Albar graduated with a Bachelor of Arts (Honours) degree in Law in the United Kingdom and qualified as a Barrister-at-Law from Lincoln's Inn. He has been in active legal practice for more than 30 years. Presently, he is the managing partner of a law firm in Kuala Lumpur.

Datuk Syed Zaid was appointed to the Board of MPI on 7 July 1994. He is the Chairman of the Board Audit & Risk Management Committee and a member of the Nominating Committee of MPI.

He is a Director of Malaysia Building Society Berhad and Yinson Holdings Berhad, companies listed on the Main Market of Bursa Securities. He is also a Director of Motorsports Association of Malaysia.

BOARD OF DIRECTORS
(cont'd)

MS LIM TAU KIEN

Non-Executive Director/Independent | Age 61, Female, Malaysian

Ms Lim Tau Kien graduated from University of Glasgow Faculty of Law and is a member of the Institute of Chartered Accountants of Scotland.

Ms Lim began her career with Ernst & Young, United Kingdom, before serving the Ministry of Finance and Prime Minister's Department as a Federal Accountant. Subsequently, she joined the Royal Dutch Shell Group where she held various senior finance positions over a period of 25 years in Malaysia, Australia and China, her last position being the Country Chief Financial Officer/Finance Director/Country Controller of the Shell Companies of China from 2004 to 2008.

Ms Lim has been a director of listed and non-listed companies since 1997. She was appointed to the Board of MPI on 1 July 2013 and is the Chairman of the Nominating Committee and a member of the Board Audit & Risk Management Committee of MPI.

She is also a Director of Hong Leong Financial Group Berhad and Hengyuan Refining Company Berhad, companies listed on the Main Market of Bursa Securities, and a Director of UEM Group Berhad, a public company.

IR. DENNIS ONG LEE KHIAN

Non-Executive Director/Independent | Age 62, Male, Malaysian

Ir. Dennis Ong Lee Khian graduated from University of Swinburne, Australia with a Bachelor of Civil Engineering and is registered as a Professional Engineer with Practising Certificate with the Board of Engineer Malaysia. He is a Fellow of the Institution of Engineers Malaysia, a Fellow of The Institution of Engineers Australia and a Chartered Professional Engineer under the National Professional Engineers Register, Australia.

Ir. Dennis Ong started his career in Shell Malaysia in 1981. He held various senior management positions in Shell's downstream businesses in Malaysia as well as the ASEAN countries and Hong Kong. He was the Managing Director of Shell Timur Sdn Bhd prior to his retirement from the industry. Thereafter, Ir. Dennis Ong joined the School of Engineering of Monash University, Malaysia as a senior lecturer.

Ir. Dennis Ong was appointed to the Board of MPI on 17 November 2014 and is a member of the Board Audit & Risk Management Committee of MPI.

BOARD OF DIRECTORS
(cont'd)

YBHG DATO' MOHAMAD KAMARUDIN BIN HASSAN

Non-Executive Director/Independent | Age 62, Male, Malaysian

Dato' Mohamad Kamarudin bin Hassan graduated from University of Malaya with a Bachelor of Economics (Honours) (Majoring in Business Administration) and also holds a Master of Business Administration (Majoring in Finance) from Oklahoma City University, United States of America ("USA").

Dato' Mohamad Kamarudin began his career with the Administrative and Diplomatic Service in 1979 with his first posting to the Macro-economic Division of the Economic Planning Unit in the Prime Minister's Department. In 1987, he was placed in the Ministry of International Trade and Industry (MITI) where he had served in various divisions of the Ministry. From 1992 to 1994, he was posted to the Malaysian Embassy in Washington DC, USA, as an Economic Counselor. Subsequently, in January 2006, Dato' Mohamad Kamarudin was seconded to Malaysia External Trade Development Corporation (MATRADE) as Deputy Chief Executive Officer, a post he held until his retirement on 1 September 2013. In June 2014, he was appointed as a consultant to the International Finance Corporation, a member of the World Bank Group.

Dato' Mohamad Kamarudin was appointed to the Board of MPI on 19 March 2015. He does not sit on any committee of MPI.

He is a Director of CCM Duopharma Biotech Berhad, Muhibbah Engineering (M) Bhd and Lion Diversified Holdings Berhad, companies listed on the Main Market of Bursa Securities, and ManagePay Systems Berhad, a company listed on the ACE Market of Bursa Securities. He is also a Director of Trustgate Berhad, a public company.

Notes:

1. **Family Relationship with Director and/or Major Shareholder**
   YBhg Datuk Kwek Leng San is a brother of YBhg Tan Sri Quek Leng Chan, a major shareholder of MPI. Save as disclosed herein, none of the Directors has any family relationship with any other Director and/or major shareholder of MPI.

2. **Conflict of Interest**
   None of the Directors has any conflict of interest with MPI.

3. **Conviction of Offences**
   None of the Directors has been convicted of any offences (excluding traffic offences) within the past 5 years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 30 June 2017.

4. **Attendance of Directors**
   Details of Board meeting attendance of each Director are disclosed in the Statement on Corporate Governance, Risk Management and Internal Control in the Annual Report.

KEY SENIOR MANAGEMENT

MR ERIC CHEAH WING KET

Chief Financial Officer, Malaysian Pacific Industries Berhad | Age 51, Male, Malaysian

Mr Eric Cheah Wing Ket is a qualified Chartered Accountant with the Malaysian Institute of Certified Public Accountants. He is also a member of the Malaysian Institute of Accountants.

Mr Eric Cheah has extensive experience of more than 28 years in an international auditing firm and large-scale semiconductor manufacturing operations. He forged his early career with KPMG Malaysia. He led many audit assignments of private and public listed companies in specialised industries and has been involved in various corporate exercises including due diligence and investigation. Subsequently in 1994, Mr Eric Cheah joined Carsem Group where he held various senior financial positions over a period of 12 years covering financial management, taxation, treasury, risk management and restructuring exercise.

Mr Eric Cheah is the Chief Financial Officer of Malaysian Pacific Industries Berhad ("MPI") since 1 February 2006, a senior management position overseeing both the Malaysian and overseas operations.

MR INDERJEET SINGH A/L PERTAP SINGH

General Manager, Carsem (M) Sdn Bhd, S-site | Age 48, Male, Malaysian

Mr Inderjeet Singh A/L Pertap Singh graduated from University of Leicester, United Kingdom with a Bachelor of Electrical & Electronic Engineering.

Mr Inderjeet Singh joined Carsem (M) Sdn Bhd ("Carsem Ipoh") in 1991. He gained 26 years of experience in various roles from different departments in Carsem Ipoh.

Mr Inderjeet Singh was appointed as General Manager of Carsem Ipoh, S-site, on 1 September 2011.

MS SHARON KO MEI WAN

General Manager, Carsem (M) Sdn Bhd, M-site | Age 45, Female, Malaysian

Ms Sharon Ko Mei Wan graduated from University of Waikato, New Zealand with a Bachelor of Science & Technology in Computer Science & Physics (double major). She also holds a Master of Science and Technology (First Class Honours) in Physics. She is a full American Field Scholar and New Zealand Government Scholar.

Ms Sharon Ko joined Carsem Ipoh in 2006. She brings with her 23 years of diversified experience in the semiconductor and electronics industry. Ms Sharon Ko started her career in semiconductor manufacturing with Siemens Components (Advanced Technology) Sdn Bhd (now known as Infineon Technologies (Malaysia) Sdn Bhd). Subsequently, she joined National Semiconductor Sdn Bhd where she held various senior management positions in development, technical research, engineering and manufacturing operations.

Ms Sharon Ko is the inventor of 11 international patents (including 9 United States of America patents & 1 European patent) in the area of semiconductor technology and manufacturing. In 2004, she was awarded 'Malaysia's Best Employee' presented personally by the then Prime Minister of Malaysia.

Ms Sharon Ko was appointed as General Manager of Carsem Ipoh, M-site on 1 September 2011.

KEY SENIOR MANAGEMENT
(cont'd)

MR LEE CHOE KHEAN

General Manager, Carsem Semiconductor (Suzhou) Co., Ltd | Age 50, Male, Malaysian

Mr Lee Choe Khean graduated from Northern University of Malaysia with a Bachelor Degree in Public Administration.

Mr Lee started his career in National Semiconductor Sdn Bhd as Production Executive in 1991. Subsequently, he joined Carsem Ipoh in 1992 where he moved from production control planning to logistics. Mr Lee has built up his solid foundation in the area of production control, planning and scheduling, covering both assembly and test as well as materials management during his first 10 years in Carsem Ipoh. In 2004, Mr Lee was transferred to Carsem Semiconductor (Suzhou) Co., Ltd ("Carsem Suzhou") as its Senior Supply Chain Manager. The last 12 years of his challenges in the start-up of Carsem Suzhou have broadened his management scope in the entire semiconductor industry.

Mr Lee was appointed as General Manager of Carsem Suzhou on 15 August 2015.

MS LEE SOCK ENG

Chief Operating Officer, Dynacraft Industries Sdn Bhd | Age 54, Female, Malaysian

Ms Lee Sock Eng holds a Certificate in Production and Inventory Management from American Production and Inventory Control Society (APICS).

Ms Lee joined Dynacraft Industries Sdn Bhd ("DCI") in 1984. She possesses well rounded experience with 33 years of loyal and long service with DCI. Ms Lee brings with her a wealth of experience in operational/production planning and customer service support. She has held various positions in DCI including as Supply Chain Manager before she was promoted as Vice President of Sales & Supply Chain in 2006. Ms Lee was instrumental in driving growth in DCI through change management, optimisation strategy, spearheading new business and new opportunities in the market.

Ms Lee was appointed as Chief Operating Officer of DCI on 24 April 2014.

Notes:

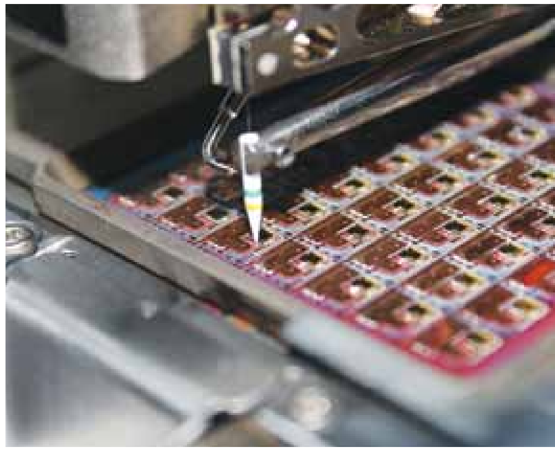
1. **Family Relationship with Director and/or Major Shareholder**
   None of the Key Senior Management has any family relationship with any Director and/or major shareholder of MPI.

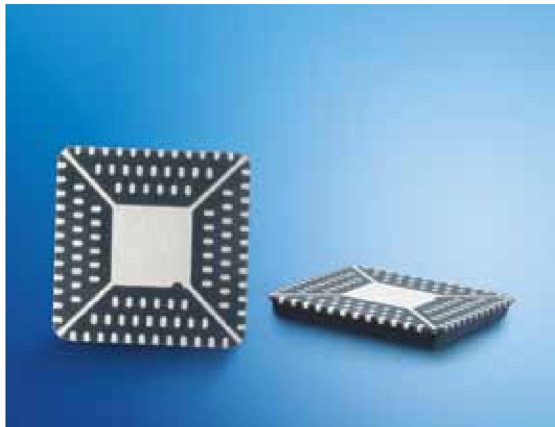
2. **Conflict of Interest**
   None of the Key Senior Management has any conflict of interest with MPI.

3. **Conviction of Offences**
   None of the Key Senior Management has been convicted of any offences (excluding traffic offences) within the past 5 years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 30 June 2017.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Malaysian Pacific Industries Berhad (the "Company"), I am pleased to present the Annual Report and Financial Statements of the Group and of the Company for the financial year ("FY") ended 30 June 2017 ("FY 2017").





The World Bank reported a decline in global Gross Domestic Product growth from 2.734% in 2015 to 2.438% in 2016 while the Semiconductor Industry Association reported that the global semiconductor sales only grew modestly by 1.1% in 2016. The Group was able to respond positively despite such tepid economic environment through its dedicated workforce and targeted market to achieve another year of satisfactory performance.

Revenue for FY 2017 was RM1.5 billion, 6% higher than that for the FY ended 30 June 2016 ("FY 2016"). Profit attributable to the Group for FY 2017 was higher at RM178 million compared to RM158 million for FY 2016. Consequently, earnings per share improved to 93.68 sen for FY 2017 compared to 82.94 sen for FY 2016.

Healthy cash flow generated from operations has enabled the Group to report a strong net cash position of RM444 million. This has enabled the Group to invest a total of RM129 million in new technologies, plant and equipment for future growth and pay dividends of RM51 million to shareholders of the Company compared to dividends of RM44 million in the preceding FY.

We look ahead with optimism with the latest World Semiconductor Trade Statistics that forecast 5.9% growth for the global semiconductor revenue in 2017. The Group is well-positioned to continue the growth path by upholding our core and long term strategies to invest in the right people and the right technology to stay competitive in the industry.

I would like to express my sincere appreciation to each and every Board member, management and staff for their contribution, commitment and dedicated service.

Our appreciation goes also to our valued customers, business associates, vendors, financiers, shareholders and the Government for their continuous support and confidence in the Group.

DATUK KWEK LENG SAN
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP'S BUSINESS AND OPERATIONS

Malaysian Pacific Industries Berhad ("MPI") is principally an investment holding company whilst the principal activities engaged by its subsidiaries are that of manufacturing, assembling, testing and sale of integrated circuits, semiconductor devices, electronics components and lead frames. The key subsidiaries are as follows:

- Carsem (M) Sdn Bhd is a leading provider of turnkey packaging and test services to the semiconductor industry and offers one of the largest package and test portfolios in the world.

- Carsem Semiconductor (Suzhou) Co., Ltd focuses on assembly and test for the MLP-Micro Leadframe Package (QFN format).

- Dynacraft Industries Sdn Bhd is one of the largest manufacturer of leadframe and leads the industry in design, manufacture and supply of microelectronic packaging systems.

MPI has four manufacturing operations, of which two are located in Ipoh, Malaysia, one in Penang, Malaysia and one in Suzhou, China.

KEY BUSINESS SEGMENT

The management reviews and assesses the performance based on geographical segments by location of customers from Asia, The United States of America ("USA") and Europe. Additional information are set out in Note 21 (Operating Segments) of the notes to the financial statements.

Segmental Review

Asia segment is the largest segment (55%) with customers designing their end products and applications for the widest range from smartphones, industrial, sensors to consumer electronics and traditional personal computer market.

This is consistent with the distribution of large manufacturing facilities in Asia. This segment is driven by the volatile consumer demand and growth rates fluctuate sharply.

USA segment (20%) is a matured sales market. Customers are predominately multi-national corporations with design houses and major in-house facilities still in production.

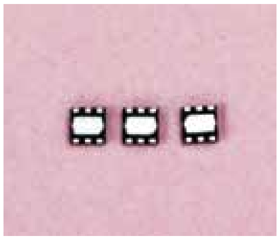
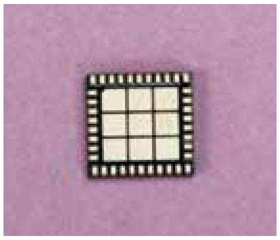
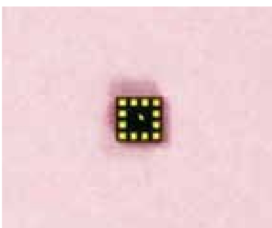
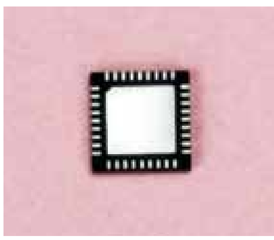
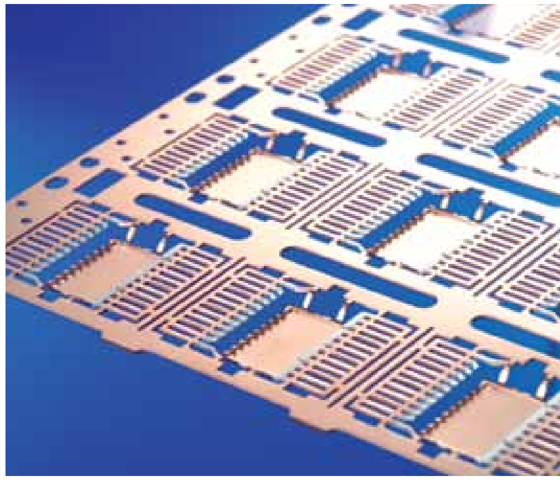
Interestingly, this segment continues to see new demands for packaging technologies and we are well positioned to collaborate with some of the leading technology companies to build advanced integrated circuit ("IC") into smart devices, Internet of Things ("IOT") and industrial applications.

In the financial year ended 30 June 2017 ("FY17"), we saw several new product launches into industrial applications including those for data centres.

European segment (25%) is an exciting market with major automotive players and advanced industrial products original equipment manufacturer ("OEM").

The automotive industry's quality standards are known to be the most stringent. We have been serving this market for many years, starting off as the second source to automotive OEM internal factories to being the first source and pioneer manufacturing factory for under-the-hood applications and now as a safety component manufacturer.

Revenue growth in this segment is typically very stable with gradual ramp and where most products have very long product life cycle. This provides the strategic counterbalance against the other end market which have different cyclical demand and volatility.

MANAGEMENT DISCUSSION AND ANALYSIS
(cont'd)

REVIEW OF OPERATING ACTIVITIES

FY17 has been a challenging year with world economies contracting from 2.7% to 2.4% of Gross Domestic Product growth and the global semiconductor revenue growing modestly at 1.1%. We are pleased to report another year of revenue growth by leveraging on our core competencies and thanks to our employees who have stepped up to the demands of the market place.

Revenue for FY17 was RM1.5 billion, 6% higher than the previous financial year ("FY16"). Profit before taxation in FY17 was substantially higher at RM251 million compared to RM196 million in FY16.

The major factors contributing to the increase in profit before taxation were as follows:

a) Higher volume and higher margin product mix improved the gross profit margin to 20% compared to 18% for FY16.
b) Depreciation reduced by RM16.5 million due to certain property, plant and equipment which had been fully depreciated.
c) Favourable foreign currency differences amounted to RM44 million compared to FY16.

Healthy cash flows generated from all the operating units have enabled the Group to register a strong net cash position of RM444 million, comprising cash of RM536 million and net off by borrowings of RM92 million.

Stable and gradual improvement in earnings before interest, tax, depreciation and amortisation (EBITDA) of 29% for FY17 againts 28% for FY16 has enabled the Group to continue to invest in new technologies, plant and equipment for future growth and pay higher total dividends to the shareholders.

The Assembly and Testing business unit continues to focus on its high-margin strategy of Added-Value MLP, High Density Leaded products and Test services which together, constitute over 90% of the total revenue of the Group.

MLP products are mostly designed for mobile consumer applications such as smartphones and tablets. FY17 saw a slowdown in products for the matured smartphone market. We are excited that the efforts invested into the power management technology have begun to bear fruits and we are seeing an increasing demand in the Copper Clip business which goes into the server market.

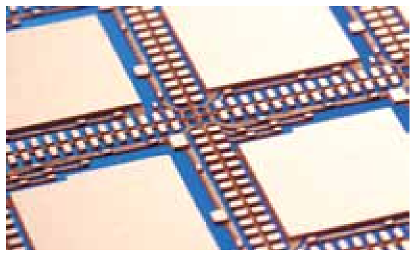
We are gearing up to grow and ramp up production in automotive sector and there is already a steady increase in new product qualification with a number of major automotive customers.

Significant growth in shipments was made for advanced packaging technology flip chip and land grid array to the industry leaders serving the telecommunication, power and MEMs applications.

High Density Leaded products have also seen a shift this year to a larger share in the automotive sector. This coupled with an increase in demand for MEMs and custom automotive sensors are strengthening our position in line with the increase in demand for electronics in the automotive sector and the advances in self-driving vehicles.

To continue our focus to support the growth in the automotive market, we have embarked on Industry 4.0. The automation and digitalisation programmes (iManufacturing) have given an added emphasis on quality and enhanced unit traceability.

The lead frame business is in its third financial year of maintaining higher profit after restructuring to focus solely on Etched lead frame business. Quad Flat No-leads ("QFN"), the predominantly etched lead frame package, grew by 12% in FY17. We see great opportunity in growing the market share in China, in particular, the demand for high quality QFN etched lead frame. The Group is investing approximately 20% of the profits of this business unit into new technology for higher quality and more cost effective solutions to stay ahead of competition.



MANAGEMENT DISCUSSION AND ANALYSIS
(cont'd)

OPERATIONAL AND FINANCIAL RISKS

Operational Risks

The semiconductor industry is a highly competitive and highly volatile industry, and operates under constantly changing technologies and market demand forces in a very complex supply chain of huge global electronics market. The entire semiconductor market is approximately US$339 billion per annum.

The major operational risks comprise:

a) Competition
b) Demand volatility
c) Technology changes
d) Key management and experienced personnel changes.

The outsourced assembly and test market are highly competitive and made up of over 200 or more players coupled with many new set ups from China. Many of the major players are getting even bigger market share with some substantial merger and acquisition activities recently. The Group holds strong to our core value to consistently provide goods and services of the highest quality at competitive prices to our customers. We are committed to deliver operational, technology, quality and service excellence to our customers to stay competitive. However, some of our competitions have access to capital funding from their central government in the form of incentives or grants, and these financial assistance could negatively impact our business and profitability.

The semiconductor supply chain is very complex and influences substantially by end market demand, model replacement, product life cycle, technology shift and inventory level. The Group conducts strategic review on its portfolio of product, technology and customers to ensure there is counter-balance to minimise over reliance on one particular market. This is a difficult review and there is no assurance that the measures taken will be adequate to mitigate this risk.

The semiconductor industry is characterised by rapid technology changes with significant complexity involving materials, processes and machines. Availability of resources including capital and human resources may allow the competition to have competitive advantage. The Group builds upon the long term relationship with customers in developing technology roadmap together, and we have our in-house Research & Development ("R & D") centre with dedicated production capabilities to perform product qualification, and Materials Laboratory to develop advanced materials. However, any new research work is developed in anticipation of future demand. There is inherent risk in new product launching or new technologies being rolled out, thus, it is difficult to ensure that these introductions will be successful.

One of our 4 key tenets is human resource development and our future success depends to a certain extent on the ability and continuous efforts of our existing directors, key management and technical personnel and on our ability to continue to identify, attract, retain and motivate them. Our business operations require specialised engineering and other talents while the market for employees in our industry is extremely competitive. We have developed a human resource strategy on employee engagement which is central to employee retention and motivation apart from a benchmark-driven competitive remuneration package. However, if we are unable to attract and retain qualified employees, our business may be adversely affected.

Financial Risks

The Group's financial risks are set out in Note 24 of the notes to the financial statements.

DIVIDEND

The Company declared and paid a first and second interim single tier dividends totalling 27 sen per share for FY17.

Dividend payout is one of the important elements considered by the Company in enhancing its shareholder value. Earnings, capital expenditure requirements, borrowings repayment, capital adequacy, dividend yield and other relevant factors are considered by the Board in determining the actual dividend payout.

PROSPECTS AND OUTLOOK

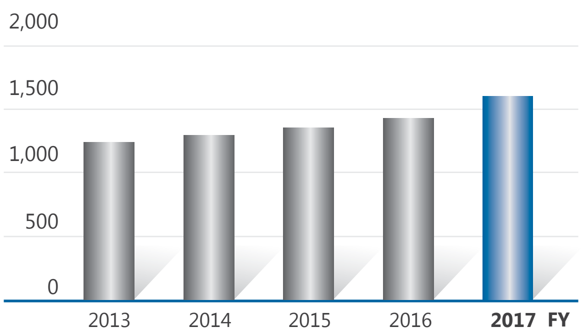
According to the recent forecast from the World Semiconductor Trade Statistics, the global semiconductor revenue (excluding memory IC) is expected to grow by 5.9% in 2017 and 3.3% in 2018. It is encouraging to see the overall market demand is improving and we continue to believe the long term prospect of the industry with the drive towards higher electronics content and Internet of Everything (IOE). We are seeing strong headwind in the automotive sector including autonomous driving and driverless car while industrial applications are getting traction as general world economies improve gradually with emphasis into Industry 4.0 and demand for data comes the requirement for more data centres. These are key drivers to the growth in semiconductor industry.

Our key focus is to continue the good work in the R & D into automotive, sensors and power management packaging solutions as we gear up to see more product launches over the next few quarters. Building on the sales pipeline and increasing the customer base, we are optimistic that the Group will continue to perform satisfactorily in the coming years.

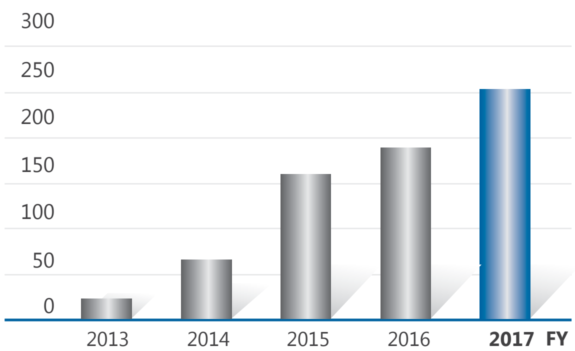
GROUP FINANCIAL HIGHLIGHTS

RM'Million	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenue	1,226	1,292	1,390	1,463	1,545
Profit Before Taxation	21	65	153	196	251
Profit Attributable to Owners of the Company	11	45	108	158	178
Net Earnings Per Share (sen)	6	24	57	83	94
Net Dividend Per Share (sen)	9	15	20	23	27
Total Equity	916	907	1,028	1,170	1,329
Total Assets	1,288	1,193	1,386	1,371	1,631
Capital Expenditure	97	72	176	125	129

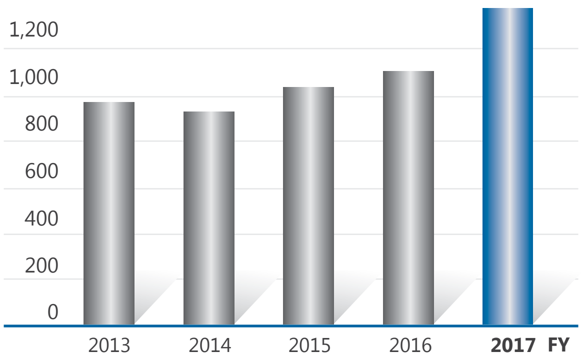
REVENUE
(RM' million)



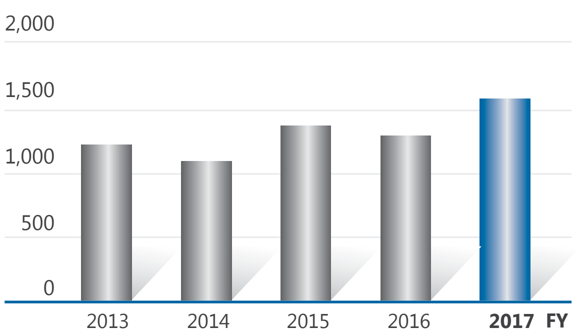
PROFIT BEFORE TAXATION
(RM' million)



TOTAL EQUITY
(RM' million)



TOTAL ASSETS
(RM' million)



SUSTAINABILITY STATEMENT

ABOUT THIS REPORT

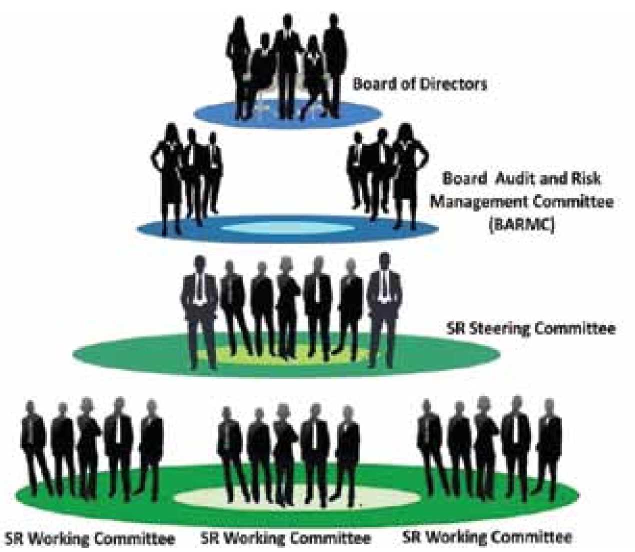
This Sustainability Report ("SR") is a document detailing the management of Malaysian Pacific Industries Berhad's ("the Group") business impacts on Economic, Environmental and Social issues. This is the first year that we are reporting our sustainability efforts. Through sustainability management we believe we can create economic value, protect the environment and pursue social development. In this report, we will be providing an overview of our stakeholder's engagement, governance structure and material issues with the descriptions of the initiatives under each of the sustainability elements within the scope mentioned below.

SCOPE OF REPORT

Period Covered: Financial Year ended 30 June 2017 (July 2016 to June 2017)

Coverage:

The report covers our operating companies in Malaysia namely, Carsem (M) Sdn Bhd ("Carsem") and Dynacraft Industries Sdn Bhd ("Dynacraft").



Sustainability Governance Structure

The Group is committed to maintaining sound corporate governance, continuously practicing ethics in all areas of our business and complying with all laws and applicable regulations where we operate. Our sustainability governance structure is lead by the Board of Director ("Board"). They play a critical role in approving the sustainability and risk management framework and deliberating reports from the Board Audit and Risk Management Committee (BARMC) on sustainability and risk governance issues. The SR Steering Committee which includes the Group Managing Director ("GMD") & the Chief Financial Officer ("CFO") act as an advisor and bridge between the Board and the operating companies which are supported by their respective SR Working Committees. This structure enables us to continue to add value to our stakeholders in all aspects of our business.

Core Values

The Hong Leong Group is built on the strong heritage of value creation for our stakeholders and communities within which we operate. Over the years, we have taken a progressive approach integrating sustainability into our businesses, towards a stronger, more resilient group. We are committed to growing our businesses responsibly, balancing environmental with economic considerations, as well as creating a positive impact for our stakeholders and contributing to our communities.

Our core values continue to serve as our compass in all that we do.

STAKEHOLDERS ENGAGEMENT

Stakeholders are defined as a party that has interest in the company and can either affect or be affected by the business. We derive significant value from our diverse stakeholders such as management, customers, employees, suppliers, local community, and maintain formal management systems to engage with them. Communicating with our stakeholders is key to the long-term and continuous improvement of our company. Through dedicated communication mechanisms, we collect and incorporate important stakeholder feedback into our strategies. An important goal of stakeholder engagement is to seek feedback from diverse stakeholder groups, and transform that feedback into action. The outcome of these engagements was considered in the course of our materiality assessment.

MATERIALITY

We have identified Economic, Environment and Social ("EES") issues that are material to our business based on the Global Reporting Initiative ("GRI") G4 Sustainability Reporting Guidlines Indicators. GRI G4 places the concept of materiality at the heart of sustainability reporting and we have completed the materiality assessments based on GRI G4. Through the materiality assessment process, we better understand the impact of stakeholder decision and influences versus the impact on EES. The following illustrates the indicators that are of greatest interest to our stakeholders, who want to make informed decisions on our best efforts and strategies to address them.

SUSTAINABILITY STATEMENT
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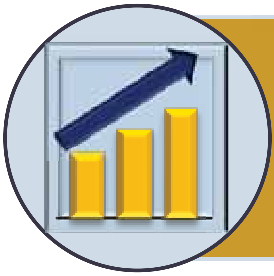


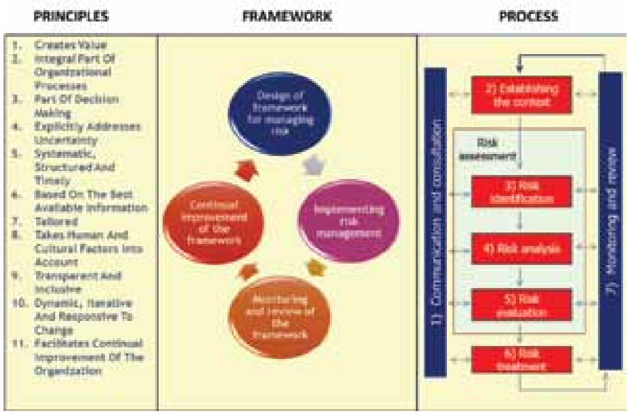
ECONOMIC

Risk Management & Compliance
Supply Chain Responsibility
Procurement Practices
Product Management & Innovation

In this section of the report, we will be discussing our initiatives and strategies on managing economic impacts which are considered material to our business such as managing risk, regulations compliance, ethical sourcing and procurement practices, our products management and our commitment towards innovation. We believe that such strategies will provide long term benefits and help drive progress towards a smart, sustainable and inclusive growth for the Group.

Risk Management & Compliance

Risks are inherent in our business and risk management is an intergral part of our management and governance. We have a structured Enterprise Risk Management (ERM) process and it is our mandate and commitment to explicitly make informed choices, distinguish and prioritise actions which are aligned to our business goals based on our risk management framework. It facilitates the continual improvement of the organisation as strategies are developed and implemented to improve the risk management maturity alongside all other aspects of the organisation.



Risk Management Principles, Framework and Process

Our key principles in risk management is dynamic, iterative, responsive to change, transparent and inclusive to ensure that risk management remains relevant and up-to-date. We are responsible to identify risk and we adopted a process of risk assessment where the management define risk context in the following aspects after necessary communication and consultation:

- Impact on revenue, cost or investment
- Time to recover from a loss
- Impact on quality and reputation
- Effect on safety, health and environment
- Cost of damage or impairment

Thereafter, we go through a series of risk identification, risk analysis and risk evaluation process to determine the risk category for the Group. Risks vary in many ways, including the ability of the company to anticipate and understand the risk level, the consequences that could occur if the undesired event occurs, the likelihood that an undesired event would occur, and the ability of the company to mitigate the risk.

CONSEQUENCE / LIKELIHOOD	Negligible	Low	Medium	High	Extreme
Almost Certain	Minor (2)	Significant (3)	Major (4)	Severe (5)	Severe (5)
Likely	Minor (2)	Minor (2)	Significant (3)	Major (4)	Severe (5)
Moderate	Trivial (1)	Minor (2)	Significant (3)	Major (4)	Severe (5)
Unlikely	Trivial (1)	Trivial (1)	Minor (2)	Significant (3)	Major (4)
Rare	Trivial (1)	Trivial (1)	Minor (2)	Significant (3)	Major (4)

Risk Rating Matrix

For instance, item that falls in severe risk category is absolutely essential to have a detailed and extensive action plan to be managed by the senior management as a risk treatment for risk identified. Lastly, we developed a set of Internal Control Questionnaires (ICQs) which form part of the monitoring and review process for us. ICQs response will be collected on periodic basis which will be matched against actual practice through self-audit by the operating companies & internal audit which is carried out by the independent department within the Group.

SUSTAINABILITY STATEMENT
(cont'd)

We are committed to conduct our business affairs with honesty and integrity and in full compliance with all applicable laws, rules and regulations. We have maintained our status of full compliance with no major issues, no major fines for regulatory or statutory incompliance in the course of our business.

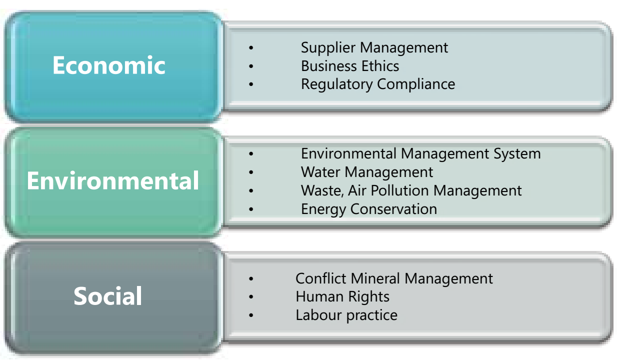
Supply Chain Responsibility

- **Supply Chain Management System**

The Group is committed to partner with our suppliers, to ensure that they are accountable for operating with the same high standards that we expect of ourselves. Suppliers provide direct materials for our production processes, indirect materials such as tools and machines for our factories, logistics and packaging services, and office materials and services. We consistently communicate our expectations clearly, to ensure the supplies are delivered with the highest quality standard, competitive cost, meeting the environmental management, worker safety guidelines, and business ethics requirement in line with our commitment to comply with the Electronic Industry Citizenship Coalition (EICC) standard. We expect our suppliers to develop their own corporate sustainability strategies and policies, establish robust legal compliance and business ethics policies and processes, engage with and audit their own suppliers, and report on their performance. Setting these expectations are critical to increase the overall maturity of the entire supply chain.

- **Supplier Sustainability Risk Assessment**

Assessments and audits are an integral part of our overall supplier management process. It helps us to identify compliance gaps where immediate action is needed, and root causes that enable development of systemic solutions and improvements. Audits will be performed by our Supplier Quality System team on a bi-yearly basis on our critical direct material supplier and 3 years once on the critical indirect material supplier. All our assessments and audits cover the following sustainability aspects :



We are convinced that a sustainable supply chain is vital to a business long term success. We are therefore committed to work with our suppliers to uphold global standards for a sustainable, innovative and ethical supply chain network.

Procurement Practices

- **Proportion and Total Spending on Local Suppliers**

We support sourcing from local suppliers to promote growth of local economy. Local suppliers provide more efficient service and shorter lead time as well with lower costs due to lower transportation costs.

There are over 1,200 suppliers supplying materials, equipment and services with more than 4,000 parts. Since 2015, 85% of suppliers are local. Our local purchasing spending is approximately 57% of total spending in 2017.

57%

Of total spending in 2017 is on local supplier.

85%

Suppliers are local since 2015

- **Conflict Minerals Management Approach**

Many electronic devices have minerals such as tin, tantalum, tungsten and gold (3TG metals), which are known as "conflict minerals". The mining and distribution of "conflict minerals" originating from the Democratic of Congo (DRC)and adjacent regions are controlled by violent organisations in order to fund violence, genocide, and other crimes against humanity. We are committed to ensure the responsible sourcing of mineral sources for our products. Therefore, we have worked with our key suppliers to eliminate the use of these conflict minerals within our supply chain and only use conflict-free minerals responsibly sourced around the world.

Since 2012, we have been conducting due diligence on suppliers using Conflict Minerals Reporting Template (CMRT) to disclose information on Smelter or Refiners (SoRs). The following table details the conflicts management approach that we have taken :

SUSTAINABILITY STATEMENT
(cont'd)

Conflict Mineral Management Requirement	We seek our suppliers to be diligent in assessment and validation of their supply chains and encourage them to only source for conflict-free smelters
Reasonable Country of Origin Inquiry (RCOI)	We identify suppliers whose supplies contain tin, tantalum, tungsten and gold (3TG metals) in our supply chain through CMRT.
Independent Private - Sector Audit (IPSA)	We undertake an Independent Private Sector Audit (IPSA) of our Conflict Minerals Report in compliance with the requirements of the US Securities and Exchange Commissions (SEC) Conflict Minerals Final Rule and subsequent SEC Guidance.

- **Conflict Minerals Compliance**

Compliance to disclose information on Smelter or Refiners (SoRs) by using Conflict Minerals Reporting Template (CMRT) since 2015

It took us several years to validate that the conflict minerals in our products are from responsibly source. We achieved 100% compliance in 2015. We are working closely with our suppliers to source minerals from SoRs that have received "conflict–free" certification through Conflict-Free Smelter Program (CFSP) or other 3rd party audit programme.

Chart 1: Conflict Mineral Free Compliance Rate

PRODUCT MANAGEMENT & INNOVATION

- **Products and Services**

The Group holds strong to our core value to consistently provide goods and services of the highest quality at competitive prices to our customers. Both Carsem and Dynacraft are committed to deliver operational, technology, quality and service excellence to our customer.

Various initiatives were launched as we strive to make our operations more efficient at the highest quality standard. The operations team continue to add value through various Overall Equipment Effectiveness (OEE) programmes, automation and enhancement of inspection system. As we continue to be challenged to meet operational goals, it is our priority to gear towards Industry 4.0 via digitalisation and automation through further enhancement of I-Manufacturing systems. It is crucial for us to drive higher productivity to foster the growth of our business, while not compromising impacts of our actions towards sustainability in meeting the demands of today.

- **Innovations**

In 2007, Carsem set up its own Carsem Technology Center (CTC) headed by our Chief Technology Officer (CTO). There is a total of 108 technically competent and innovative personnel with a Pilot Line to focus on product development to grow our portfolio in Internet-of-Things (IoT) / Communications, Automotive and Power & Sensor devices, upholding our motto of 'Differentiation through Innovation'.

We continue to demonstrate our core value to nurture and be committed to innovation through innovative product design and advanced technology by working closely with strategic and key customers who are market leaders of the above segments. It is done through regular roadshows, meetings and through roadmap alignment. Besides, we also continue to invest in equipment, training and resources to support these emerging technologies and keep up with the latest advances in packaging and test services as well as working with local and Asian equipment suppliers in developing future generations of equipment in assembly and testing. Apart from that, we embarked on joint development projects with several Malaysian universities in the area of material research and development.

Carsem actively participates in the regional semiconductor organisations and seminars including Semiconductor South East Asia (SEA) and Shanghai Semiconductor. This includes co-hosting and paper presentations for the past several years. Carsem's CTO is a panel member of the SEA Semiconductor panel which guides and coordinates the long-term strategies and direction of the Semiconductor members in SEA which includes numerous Multinational Original Equipment Manufacturers (OEMs), Outsourced Semiconductor Assembly and Tests (OSATs) and Equipment companies worldwide which have facilities in SEA region.

Intellectual Property is a key aspect of innovation management and we have actively registered our patents to protect our process, equipment and design. In FY17, we registered 2 new patents namely, a low profile wire bonded package which is a package design related patent and another patent on flexible window clamp design which is related to equipment design.

- **Quality Systems**

The Group is built on a strong Quality Management System through its progressive history track record of industry recognized certifications of ISO9001, QS9000, ISO14001, OHSAS18001, ANSI2020, ISO/TS16949, and now moving towards the new Automotive Standard of IATF16949 and ISO9001 in alignment with the dynamic trends of industry Quality Management System Standards. With a committed senior management team, our primary object is to provide superior quality products and services driven by an established Zero Defect Programme and its solid corporate-wide "5S" programme. Carsem specifically has also embarked in serving the automotive market and has its own Automotive Programme that is able to capture Customer Special Requirements.

As we venture through quality improvement journey, we are driving our processes to be robust through our proactive Quality methods such as Process Mapping, Six Sigma, Kaizen, Statistical Process Control (SPC), IT Solutions, and application of Failure Mode Effect Analysis (FMEA) on Process-Design-Equipment while enabling better detection methods by installing Automated Vision Systems and system controlled IT solutions.

As a responsible business partner, we are able to win market shares through our innovative packaging solutions as we continue to enhance our Quality Management System towards the future.

SUSTAINABILITY STATEMENT
(cont'd)

ENVIRONMENTAL

Energy Management
Water Management
Waste Management
Green Management

Our commitment to environmental sustainability is embodied in our Environmental, Health, and Safety Policy, as well as our Efficient Electrical Energy Management Policy. The Group also establishes clear environmental expectations for our suppliers and has initiated a number of sustainable purchasing actions as reported in the previous section. We are committed to conduct business responsibly by protecting and enhancing our environmental conservation efforts in respect to our activities, products and services. Maintaining a preventive approach to resource utilisation is a key element of our programme. For example, one of our objectives is waste minimisation; in the event that waste is unavoidable in certain contexts, reduction and recycling will be the best options. We also seek to identify processes that require fewer resources and will generate less emissions or waste.

In this section of the report, we will be discussing the initiatives on managing environmental impacts which are considered material to our business.

Environmental Safety and Health (ESH) Management System

The Group's Environmental Safety and Health (ESH) management systems are ISO 14001 and OHSAS 18001, certified, which are internationally recognised standards for Environmental Management and Occupational Health and Safety (OHS) systems. Those standards enable us to develop and implement policies and objectives that take into account legal and other requirements, risks, and environmental considerations. We maintain its external registrations to the current versions of the aforementioned standards by annual surveillance audits and plans to upgrade to the recently released ISO 14001:2015.

- **Energy Management**

The Group has implemented an Efficient Electrical Energy Management Policy and which is in line with Regulation 6 of the Efficient Management of Electrical Energy Regulation 2008. This encouraged numerous energy conservation initiative programmes that resulted in 9.2% year-over-year improvement in FY17 and represents a total saving of over 2.5 million kWh with reference to FY16 as baseline.

Examples of our energy reduction projects include :

- Replacing aging /old equipment
- Centrifugal air compressor
- Zero air loss air dryer
- Lighting retrofits to LED tube
- Installing variable speed drives
- Voltage regulator AHU"s heater
- Zero compressed air leak approach

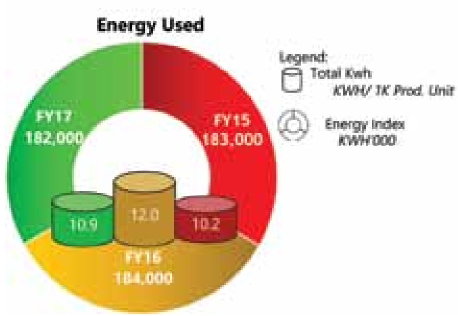


Chart 2: Energy Used Trend Chart

SUSTAINABILITY STATEMENT
(cont'd)

- ### Water Management

We use water from public sources. A significant portion of our water is treated to produce high purity deionised (DI) water necessary for our manufacturing process. We have implemented water reuse and conservation programmes across our manufacturing sites as it is important to preserve natural resources. A substantial portion of backwash water used in waste water treatment plant (WWTP) operations is reclaimed and recycled from treated water. In FY17, 30% of our withdrawn water was reused to support the Company's operations. This year's 10% reduction in factory water index estimated savings of over 30 million gallons of water, is equivalent to an average water consumption for 1,400 Malaysians for the entire year.

Examples of our water reduction projects include :

- Changing to process cooling water for oven
- Recycle system for grinder vacuum pump
- Water recycling system for WWTP

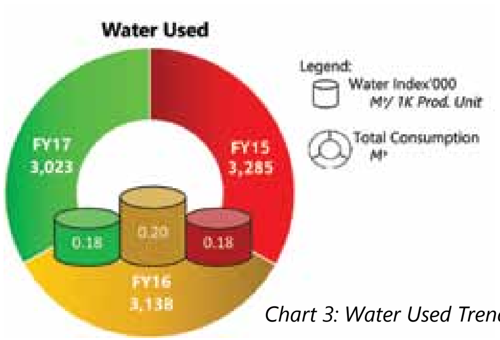


Chart 3: Water Used Trend Chart

Picture: Carsem's Ipoh waste water treatment plant

Our future project plan includes recycling of Reverse Osmosis (RO) reject water, sawing and back grinder discharge water.

- ### Waste Management

In FY17, out of 1,225 metric tons of waste generated, 34% was industry hazardous waste and 66% was municipal waste of which 37% was recycled and recovered and 63% was buried in landfill. We continuously drive consciousness on waste management, one of them is the 3R program to Reduce, Recycle and Reuse materials. Such program will help reduce municipal waste going to landfills or incinerators.

Chart 4: Municipal Waste Management (Data is for Carsem only)

In FY17, we have eliminated an extra 44 metric tons of waste going to landfills against the baseline in FY16. Carsem sets a target to increase the Recycle and Recovery rate from 30% to 40%. Hazardous waste needs to be handled, treated and/or disposed of properly as it can be harmful to health and safety and to the environment. All hazardous wastes from our maufacturing process are treated locally by approved and specialised companies. In FY17, 3,085 metric tons of hazardous waste were generated whereby 68% of the waste was recovered, 14% was recycled, 9% was incinerated, 9% was physically or chemically treated, ie 100% diverted from landfills.

Chart 5: Hazardous Waste Management

SUSTAINABILITY STATEMENT
(cont'd)

Green Management

Green Management is an initiative aimed at continuously improving the foundation of environmental management, such as the development of personnel responsible for environmental activities, environmental management systems, and environmental communication.

Over the years, we have launched many environmental programmes and built awareness among our employee via such programmes.

3R (Recycle, Reuse, Reduce) Programme

Through this programme, recycling bins are placed in common areas for management of waste. Employees are educated on segregation of waste and inculcate a habit of 'think before they throw' to help sustain the environment for future generations. Reducing paper consumption on a daily basis, reusing and recycling carton boxes and paper core are some of our continuous efforts to drive sustainability towards the environment.

Other recycling efforts in Dynacraft includes partnering customers to recycle used containers and supporting the SOLS 24/7's initiatives (a non-profit organisation) by donating non-usable electronic parts to them. Such items will then be refurbished.

SUSTAINABILITY STATEMENT
(cont'd)

No Plastic Bags on Every Friday

Carsem has implemented "No-Plastic-Bag-day" on every Friday. Through this programme, we managed to reduce a total of 192 kg of plastic bags per year.

No Polystyrene

Since 2012, Carsem has banned the use of Polystyrene in its factories . Cafeteria management and employees are not allowed to bring any polystyrene to the factories.

Environmental Safety & Health Week (ESH Week)

This event is held every alternate year. There are many activities carried out covering Environmental, Safety & Health matter throughout the week. Government agencies such as Jabatan Bomba and the Department of Occupational Safety & Health will be invited to promote safety awareness to the employees. Simple safety knowledge and skills such as operating fire extinguisher and emergency first aid will be exhibited and shared with the employees. In addition, we organize healthy food fair, fitness, aerobic or Zumba competition, emergency response team competition and safety, health and environmental awareness quiz as well. The week event closes with a grand finale event "ENVIROHUNT".

SUSTAINABILITY STATEMENT
(cont'd)

SOCIAL

Safety & Health
Labour Practices
Local Communities

"A company is not an organisation. It takes people to transform a company into an organisation. The sum total of the staff is the Group's strength, and their contributions are the Group's Results"

Tan Sri Quek Leng Chan
Executive Chairman of the Hong Leong Group

As at 30 June 2017, the Group has a total of 8,506 employees, of whom 1,836 are located out of Malaysia. We have put in significant efforts to ensure long-term employee development by fostering employees' abilities, making the most of their talents and developing their potential. We commit to ensure we have in place policies and procedures concerning working conditions, safety, and health of the workers and also practise fair and non – discriminatory labour practices across the regions where we operate. In addition, our investments and engagement around social issues generate significant value for us and our stakeholders. The constructive relationships and trust that we build with our community help to create a positive business environment for us. Besides, engaging our employees in meaningful volunteer experiences positively impact their satisfaction and pride, and helps us to attract and retain talented people towards the long-term sustainability of the business.

Safety & Health

We are committed to cultivating a Safe, Healthy and Productive work environment. Employees' safety is always our priority. We formulate occupational health and safety (OHS) management principles to effectively prevent the occurrence of occupational accidents and to protect our employees. Our ESH management systems are OHSAS 18001 certified. We maintain an OHS management system to:

These efforts are supported by a knowledgeable and experienced team of health and safety professionals and employees across the Group who are responsible for meeting a stringent set of goals and performance objectives.

SUSTAINABILITY STATEMENT
(cont'd)

- **Employee Safety**

We are committed to protect employees, contractors and visitors in term of safety by providing a safe working environment, preventing work injuries and illnesses, and providing access to healthcare. Employees' safety is priority to all our operations and our goal is Zero Incidents at the workplace. We remain focused on reducing hazards and risks, and improving our practices, results and all associated indicators. Health and safety are closely linked, and when we conduct site audits, both elements are assessed. Risk prevention is a priority to elevate safety level of the factories. The trend for recordable accident cases shows a down-trend for the Group since FY15.

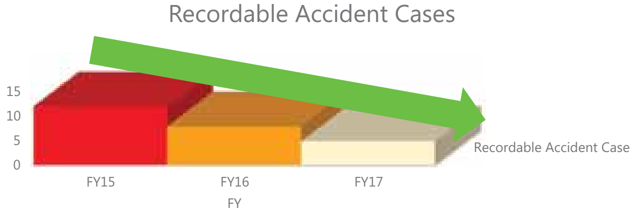


Chart 6: Recordable Accident Cases

We strengthen our company's safety culture through training, awareness, publicity, plant inspection and sharing best practices.

We have identified specific high-risk manufacturing areas that exposed our employees to various job-related hazards such as radiation, noise and chemical. These employees are not only provided with high quality protective equipment, but also undergo routine medical screening.

- **Employee Health**

We provide employees with a comprehensive medical and health care system to maintain a healthy workforce. Health talk, health screening programme, and blood donation are activities held periodically for the benefit of our employees.

Carsem has an in-house clinic that operates 24/7. with daily visiting doctors from our panel clinic for the convenience of our employees.

SUSTAINABILITY STATEMENT
(cont'd)

Local Communities

In line with one of the Hong Leong Group's core values to create wealth for the betterment of the society, The Group is committed to continuously support the community in all business aspects.

Local communities are essential to us and we strive to add value to the communities within which we operate. Various activities at group level, factory level and employee level are launched and participated widely all year round to reflect our commitment to positively impact our community.

- **Carsem Charity Chest**

In FY17, Carsem, through Carsem Charity Chest (CCC), donated a total of RM44,000 to the community. A total of 17 recipients comprising 10 employees or families in need, 6 children homes and 1 charity organisation have benefited from the total contribution. We assist employees who lost their homes due to natural disaster as well as those who need medical assistance. In addition, a Charity Walk was sponsored by CCC involving 200 Carsem volunteers.

- **Dynacraft Community Event**

Dynacraft CSR team known as Community Action Team (CAT), celebrated Hari Raya with children from the Pusat Harian Harapan Bakti on 29 July 2016 and 40 children were invited for lunch. RM2,000 was donated as 'Duit Raya' for the children. It was fun and enjoyable for all who attended the event. On 30 July 2016, CAT invited and sponsored 31 children from Job Link to participate in the Peace Run. CAT also sponsored 15 children from St Joseph home to participate in the Heritage Run held on 28 August 2016.

In 2016, children from Batu Grave home received Deepavali contribution from CAT totalling RM2,000 and Deepavali Packets to 89 children. This year, CAT has chosen the Gan Ean Zhi home to receive the Chinese New Year contribution of RM2,000 which was given to the home and Ang Pau' to the home tenants.

CAT also responded to the request from the blood bank from General Hospital Penang on the shortage of their blood supply especially during festive seasons whereby 35 regular donors donated their blood in this annual event.





SUSTAINABILITY STATEMENT
(cont'd)

Labor Practices

• Employee Engagement

The Group continuously drives programmes to bring our people together at various levels through different activities as it is our belief that people are the key enabler to driving results. At the Hong Leong Manufacturing Group ("HLMG") level, HLMG Sports Tournament is one of the biggest events organised, whereas for the Group level we have MPI Treasure Hunt and MPI Kaizen competition held last year.

Work is an integral part of our lives and we often organise activities to anhance team spirit, bonding or engagement. One of the highlights for Carsem FY17 was our very first Carsem Family Day which was held on April 2017. This activity was initiated and personally driven by our GMD; who is a strong believer that engaged employees will always be enthusiastic about their work and take positive actions to further the organization's reputation and interests. This fun activity-based event has enabled the management team to get to know the family members of the employees while also enabling employees to get to share some fun time with their leaders.

This overwhelming response has created history by being the biggest family event organised by a company in the community that we operate in.

The management believes that this event has definitely helped to build our brand and created a positive impact to the families as well as the local communities. We are looking forward to the next FAMILY DAY!

• Employee Development

As part of our efforts to drive one of the Hong Leong Group's core value to enhance the Quality of Human Resources as the essence of management excellence, we strive to consistently develop, nurture, engage and motivate employees. We have a wide spectrum of employees' development programmes to ensure that our employees are given the right development and growth which is key to the sustenance of the business.

Below are some of the development programmes for our employees:

SUSTAINABILITY STATEMENT
(cont'd)

- **Employee Care**

We have a wealth of employees programmes including the following care and wellfare programmes :

Compensation	Insurance Program	Employee Welfare
•Men and women, local and foreign are paid equally according to their respective grades. •Employees are remunerated according to: •Job Requirement •Work Performance •Local Market Requirement in compliance to the local wage standard such as the Minimum Wage Act •Contributions are made to the Employees Provident Fund and Social Security Organization for all eligible employees.	•All employees have an insurance coverage such as: •Life Insurance •Accident Insurance •Medical Insurance	•Facilities such as •In House Clinic •Hostels •Transport •Place Of Rest •Car Park •Place Of Prayer •Cafeteria •Minimart •Locker •ATM Machine

- **Employee Communications**

An employees' communications programme is in place to ensure that all employees are kept up to date with the latest business changes, consistent feedback and also to encourage their involvement with company's activities. Various communication channels include:

- Executive forum
- Skip Level meeting – "Teh Tarik" Session
- Email communications
- Intranet
- Bulletin board
- Employee Suggestions Box
- On site TV

- **Employee Children Scholarship**

Carsem has awarded a total of RM 23,500 for 2014, RM 58,500 for 2015 and RM 63,000 for 2016 in scholarships for employees' children pursuing at different levels of education, i.e. at pre- university, diploma, local degree or overseas twinning program.

- **Academic Excellence Award**

We have awarded RM 24,700 in 2014, RM 20,400 in 2015 and RM 10,300 in 2016 to employees' children who have excellence in public examinations such as UPSR, PT3, SPM and STPM.

- **Recognitions for Employees**

There are various recognitions programme for employees such as on the spot recognition, individual recognition, team-based cross functional continuous improvement team recognition, breakthrough innovation recognitions as well as quality sensitivity recognitions.

MOVING FORWARD

We recognise that there is much more that can be done in the sustainability development in creating positive economic, social and environmental impacts. We are excited and committed to continue fostering business growth that is sustainable together with our stakeholders for the future.

CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL

"CORPORATE GOVERNANCE IS THE PROCESS AND STRUCTURE USED TO DIRECT AND MANAGE THE BUSINESS AND AFFAIRS OF THE COMPANY TOWARDS ENHANCING BUSINESS PROSPERITY AND CORPORATE ACCOUNTABILITY WITH THE ULTIMATE OBJECTIVE OF REALISING LONG TERM SHAREHOLDER VALUE, WHILST TAKING INTO ACCOUNT THE INTEREST OF OTHER STAKEHOLDERS."

~ Finance Committee on Corporate Governance

The Board of Directors ("Board") has reviewed the manner in which the Malaysian Code on Corporate Governance 2012 ("Code") is applied in the Group as set out below. The Board is pleased to report compliance of the Group with the principles and recommendations as set out in the Code except where otherwise stated.

The Board took cognisance of the new Malaysian Code on Corporate Governance published in April 2017 ("MCCG 2017") which is applicable to annual reports published from 2018 onwards.

A. ROLES AND RESPONSIBILITIES OF THE BOARD

The Board assumes responsibility for effective stewardship and control of the Company and has established terms of reference ("TOR") to assist in the discharge of this responsibility.

In discharging its responsibilities, the Board established functions which are reserved for the Board and those which are delegated to management. The key roles and responsibilities of the Board are set out in the Board Charter, which is reviewed annually by the Board and published on the Company's website at www.mpind.my ("MPI Website"). The last review of the Board Charter was carried out in August 2017. The key roles and responsibilities of the Board broadly cover formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Group's businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage those risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals, and major capital expenditure.

The day-to-day business of the Group is managed by the Group Managing Director ("GMD") who is assisted by the management team. The GMD and his management team are accountable to the Board for the performance of the Group. In addition, the Board delegates certain of its responsibilities to Board Committees, which operate within clearly defined TOR primarily to support the Board in the performance of its duties and responsibilities. Although the Board has granted such authority to Board Committees, the ultimate responsibility and the final decision rest with the Board. The chairmen of Board Committees report to the Board on matters dealt with at their respective Board Committee meetings. Minutes of Board Committee meetings are also tabled at Board meetings.

There is a clear division of responsibilities between the Chairman of the Board and the GMD. This division of responsibilities between the Chairman and the GMD ensures an appropriate balance of roles, responsibilities and accountability.

The Chairman leads the Board and ensures its smooth and effective functioning.

The GMD is responsible for formulating the vision and recommending policies and the strategic direction of the Group for approval by the Board, implementing the decisions of the Board, initiating business ideas and corporate strategies to create competitive edge and enhancing shareholder wealth, providing management of the day-to-day operations of the Group and tracking compliance and business progress.

CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

A. ROLES AND RESPONSIBILITIES OF THE BOARD *cont'd*

Independent Non-Executive Directors ("ID" or "IDs") are responsible for providing insights, unbiased and independent views, advice and judgment to the Board and bring impartiality to Board deliberations and decision-making. They also ensure effective checks and balances on the Board. There are no relationships or circumstances that could interfere with or are likely to affect the exercise of the IDs' independent judgment or their ability to act in the best interest of the Company and its shareholders.

The Group continues to operate in a sustainable manner and seeks to contribute positively to the well-being of stakeholders. The Group takes a progressive approach in integrating sustainability into its businesses as set out in the Sustainability Statement which forms part of the Annual Report.

The Board observes the Code of Ethics for Company Directors established by the Companies Commission of Malaysia ("CCM") which is available on CCM's website at www.ssm.com.my. In addition, the Group also has a Code of Ethics that sets out sound principles and standards of good practice which are to be observed by the employees. The Group has in place procedures and rules for employees to raise responsibly, in confidence, concerns about serious misconduct and other improprieties which pose financial, legal, reputational or operational risks to the Group.

B. BOARD COMPOSITION

The Board comprises 6 directors, 4 of whom are non-executive and independent. The profiles of the members of the Board are provided in the Annual Report.

The Company is guided by the Policy on Board Composition adopted by the Company and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa") ["MMLR"] in determining its board composition. The policy includes the following:

- The Board shall determine the appropriate size of the board to enable an efficient and effective conduct of board deliberation.
- The Board shall have a balance of skills and experience commensurate with the complexity, size, scope and operations of the Company and shall have an appropriate balance of IDs comprising at least half of the board.
- The Board shall also include a balanced composition of executive and non-executive directors.
- Board members should have the ability to commit time and effort to carry out duties and responsibilities effectively.

The Board has in place a Board Diversity Policy. The Board recognises the merits of Board diversity in adding value to collective skills, perspectives and strengths to the Board. The Board will consider appropriate targets in Board diversity including gender, ethnicity and age balance on the Board and will take the necessary measures to meet these targets from time to time as appropriate.

Based on the review of the Board composition in August 2017, the Board is of the view that the current size and composition of the Board are appropriate and effective for the control and direction of the Group's business. The composition of the Board also fairly reflects the investment of shareholders in the Company. The Board will work towards increasing women participation on the Board in line with the MCCG 2017.

CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

C. BOARD COMMITTEES

Board Committees have been established by the Board to assist in the effective discharge of its duties.

I Board Audit & Risk Management Committee ("BARMC")

The composition of the BARMC and a summary of its activities are set out in the Board Audit & Risk Management Committee Report in this Annual Report. The TOR of the BARMC are published on the MPI Website.

II Nominating Committee ("NC")

The NC was established on 29 April 2013 and its TOR are published on the MPI Website. The composition of the NC is as follows:

Ms Lim Tau Kien
Chairman, Independent Non-Executive Director

YBhg Datuk Syed Zaid bin Syed Jaffar Albar
Independent Non-Executive Director

YBhg Datuk Kwek Leng San
Non-Independent Non-Executive Director

The Company has in place the process and procedure for assessment of new appointment, re-election, retention and removal of directors, and the appointment of Board Committee members and chief executive, and the criteria used for such assessments.

The nomination, assessment and approval process for new appointment is as follows:

Identification of candidates	→	Meeting with candidates	→	• Assessment against Assessment Criteria and Guidelines • Recommendation by the NC	→	Deliberation by the Board and decision thereof

All candidates to the Board are assessed by the NC prior to their appointments, taking into account, inter-alia, the strategic and effective fit of the candidates for the Board, the overall desired Board composition including Board diversity and the required mix of skills, expertise, knowledge and experience in the industry, market and segment to enhance the Board's overall effectiveness and having regard to the candidates' attributes, qualifications, management, leadership, independence and time commitment, before they are recommended to the Board for approval. The Company has taken steps to build and maintain a pool of potential Board candidates from internal and external introductions, recommendations and director databases in its search for suitable Board candidates.

In the case of chief executive, the NC will take into account the candidate's knowledge and experience in the industry, market and segment.

The assessment for Board Committee appointment will be based on the directors' potential contributions and value-add to the Board Committees with regard to Board Committees' roles and responsibilities.

CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

C. BOARD COMMITTEES *cont'd*

II Nominating Committee ("NC") *cont'd*

In addition, a formal evaluation process has been put in place to assess the effectiveness of the Board as a whole, Board Committees as a whole and the contribution and performance of each individual director, Board Committee member, chief executive and the chief financial officer on an annual basis. For newly appointed director/chief executive/chief financial officer, the Annual Board Assessment will be conducted at the next annual assessment exercise following the completion of one year of service. The assessments will take into consideration, amongst others, the appropriate skills, experience, soundness of judgment and competencies, independence, attendance and level of participation and contribution at Board and Board Committee meetings. The NC will deliberate on the results of the Board Annual Assessment and submit its recommendation to the Board for consideration and approval. The results of the assessment formed one of the criteria of the NC's recommendation to the Board for the re-election/retention of directors at the annual general meeting ("AGM").

The nomination and approval process for re-election/retention of directors shall be as follows:

• Assessment against Assessment Criteria and Guidelines • Recommendation by the NC	→	Deliberation by the Board and decision thereof

For removal of directors, the Company shall carry out such removal in accordance with the provisions of the Companies Act 2016 and any other relevant regulatory requirements. The NC may recommend to the Board the removal of a director who is ineligible, disqualified, incapacitated or who has failed in the discharge of fiduciary duties.

For management succession planning, it has been embedded in the Group's process over the years to continuously identify, groom and develop key talents from within the Group. The Group also has a talent development programme to identify, retain and develop young high potential talents.

The NC meets at least once in each financial year and additional meetings may be called at any time as and when necessary.

The NC met once during the financial year ended 30 June 2017 ("FY 2017") where all the NC members attended.

During the FY 2017, the NC carried out its duties in accordance with its TOR. The NC considered and reviewed the following:

- NC Charter, policies on Board Composition, Independence of Directors, Board Diversity and Directors' Training;
- composition of the Board and Board Committees;
- mix of skills, professional qualification, experience and other qualities of directors including gender, ethnicity and age balance;
- independence of IDs and their tenure;
- trainings undertaken by directors and recommendation of training programmes for directors; and
- re-election and retention of directors.

Having reviewed the Board composition, the NC was satisfied that the current Board comprises a good mix of skills and that the current size and composition of the Board are appropriate and effective in discharging its functions. The NC took cognisance of the merits of Board diversity, including women representation on the Board. The NC will work towards increasing women participation on the Board in line with the MCCG 2017.

The NC has also evaluated the performance of the Board, Board Committees, each individual director, each Board Committee member and the Chief Financial Officer ("CFO"), benchmarking against their respective TOR and Assessment Criteria, and through the annual assessment conducted during FY 2017. The NC was satisfied that they have continued to operate effectively in discharging their duties and responsibilities. They have also fulfilled their responsibilities and are suitably qualified to hold their positions.

CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

C. BOARD COMMITTEES *cont'd*

III Remuneration Committee ("RC")

The Company does not have a RC. The Board is of the view that it is not necessary for the Company to establish a RC for the time being given the current size of the Board. The Board as a whole functions as the RC.

The Group's remuneration scheme for executive directors is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmarked to market/industry surveys conducted by human resource consultants. Performance is measured against profits and targets set in the Group's annual plan and budget.

The level of remuneration of non-executive directors reflects the scope of responsibilities and commitment undertaken by them.

The remuneration packages of executive directors are reviewed by the entire Board, with the presence of a majority of non-executive directors. The executive director concerned shall not participate in the deliberations and shall vacate the meeting room during deliberations of his remuneration package.

The Board, in assessing and reviewing the remuneration packages of executive directors, ensures that a strong link is maintained between their rewards and individual performance, based on the provisions in the Group's Human Resources Manual, which are reviewed from time to time to align with market/industry practices.

The fees of directors are recommended and endorsed by the Board for approval by the shareholders of the Company at its AGM.

The aggregate remuneration of directors (including directors appointed/retired during FY 2017, and remuneration earned as directors of a subsidiary) for FY 2017 is as follows:

	Fees (RM)		**Remuneration & Other Benefits (RM)**		**Total (RM)**	
	Company	**Group**	**Company**	**Group**	**Company**	**Group**
Executive Directors	–	–	–	3,285,642	–	3,285,642
Non-Executive Director	422,000	462,000	28,000	28,000	450,000	490,000

The number of directors whose remuneration falls into the following bands is as follows:

	Executive		**Non-Executive**	
Range Of Remuneration (RM)	**Company**	**Group**	**Company**	**Group**
50,000 and below	–	1	1	–
50,001 – 100,000	–	–	1	2
100,001 – 150,000	–	–	3	3
150,001 – 3,600,000	–	–	–	–
3,600,001 – 3,650,000	–	1	–	–

CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

D. INDEPENDENCE

The Board takes cognisance of Recommendations 3.2 and 3.3 of the Code. Recommendation 3.2 states that the tenure of an ID should not exceed a cumulative term of 9 years and upon completion of the 9 years, an ID may continue to serve on the Board subject to the director's re-designation as a non-independent director. Recommendation 3.3 states that in the event the Company wishes to retain an ID who has served a cumulative term of 9 years and above, shareholders' approval shall be sought at the AGM every year, with justifications, in accordance with the Code.

The Company has in place, an Independence of Directors Policy ("ID Policy") which sets out the criteria for assessing the independence of IDs. The Board will apply these criteria upon admission, annually and when any new interest or relationship develops. In addition, the ID Policy states that the Company shall seek shareholders' approval at the AGM every year to retain IDs who have served on the Board for a period of 9 years continuously or more as IDs, with justifications and subject to favourable assessment of the NC and the Board.

The Board seeks to strike an appropriate balance between tenure of service, continuity of experience and refreshment of the Board. Although a longer tenure of directorship may be perceived as relevant to the determination of a director's independence, the Board recognises that an individual's independence should not be determined solely based on tenure of service. Further, the continued tenure of directorship brings considerable stability to the Board, and the Company benefits from directors who have, over time, gained valuable insight into the Group, its market and the industry.

The IDs have declared their independence and the NC and the Board have determined, at the annual assessment carried out, that the IDs, including YBhg Datuk Syed Zaid bin Syed Jaffar Albar who has served on the Board for a period of 9 years continuously or more as an ID, remain objective and have continued to bring independent and objective judgment to Board deliberations and decision-making. At the coming AGM, the Company will seek shareholders' approval to retain YBhg Datuk Syed Zaid bin Syed Jaffar Albar as an ID. Justifications for his retention are set out in the explanatory notes of the Notice of AGM.

E. COMMITMENT

The directors are aware of their responsibilities and devote sufficient time to carry out such responsibilities. In line with the MMLR, directors are required to comply with the restrictions on the number of directorships in public listed companies. Board meetings are scheduled a year ahead in order to enable full attendance at Board meetings. Directors are required to attend at least 50% of Board meetings pursuant to the MMLR.

The Board meets quarterly with timely notices of issues to be discussed. Additional meetings may be convened on an adhoc basis as and when necessary. Where appropriate, decisions are also taken by way of Directors' Circular Resolutions.

The Company has moved towards electronic Board reports. Board reports are circulated electronically prior to the Board and Board Committee meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, updates on the performance of the Company and of the Group and management's proposals which require the approval of the Board.

All directors have access to the advice and services of qualified and competent Company Secretaries to facilitate the discharge of their duties effectively. The Company Secretaries are qualified to act under Section 235 of the Companies Act 2016 and they are Associate Members of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA). The Company Secretaries support the effective functioning of the Board, provide advice and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate secretarial and governance functions and facilitate effective information flow amongst the Board, Board Committees and senior management. All directors also have access to the advice and services of the internal auditors and in addition, to independent professional advice, where necessary, at the Company's expense, in consultation with the Chairman of the Company.

CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

E. COMMITMENT *cont'd*

At Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretaries accordingly. Any director who has an interest in the subject matter to be deliberated shall abstain from deliberating and voting on the same during the meetings.

The Board met 4 times during FY 2017.

Details of attendance of each director are as follows:

Directors	**Attendance**
YBhg Datuk Kwek Leng San	4/4
Mr Manuel Zarauza Brandulas	4/4
YBhg Datuk Syed Zaid bin Syed Jaffar Albar	4/4
Ms Lim Tau Kien	4/4
Ir. Dennis Ong Lee Khian	4/4
YBhg Dato' Mohamad Kamarudin bin Hassan	4/4

The Board recognises the importance of continuous professional development and training for directors.

The Company is guided by a Directors' Training Policy, which covers an Induction Programme and Continuing Professional Development ("CPD") for directors of the Company. The Induction Programme which includes visits to the Group's various business operations and meetings with senior management is organised for newly appointed directors to assist them to familiarise and to get acquainted with the Group's businesses. The CPD encompasses areas related to the industry or businesses of the Group, governance, risk management and regulations through a combination of courses and conferences. A training budget is allocated for Directors' continuing training programmes.

All directors of the Company have completed the Mandatory Accreditation Programme.

The Company regularly organises in-house programmes, briefings and updates by its in-house professionals. The directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge. Directors are kept informed of available training programmes on a regular basis.

In assessing the training needs of directors, upon recommendation by the NC, the Board has determined that appropriate training programmes covering matters on corporate governance, finance, legal, risk management, information technology, internal control and/or statutory/regulatory compliance, be recommended and arranged for the directors to enhance their contributions to the Board.

CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

E. COMMITMENT *cont'd*

During FY 2017, the directors received regular briefings and updates on the Group's businesses, operations, risk management, internal control, corporate governance, finance and any changes to relevant legislation, rules and regulations from in-house professionals. The Company also organised in-house programmes for its directors and senior management.

The directors of the Company have also attended various programmes and forums facilitated by external professionals in accordance with their respective needs in discharging their duties as directors.

During FY 2017, all the directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- 4th Industrial Revolution: Impact And Opportunities For Manufacturing And Financial Services
- Mandatory Accreditation Programme For Directors of Public Listed Companies
- Trans Pacific Partnership Agreement Briefing
- Risk Management Programme: 'I Am Ready To Manage Risk'
- Revised Auditor Reporting Standards - A Double Edged Sword
- Amlatfpuaa 2001: The Law & Compliance (Board Of Directors & Senior Management)
- The Companies Act 2016 - Challenges For Directors And Officers
- Clarification Of Audit Rating Methodology
- Sustainability Forum for Directors/CEOs: "The Velocity of Global Change & Sustainability - The New Business Model"
- ACCA Malaysia Sustainability Awards (MaSRA) 2016: Luncheon and Awards Presentation Ceremony
- Hong Leong Bank Sustainability Reporting: Awareness Session
- Breakfast Talk with Asian Corporate Governance Association (ACGA): Corporate Governance (CG) Watch 2016 - Ecosystems Matter
- Companies Act 2016
- Sustainability Engagement Series For Directors/Chief Executive Officers
- Initial Public Offering - The Route To Your Corporate Dream
- Related Party Transactions - Their Implications To The Board Of Directors, Audit Committee & Management
- Expectations On Plcs And Directors In Disclosure & Compliance Requirements Under The Listing Requirements

F. ACCOUNTABILITY AND AUDIT

The financial reporting and internal control system of the Group is overseen by the BARMC which comprises all IDs. The primary responsibilities of the BARMC are set out in the Board Audit & Risk Management Committee Report.

The BARMC is supported by the Internal Audit Department whose principal responsibilities are to conduct risk-based audits to ensure that adequate and effective controls are in place to mitigate risks; operational audits to identify opportunities for operational improvement; and also ensure compliance with standard operating procedures of the Group. Investigation or special review will be carried out at the request of the BARMC and senior management on specific areas of concern when necessary. Significant breaches and deficiencies identified are discussed at the BARMC meetings where appropriate actions will be taken.

CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

F. ACCOUNTABILITY AND AUDIT *cont'd*

I Financial Reporting

The Board is responsible for ensuring the proper maintenance of accounting records of the Group. The Board receives the recommendation to adopt the financial statements from the BARMC which assesses the financial statements with the assistance of the external auditors.

II Risk Management and Internal Control

The Statement on Risk Management and Internal Control (''SORMIC") as detailed under Paragraph I of this Statement provides an overview of the system of internal controls and risk management framework of the Group.

III Relationship with Auditors

The Board, through the BARMC, maintains a formal and transparent professional relationship with the external auditors, Messrs KPMG PLT. The appointment of external auditors is recommended by the BARMC which determines the remuneration of the external auditors. The BARMC reviews the performance, suitability, independence and objectivity of the external auditors annually. The BARMC also reviews the nature and fees of non-audit services provided by the external auditors in assessing the independence of the external auditors. In accordance with the Malaysian Institute of Accountants ("MIA"), Messrs KPMG PLT rotate its Engagement Partner and Concurring Partner once every 5 years to ensure objectivity, independence and integrity of the audit opinions.

The external auditors meet with the BARMC to:

- present the scope of the audit before the commencement of audit; and
- review the results of the audit, including key audit matters, as well as the management letter after the conclusion of the audit.

At least twice a year, the BARMC will have a separate session with the external auditors without the presence of senior management.

For FY 2017, the BARMC members together with the CFO undertook an annual assessment on the performance, suitability, independence and objectivity of the external auditors. No major concerns were noted from the results of the assessment. The external auditors also gave their assurance confirming their independence and objectivity throughout the conduct of the audit engagement and the internal processes undertaken by them to determine their independence.

G. DISCLOSURE

The Company has in place a corporate disclosure policy for compliance with the disclosure requirements set out in the MMLR, and to raise awareness and provide guidance to the Board and management on the Group's disclosure requirements and practices.

All timely disclosure and material information documents will be posted on the MPI Website after release to Bursa.

H. SHAREHOLDERS

I Dialogue with Shareholders and Investors

The Board acknowledges the importance of regular communication with shareholders and investors via the Annual Reports, circulars to shareholders, quarterly financial reports and the various announcements made during the year, through which shareholders and investors can have an overview of the Group's performance and operation.

Notices of general meetings and the accompanying explanatory notes are provided within the prescribed notice period on the MPI Website, Bursa's website, in the media and by post to shareholders. This allows shareholders to make the necessary arrangements to attend and participate in general meetings either in person, by corporate representative, by proxy or by attorney.

Shareholders can access for information at the MPI Website, which includes the Board Charter, TOR of Board Committees, corporate information, announcements/press releases/briefings, investor briefings, financial information, products information and investor relations. A summary of the key pertinent matters discussed at the AGM is published on the MPI Website.

In addition, shareholders and investors can have a channel of communication with the GMD to direct queries and provide feedback to the Group.

Queries may be conveyed to the following person:

Name	:	Mr Manuel Zarauza Brandulas
Tel No.	:	05-312 3333
Fax No.	:	05-312 5333
Email address	:	IRelations@mpind.my

II AGM

The AGM provides an opportunity for the shareholders to seek and clarify any issues and to have a better understanding of the Group's performance. Shareholders are encouraged to meet and communicate with the Board at the AGM and to vote on all resolutions. Senior management and the external auditors are also available to respond to shareholders' queries during the AGM. All Directors including the GMD attended the last AGM held on 25 October 2016.

Pursuant to Paragraph 8.29A(1) of the MMLR, all resolutions tabled at general meetings will be put to a vote by way of a poll and the voting results will be announced at the meetings and through Bursa.

CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

I. SORMIC

The responsibility of the Board

The Board recognises its overall responsibility for the adequacy and effectiveness of the Group's system of internal controls and risk management framework to safeguard shareholders' investment and the Group's assets. The Board adopts MS ISO 31000: 2010 as its risk management framework.

Accordingly, the Board has entrusted the BARMC to provide oversight of the system of internal controls and risk management framework. The BARMC is assisted by the Group's Internal Audit Department in this role.

The Risk Management Framework

For FY 2017, management has complied with the risk management framework in accordance with MS ISO 31000: 2010. Based on the framework, management has carried out the following:

- establish the context of risk in relation to the Group's risk appetite, i.e. how risks are perceived and the levels at which they are acceptable or otherwise;
- identify risks in relation to the objectives of every business function of the Group's operating companies;
- identify emerging risks faced by the Group in the operating environment of its various industries;
- assess the likelihood and impact of such risks identified, using qualitative and also quantitative measures where applicable, to determine the risk level, i.e. "Severe", "Major", "Significant", "Minor" or "Trivial";
- evaluate the severity of the risks and their treatment options to set priority of management's attention and devise appropriate actions to avoid, share, retain or mitigate risks within reasonable timeframes; and
- record the details of risks and treatment plans in the risk registers and present to the BARMC quarterly to review the adequacy and effectiveness of the risk management measures.

Further, on an on-going basis, each operating company's chief executive and authorised risk owners have clear accountabilities to:

- monitor its existing risks, identify emerging risks and update the enterprise-wide risk registers;
- maintain the adequacy, effectiveness and relevance of action plans and control systems to manage risks; and
- prepare risk management report on a quarterly basis for reporting to the BARMC.

The System of Internal Controls

The key elements of the Group's system of internal controls are described below:

- A management structure exists with clearly defined delegation of responsibilities to the management of the Group's operating companies, including authorisation levels for all aspects of the business and operations. The management of the Group's operating companies own and manage risks and they are responsible for implementing controls to mitigate the risks pertaining to all aspects of the business and operations.
- Documented corporate policies and procedures covering various aspects of the business and operations of the Group.
- Promotion of a strong internal control culture through the Group's values and ethics and also the "tone at the top".
- Diligent review of the quarterly financial results and reports and identifying the reasons for any unusual variances.
- Internal control assurance activities such as self-audits and completion of internal control questionnaires undertaken by management of the operating companies. These activities are part of the Group's risk & control assurance framework; provide the breadth in risk and control assurance; and demonstrate management's commitment to effective risk management.
- Risk-based internal audits carried out by the Group's Internal Audit Department focusing on key risk areas which are selected from the Group's audit universe. The key risk areas are documented in the annual audit plan which is approved by the BARMC. The risk-based internal audits in FY 2017 cover research and development; supply chain management; capital expenditure and custodian management.
- Quarterly reporting to the BARMC on the results of control assurance and audit activities and also the management of risks throughout the Group.

CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
(cont'd)

I. SORMIC *cont'd*

Management and Decision-Making Processes

The internal control and risk management processes of the Group are in place for the year under review and up to the date of approval of the SORMIC for inclusion in the annual report; and reviewed quarterly by the BARMC. The BARMC reviews the principal risks, significant audit observations and/or areas for improvement and ascertains that appropriate remedial actions or improvements are taken by the management of the Group's operating companies. These processes are intended to manage and not expected to eliminate all risks of failure to achieve business objectives. Accordingly, they can only provide reasonable and not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

The Board has received assurance from the GMD and CFO that the Group's system of internal controls and risk management framework are operating adequately and effectively, in all material aspects, based on the internal control system and risk management framework of the Group.

Review of the SORMIC by External Auditors

Pursuant to paragraph 15.23 of the MMLR, the external auditors have reviewed the SORMIC pursuant to the scope set out in Recommended Practice Guide ("RPG") 5 (Revised) issued by the MIA for inclusion in the 2017 Annual Report, and reported to the Board that nothing has come to their attention that causes them to believe that the SORMIC is not prepared, in all material aspects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control Guidelines for Directors of Listed Issuers, nor is the SORMIC factually inaccurate. RPG 5 (Revised) does not require the external auditors to consider whether the SORMIC covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board and management thereon. The external auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The Board's Opinion

The Board, through the BARMC, is of the view that the Group's risk management framework and system of internal controls are adequate and effective in safeguarding the shareholders' investments and the Group's assets.

J. DIRECTORS' RESPONSIBILITY IN FINANCIAL REPORTING

The MMLR requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and of the Company as at the end of the financial year and of the financial performance and cash flows of the Group and of the Company for the financial year.

The directors of the Company are satisfied that the financial statements of the Group and of the Company for FY 2017 have been prepared in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act 2016 in Malaysia and that the Group and the Company have adopted appropriate accounting policies and have applied them consistently.

This Statement on Corporate Governance, Risk Management and Internal Control is made in accordance with the resolution of the Board of Directors.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

CONSTITUTION

The Board Audit & Risk Management Committee ("the Committee") of Malaysian Pacific Industries Berhad ("MPI" or "the Company") has been established since 12 July 1994.

COMPOSITION

YBhg Datuk Syed Zaid bin Syed Jaffar Albar
Chairman, Independent Non-Executive Director

Ms Lim Tau Kien
Independent Non-Executive Director

Ir. Dennis Ong Lee Khian
Independent Non-Executive Director

SECRETARY

The Secretary to the Committee is Ms Joanne Leong Wei Yin who is the Company Secretary of MPI.

AUTHORITY

The Committee is authorised by the Board of Directors ("Board") to review any activity of the Group within its Terms of Reference, details of which are available on the Company's website at www.mpind.my. The Committee is authorised to seek any information it requires from any director or member of management and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorised by the Board to obtain independent legal or other professional advice if it considers necessary.

MEETINGS

The Committee meets at least 4 times a year and additional meetings may be called at any time as and when necessary. All meetings to review the quarterly reports and annual financial statements are held prior to such quarterly reports and annual financial statements being presented to the Board for approval.

The head of finance, head of internal audit, risk manager, Group Managing Director and senior management may attend Committee meetings, on the invitation of the Committee, to provide information and clarification required on items on the agenda. Representatives of the external auditors are also invited to attend the Committee meetings to present their audit scope and plan, audit report and findings together with management's response thereto, and to brief the Committee members on significant audit and accounting areas which they noted in the course of their audit.

Issues raised, discussions, deliberations, decisions and conclusions made at the Committee meetings are recorded in the minutes of the Committee meetings. Where the Committee is considering a matter in which a Committee member has an interest, such member abstains from reviewing and deliberating on the subject matter.

2 members of the Committee, who shall be independent, shall constitute a quorum.

After each Committee meeting, the Chairman of the Committee shall report and update the Board on significant issues and concerns discussed during the Committee meetings and where appropriate, make the necessary recommendations to the Board.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT
(cont'd)

ACTIVITIES

An annual assessment on the performance and effectiveness of the Committee and each of its members for the financial year ended 30 June 2017 ("FY 2017") was carried out by the Nominating Committee ("NC"). The NC and the Board are satisfied that the Committee and its members had carried out their duties in accordance with the Committee's Terms of Reference.

During FY 2017, 4 Committee meetings were held and the attendance of the Committee members was as follows:

Members	Attendance
YBhg Datuk Syed Zaid bin Syed Jaffar Albar	4/4
Ms Lim Tau Kien	4/4
Ir. Dennis Ong Lee Khian	4/4

The Committee carried out the following key activities during FY 2017:

- Reviewed the quarterly reports and annual financial statements of the Group prior to submission to the Board for consideration and approval.
- Reviewed and recommended to the Board for approval the Board Audit & Risk Management Committee Charter and Internal Audit Charter.
- Held 2 separate sessions with the external auditors without the presence of senior management. During the separate sessions, no critical issues were raised and the external auditors conveyed that they had been maintaining a cordial Auditor-Client relationship.
- Met with the external auditors and discussed the audit plan 2017 on the nature and scope of the audit, considered significant changes in accounting and auditing issues, where relevant, reviewed the management letter and management's response, reviewed pertinent issues which had significant impact on the results of the Group and discussed applicable accounting and auditing standards.
- Discussed with the external auditors the mock Auditors' Report with potential key audit matters identified by the external auditors.
- Reviewed and recommended to the Board for approval the audit fees and non-audit fees payable to the external auditors in respect of services provided to the Group. It also reviewed the provision of non-audit services by the external auditors to ascertain whether such provision of services would impair the external auditor's independence or objectivity. Details of non-audit fees incurred by the Group for FY 2017 are stated in the Notes to the Financial Statements.
- Assessed the performance, suitability, independence and objectivity of the external auditors, taking into consideration factors such as quality of service, adequacy of experience and resources of the firm and the professional staff assigned to the audit, and communication and interaction, and made recommendation to the Board for shareholders' approval on the re-appointment of the external auditors.
- Reviewed the adequacy and integrity of internal control systems, including risk management and relevant management information system. It also reviewed the processes put in place to identify, evaluate and manage the significant risks encountered by the Group.
- Met with the internal auditors and approved the annual audit plan and also reviewed the internal audit findings and recommendations.
- Recommended to the Board the appointment of Head of Internal Audit.
- Assessed the performance of the internal audit function as well as the adequacy and competency of internal audit resources.
- Reviewed the Policy and Procedure of Recurrent Related Party Transactions and various recurrent related party transactions ("RRPT") carried out by the Group.
- Reviewed the proposed mandate for RRPT with various related parties prior to Board's recommendation for shareholders' approval.
- Reviewed the Statement on Risk Management and Internal Control ("SORMIC") of the Group, and received the report of the external auditors in respect of their review on the SORMIC prior to Board's approval for inclusion in the Company's Annual Report.
- Reviewed and recommended to the Board for approval the Board Audit & Risk Management Committee Report for inclusion in the Company's Annual Report.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT
(cont'd)

INTERNAL AUDIT ("IA")

The IA function is carried out in-house by the IA Department of HLMG Management Co Sdn Bhd ("HLMGMC"), a wholly-owned subsidiary of Hong Leong Manufacturing Group Sdn Bhd ("HLMG"). The provision of the IA services is part of the shared services of companies within the HLMG Group. There were 10 staff in the IA Department during FY 2017 and the total cost incurred by the IA Department amounted to RM2,175,105.

The IA Department, led by the Head of IA, reports to the Committee which has the authority to decide, amongst others, the appointment and removal; scope of work; and performance evaluation of the IA function. Mr Teh Boon Ang was appointed as the Head of IA on 1 July 2017 replacing Mr Norman Zacharias Chong who was the Head of IA during FY 2017. Mr Teh holds the qualifications of Master of Criminal Justice, Advanced Diploma in Commerce, and is an Associate Member of the Institute of Chartered Secretaries & Administrators, The Institute of Internal Auditors Malaysia and The Association of Certified Fraud Examiners. The Committee is satisfied that the Head of IA has the relevant experience and sufficient standing and authority to discharge his duties as Head of IA.

The IA Department supports the Committee in the effective discharge of its responsibilities in respect of governance, internal controls and the risk management framework of the Group. The IA Department also challenges and adds value to the efficiency, effectiveness and economy of operating companies' operations; usage of assets and resources; and the integrity of management information systems. In doing so, the IA function is performed with impartiality, proficiency and due professional care.

All the IA personnel had declared to the Committee that they are free from any relationships or conflicts of interest which would impair their impartiality or objectivity. The Committee had undertaken an assessment on the performance of the IA Department for FY 2017 whereby it is satisfied with the performance of the IA Department. The Committee had also reviewed the IA Department's resources, in particular the qualifications, experience and designations of all the IA personnel. As their continuous professional development, the IA personnel had kept abreast with developments in the profession, industry and regulations by attending internal and external training courses. The Committee is hence satisfied with the competency of the IA Department and that it had adequate resources to carry out its functions.

The annual audit plan prepared by the IA Department is submitted to the Committee for review and approval. Internal audits are carried out as per the approved annual audit plan. IA reports are discussed and issued to management for their feedback and to formulate action plans with target implementation dates for improvements. Any resulting salient control concerns are reviewed by the Committee, and the implementation status of audit recommendations are monitored and reported to the Committee on a quarterly basis. The areas of IA's review during FY 2017 are described in the SORMIC.

The IA Department also facilitates the maintenance of the risk management framework of the Group on an on-going basis.

The IA Department applies appropriate auditing standards in assessing the integrity and effectiveness of internal controls and compliance with the established policies and procedures; and is committed to continuously monitoring and improving the IA function.

This Board Audit & Risk Management Committee Report is made in accordance with the resolution of the Board of Directors.

FINANCIAL STATEMENTS

DIRECTORS' REPORT
for the financial year ended 30 June 2017

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 30 June 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding, whilst the principal activities of the subsidiaries are as stated in Note 3 to the financial statements. There have been no significant changes in these activities during the financial year.

ULTIMATE HOLDING COMPANY

The Company is a subsidiary of Hong Leong Company (Malaysia) Berhad, a company incorporated in Malaysia and regarded by the Directors as the Company's ultimate holding company during the financial year until the date of this report.

SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 3 to the financial statements.

RESULTS

	Group RM'000	Company RM'000
Profit for the year attributable to:		
Owners of the Company	177,915	84,704
Non-controlling interests	40,825	–
	218,740	84,704

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year except as disclosed in Note 11 and Note 19 to the financial statements.

DIVIDENDS

Since the end of the previous financial year, the Company paid:

(i) a first interim single tier dividend of 8.0 sen per share amounting to RM15,911,714 in respect of the financial year ended 30 June 2017 on 9 December 2016; and

(ii) a second interim single tier dividend of 19.0 sen per share amounting to RM37,790,320 in respect of the financial year ended 30 June 2017 on 23 May 2017.

The Directors do not recommend a final dividend for the financial year ended 30 June 2017.

DIRECTORS' REPORT
for the financial year ended 30 June 2017
(cont'd)

DIRECTORS OF THE COMPANY

Directors who served during the financial year until the date of this report are:

YBhg Datuk Kwek Leng San, Chairman
Mr Manuel Zarauza Brandulas, Group Managing Director (Appointed on 8 August 2016)
YBhg Datuk Syed Zaid bin Syed Jaffar Albar
Ms Lim Tau Kien
Ir. Dennis Ong Lee Khian
YBhg Dato' Mohamad Kamarudin bin Hassan
Mr Peter Nigel Yates, Group Managing Director (Retired on 8 August 2016)

The names of the Directors of subsidiaries are set out in the respective subsidiaries' financial statements and the said information is deemed incorporated herein by such reference and made a part hereof.

DIRECTORS' INTERESTS

The Directors holding office at the end of the financial year who have beneficial interests in the ordinary shares and/or options over ordinary shares of the Company and/or its related corporations during the financial year ended 30 June 2017 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016 are as follows:

		Number of ordinary shares/ordinary shares received# or to be received* arising from vesting of share grant/ordinary shares to be acquired arising from the exercise of options@			
	Nominal value per share	**At 1.7.2016/ Date of appointment**	**Acquired**	**Sold**	**At 30.6.2017**
Shareholdings in which Directors have direct interests					
Interests of YBhg Datuk Kwek Leng San in:					
Hong Leong Company (Malaysia) Berhad	(1)	160,895	–	–	**160,895**
Hong Leong Industries Berhad	(1)	2,300,000	–	–	**2,300,000**
Malaysian Pacific Industries Berhad	(1)	1,260,000	–	–	**1,260,000**
Hong Leong Bank Berhad	(1)	536,000	–	–	**536,000**
Guoco Group Limited	US$0.50	209,120	–	–	**209,120**
Hong Leong Financial Group Berhad	(1)	654,000	–	–	**654,000**
The Rank Group Plc	GBP13 8/9p	45,800	–	–	**45,800**
Hume Industries Berhad	(1)	3,501,600	420,000#	–	**3,921,600**
		420,000*	–	420,000(2)	**–**
Interest of Mr Manuel Zarauza Brandulas in:					
Malaysian Pacific Industries Berhad	(1)	–	3,000,000@	–	**3,000,000@**

DIRECTORS' REPORT
for the financial year ended 30 June 2017
(cont'd)

DIRECTORS' INTERESTS *cont'd*

		Number of ordinary shares/ordinary shares received# or to be received* arising from vesting of share grant/ordinary shares to be acquired arising from the exercise of options@			
	Nominal value per share	**At 1.7.2016/ Date of appointment**	**Acquired**	**Sold**	**At 30.6.2017**
Shareholdings in which Director have indirect interests					
Interest of YBhg Datuk Kwek Leng San in:					
The Rank Group Plc	GBP13 8/9p	10,661[3]	–	–	**10,661[3]**
Interest of Mr Manuel Zarauza Brandulas in:					
Malaysian Pacific Industries Berhad	[1]	–	25,000[3]	12,500[3]	**12,500[3]**

Legend:
(1) Concept of par value was abolished with effect from 31 January 2017 pursuant to the Companies Act 2016.
(2) Shares vested.
(3) Interest pursuant to Section 59(11)(c) of the Companies Act 2016 in shares held by a family member.

DIRECTOR FEES AND OTHER BENEFITS

No Director of the Company has since the end of the previous financial year received or become entitled to receive any benefit (other than fees and benefits included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the financial statements or the fixed salary of full-time employees of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except for YBhg Datuk Syed Zaid bin Syed Jaffar Albar, who may be deemed to derive a benefit by virtue of the provision of legal services by a firm in which YBhg Datuk Syed Zaid bin Syed Jaffar Albar has interest, to related corporations.

The fees and other benefits in cash and/or in kind of the Directors of the Company are disclosed in Note 23 to the financial statements whilst the fees and other benefits of the Directors of the Company's subsidiaries are set out in the respective subsidiaries' financial statements and the said information is deemed incorporated herein by such reference and made a part thereof.

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

DIRECTORS' REPORT

for the financial year ended 30 June 2017
(cont'd)

ISSUE OF SHARES AND DEBENTURES

There were no changes in the issued share capital of the Company and the Company has not issued any debenture during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

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

INDEMNITY AND INSURANCE COSTS

During the financial year, Directors and Officers of Hong Leong Manufacturing Group Sdn Bhd, together with its subsidiaries and an associated company (the "Group" which includes Malaysian Pacific Industries Berhad and its subsidiaries and where applicable, associated companies) are covered under the Directors' and Officers' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors and Officers of the Group subject to the terms of the policy. The total amount of Directors' and Officers' Liability Insurance effected for the Directors and Officers of the Group was RM10 million. The total amount of premium paid for the Directors' and Officers' Liability Insurance by the Group was RM43,663 and the apportioned amount of the said premium paid by the Company was RM6,723.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

(i) all known bad debts have been written off and adequate provision made for doubtful debts; and

(ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

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

(i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and the Company inadequate to any substantial extent; or

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

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

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

DIRECTORS' REPORT

for the financial year ended 30 June 2017
(cont'd)

OTHER STATUTORY INFORMATION *cont'd*

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

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

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

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 30 June 2017 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Pursuant to Section 247(7) of the Companies Act 2016, the Registrar of Companies has granted an order authorising Carsem Semiconductor (Suzhou) Co., Ltd to continue its financial year end of 31 December, which does not coincide with that of the Company, its ultimate holding company, in accordance with and as required by the local regulations of its country of incorporation.

AUDITORS

The auditors, KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016), have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 16 to the financial statements.

On behalf of the Board,

Manuel Zarauza Brandulas

Datuk Syed Zaid bin Syed Jaffar Albar

28 August 2017

STATEMENTS OF FINANCIAL POSITION
as at 30 June 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
ASSETS					
Property, plant and equipment	4	**671,193**	719,967	**492**	10
Investment properties	5	**32,499**	33,429	**–**	–
Investments	6	**46**	46	**432,133**	432,133
Total non-current assets		**703,738**	753,442	**432,625**	432,143
Inventories	8	**110,819**	87,670	**–**	–
Trade and other receivables including derivatives	9	**275,772**	212,368	**35,987**	71,411
Tax recoverable		**4,514**	–	**–**	–
Cash and cash equivalents	10	**535,793**	317,339	**179,062**	112,944
Total current assets		**926,898**	617,377	**215,049**	184,355
TOTAL ASSETS		**1,630,636**	1,370,819	**647,674**	616,498
Equity attributable to owners of the Company					
Share capital	11	**352,373**	104,942	**352,373**	104,942
Reserves	12	**931,435**	1,038,520	**458,378**	674,628
Treasury shares		**(163,816)**	(163,816)	**(163,816)**	(163,816)
		1,119,992	979,646	**646,935**	615,754
Non-controlling interests		**208,965**	190,470	**–**	–
TOTAL EQUITY		**1,328,957**	1,170,116	**646,935**	615,754
LIABILITIES					
Loans and borrowings	13	**28,553**	–	**–**	–
Deferred tax liabilities	7	**2,003**	3,648	**–**	–
Employee benefits	14(a)	**245**	245	**245**	245
Total non-current liabilities		**30,801**	3,893	**245**	245
Trade and other payables including derivatives	15	**205,459**	160,604	**494**	499
Loans and borrowings	13	**63,450**	33,297	**–**	–
Current tax liabilities		**1,969**	2,909	**–**	–
Total current liabilities		**270,878**	196,810	**494**	499
TOTAL LIABILITIES		**301,679**	200,703	**739**	744
TOTAL EQUITY AND LIABILITIES		**1,630,636**	1,370,819	**647,674**	616,498

The notes on pages 65 to 121 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2017

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Revenue					
- Sale of goods		**1,540,468**	1,460,653	**–**	–
- Dividend income		**4,077**	2,626	**82,727**	101,626
Cost of sales		**(1,237,277)**	(1,194,524)	**–**	–
Gross profit		**307,268**	268,755	**82,727**	101,626
Distribution expenses		**(22,019)**	(24,791)	**–**	–
Administrative expenses		**(43,428)**	(35,992)	**(3,000)**	(2,672)
Other operating income		**32,524**	66,971	**4,977**	4,620
Other operating expenses		**(22,714)**	(77,440)	**(123)**	(153)
Results from operations		**251,631**	197,503	**84,581**	103,421
Interest income		**1,778**	1,051	**231**	121
Finance costs		**(2,422)**	(2,168)	**(1)**	(1)
Profit before taxation	16	**250,987**	196,386	**84,811**	103,541
Taxation	17	**(32,247)**	435	**(107)**	(60)
Profit for the year		**218,740**	196,821	**84,704**	103,481
Profit attributable to:					
Owners of the Company		**177,915**	157,518	**84,704**	103,481
Non-controlling interests		**40,825**	39,303	**–**	–
		218,740	196,821	**84,704**	103,481
Basic earnings per ordinary share (sen)	18	**93.68**	82.94		

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 30 June 2017
(cont'd)

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Profit for the year		**218,740**	196,821	**84,704**	103,481
Other comprehensive income/ (expense), net of tax					
Items that are or may be reclassified to profit or loss					
- Foreign currency translation differences for foreign operations		**18,241**	(3,637)	**–**	–
- Cash flow hedge		**(5,428)**	13,528	**–**	–
Total other comprehensive income for the year	19	**12,813**	9,891	**–**	–
Total comprehensive income for the year		**231,553**	206,712	**84,704**	103,481
Total comprehensive income attributable to:					
Owners of the Company		**192,006**	164,181	**84,704**	103,481
Non-controlling interests		**39,547**	42,531	**–**	–
		231,553	206,712	**84,704**	103,481

The notes on pages 65 to 121 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2017

Group	Share capital RM'000	Share premium RM'000	Other reserve RM'000	Hedging reserve RM'000	Exchange fluctuation reserve RM'000	Reserve for own shares RM'000	Executive share scheme reserve RM'000	Treasury shares RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
	Attributable to owners of the Company											
	Non-distributable								Distributable			
At 1 July 2015	104,942	247,431	14,825	(4,973)	78,998	(53,833)	2,276	(163,808)	633,207	859,065	169,101	1,028,166
Other comprehensive income/(expenses)												
- foreign currency translation differences	–	–	–	–	(3,637)	–	–	–	–	(3,637)	–	(3,637)
- cash flow hedge	–	–	–	10,300	–	–	–	–	–	10,300	3,228	13,528
Profit for the year	–	–	–	–	–	–	–	–	157,518	157,518	39,303	196,821
Total comprehensive income/(expense) for the year	–	–	–	10,300	(3,637)	–	–	–	157,518	164,181	42,531	206,712
Dividends (Note 20)	–	–	–	–	–	–	–	–	(43,683)	(43,683)	(21,000)	(64,683)
Share-based payment	–	–	–	–	–	–	91	–	–	91	(162)	(71)
Purchase of treasury shares	–	–	–	–	–	–	–	(8)	–	(8)	–	(8)
Total transactions with owners of the Company	–	–	–	–	–	–	91	(8)	(43,683)	(43,600)	(21,162)	(64,762)
Transfer to other reserve	–	–	1,589	–	–	–	–	–	(1,589)	–	–	–
At 30 June 2016	104,942	247,431	16,414	5,327	75,361	(53,833)	2,367	(163,816)	745,453	979,646	190,470	1,170,116
	Note 11	Note 12	Note 12	Note 12	Note 12	Note 12	Note 12		Note 12			

STATEMENTS OF CHANGES IN EQUITY
for the year ended 30 June 2017
(cont'd)

Group	Share capital RM'000	Share premium RM'000	Other reserve RM'000	Hedging reserve RM'000	Exchange fluctuation reserve RM'000	Reserve for own shares RM'000	Executive share scheme reserve RM'000	Treasury shares RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
	Attributable to owners of the Company											
	Non-distributable								*Distributable*			
At 1 July 2016	104,942	247,431	16,414	5,327	75,361	(53,833)	2,367	(163,816)	745,453	979,646	190,470	1,170,116
Other comprehensive income/(expenses)												
- foreign currency translation differences	–	–	–	–	18,241	–	–	–	–	18,241	–	18,241
- cash flow hedge	–	–	–	(4,150)	–	–	–	–	–	(4,150)	(1,278)	(5,428)
Profit for the year	–	–	–	–	–	–	–	–	177,915	177,915	40,825	218,740
Total comprehensive income/(expense) for the year	–	–	–	(4,150)	18,241	–	–	–	177,915	192,006	39,547	231,553
Dividends (Note 20)	–	–	–	–	–	–	–	–	(51,280)	(51,280)	(20,850)	(72,130)
Share-based payment	–	–	–	–	–	–	(380)	–	–	(380)	(202)	(582)
Total transactions with owners of the Company	–	–	–	–	–	–	(380)	–	(51,280)	(51,660)	(21,052)	(72,712)
Transfer to other reserve	–	–	2,842	–	–	–	–	–	(2,842)	–	–	–
Transfer in accordance with Section 618(2) of the Companies Act 2016 *	247,431	(247,431)	–	–	–	–	–	–	–	–	–	–
At 30 June 2017	**352,373**	**–**	**19,256**	**1,177**	**93,602**	**(53,833)**	**1,987**	**(163,816)**	**869,246**	**1,119,992**	**208,965**	**1,328,957**
	Note 11	Note 12	Note 12	Note 12	Note 12	Note 12	Note 12		Note 12			

* Pursuant to Section 618(2) of the Companies Act 2016, any outstanding share premium and capital redemption reserve accounts shall become part of share capital.

STATEMENTS OF CHANGES IN EQUITY
for the year ended 30 June 2017
(cont'd)

Company	Non-distributable					Distributable	
	Share capital RM'000	Share premium RM'000	Reserve for own shares RM'000	Executive share scheme reserve RM'000	Treasury shares RM'000	Retained earnings RM'000	Total equity RM'000
At 1 July 2015	104,942	247,431	(3,134)	314	(163,808)	372,519	558,264
Profit/Total comprehensive income for the year	–	–	–	–	–	103,481	103,481
Dividends (Note 20)	–	–	–	–	–	(45,669)	(45,669)
Share-based payment	–	–	–	(314)	–	–	(314)
Purchase of treasury shares	–	–	–	–	(8)	–	(8)
Total transactions with owners of the Company	–	–	–	(314)	(8)	(45,669)	(45,991)
At 30 June 2016/1 July 2016	104,942	247,431	(3,134)	–	(163,816)	430,331	615,754
Profit/Total comprehensive income for the year	–	–	–	–	–	84,704	84,704
Dividends (Note 20)	–	–	–	–	–	(53,611)	(53,611)
Share-based payment	–	–	–	88	–	–	88
Total transactions with owners of the Company	–	–	–	88	–	(53,611)	(53,523)
Transfer in accordance with Section 618(2) of the Companies Act 2016 *	247,431	(247,431)	–	–	–	–	–
At 30 June 2017	**352,373**	**–**	**(3,134)**	**88**	**(163,816)**	**461,424**	**646,935**
	Note 11	Note 12	Note 12	Note 12		Note 12	

* Pursuant to Section 618(2) of the Companies Act 2016, any outstanding share premium and capital redemption reserve accounts shall become part of share capital.

The notes on pages 65 to 121 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS
for the year ended 30 June 2017

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Cash flows from operating activities				
Profit before taxation	**250,987**	196,386	**84,811**	103,541
Adjustments for:				
Depreciation of property, plant and equipment	**192,076**	208,565	**111**	54
Depreciation of investment properties	**930**	859	**–**	–
Dividend income	**(9,205)**	(4,508)	**(82,727)**	(101,626)
Finance costs	**2,422**	2,168	**1**	1
Interest income	**(1,778)**	(1,051)	**(231)**	(121)
Fair value loss/(gain) on financial instruments designated as hedge instruments	**1,064**	(6,392)	**–**	–
(Gain)/loss on disposal of property, plant and equipment	**(422)**	291	**(150)**	–
Property, plant and equipment written off	**380**	6,746	**–**	1
Share-based payment	**(582)**	(71)	**–**	–
Unrealised loss/(gain) on foreign exchange	**12,368**	13,693	**(4,500)**	(4,487)
Operating profit/(loss) before working capital changes	**448,240**	416,686	**(2,685)**	(2,637)
Inventories	**(14,883)**	11,092	**–**	–
Trade and other receivables	**(45,213)**	111,021	**22**	(24)
Trade and other payables	**94**	(89,767)	**(5)**	(100)
Cash generated from/(used in) operations	**388,238**	449,032	**(2,668)**	(2,761)
Tax paid	**(38,996)**	(38,130)	**(107)**	(60)
Finance costs paid	**(2,422)**	(2,168)	**(1)**	(1)
Interest income received	**1,778**	1,051	**231**	121
Retirement benefits paid	**–**	(87)	**–**	–
Dividends received	**9,205**	4,508	**82,727**	101,626
Net cash generated from operating activities	**357,803**	414,206	**80,182**	98,925
Cash flows from investing activities				
Additional equity investment in subsidiaries	**–**	–	**–**	(2)
Proceeds from disposal of property, plant and equipment	**2,205**	600	**152**	–
Purchase of property, plant and equipment	**(128,981)**	(125,068)	**(595)**	(5)
Net cash used in investing activities	**(126,776)**	(124,468)	**(443)**	(7)

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2017
(cont'd)

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash flows from financing activities				
Repayment from subsidiaries	**–**	–	**39,990**	–
Dividends paid to owners of the Company	**(51,280)**	(43,683)	**(53,611)**	(45,669)
Dividends paid to non-controlling shareholder of a subsidiary company	**(20,850)**	(21,000)	**–**	–
Repayments of borrowings	**(34,898)**	(203,408)	**–**	–
Drawdown from borrowings	**91,553**	143,664	**–**	–
Repurchase of treasury shares	**–**	(8)	**–**	(8)
Net cash used in financing activities	**(15,475)**	(124,435)	**(13,621)**	(45,677)
Net change in cash and cash equivalents	**215,552**	165,303	**66,118**	53,241
Effect of exchange rate fluctuation on cash held	**2,902**	22	**–**	–
Cash and cash equivalents as at beginning of year	**317,339**	152,014	**112,944**	59,703
Cash and cash equivalents at end of year	**535,793**	317,339	**179,062**	112,944

CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statements of cash flows comprise the following statements of financial position amounts:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Deposit with licensed banks	**424,422**	235,550	**178,700**	112,650
Cash and bank balances	**111,371**	81,789	**362**	294
	535,793	317,339	**179,062**	112,944

The notes on pages 65 to 121 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Malaysian Pacific Industries Berhad ("the Company") is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The address of its registered office and principal place of business is as follows:

Level 9, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur.

The immediate and ultimate holding companies of the Company are Hong Leong Manufacturing Group Sdn Bhd and Hong Leong Company (Malaysia) Berhad respectively, both incorporated in Malaysia.

The consolidated financial statements of the Company as at and for the financial year ended 30 June 2017 comprise the Company, its subsidiaries and special purpose entities (together referred to as "the Group"). The financial statements of the Company as at and for the financial year ended 30 June 2017 do not include other entities.

The Company is an investment holding company whilst the principal activities of the subsidiaries are set out in Note 3 to the financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 28 August 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared on the historical cost basis, other than those disclosed in Note 2.2 to the financial statements.

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the requirements of the Companies Act 2016 in Malaysia.

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgement in applying accounting policies that have significant effect on the amounts recognised in the financial statements.

These financial statements are presented in Ringgit Malaysia ("RM"), which is the functional currency of the Company and all values are rounded to the nearest thousand ("RM'000"), unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

(ii) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(a) Basis of consolidation *cont'd*

(iii) Acquisitions of non-controlling interests

The Group accounts for all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

(iv) Special purpose entities

Special purpose entities ("SPE") are entities defined in MFRS 10, *Consolidated Financial Statements*, which may constitute a corporation, trust, partnership or unincorporated entity created to accomplish a narrow and well defined objective with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management over the operations of the SPE. Accordingly, the ESS Trust set up as mentioned in Note 2.2(j)(iii) is consolidated in the consolidated financial statements of the Group.

(v) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vi) Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and owners of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(vii) Transactions eliminated on consolidation

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

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(b) Property, plant and equipment

(i) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction after making proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other operating income" or "other operating expenses" respectively in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment from the date they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(b) Property, plant and equipment *cont'd*

(iii) Depreciation *cont'd*

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

Leasehold land	41 - 99 years
Buildings	20 - 50 years
Building improvement	10 years
Plant, equipment and motor vehicles	2 - 10 years

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate at the end of the reporting period.

(c) Investment property

Investment property carried at cost

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. These include freehold land and leasehold land which in substance is a finance lease held for a currently undetermined future use. Investment properties initially and subsequently measured at cost are accounted for similarly to property, plant and equipment.

Investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses, consistent with the accounting policy for property, plant and equipment as stated in accounting policy Note 2.2(b).

Cost includes expenditure that is attributable to the acquisition of the investment property. The cost of self-constructed investment property includes of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Transfers between investment property, property, plant and equipment and inventories do not change the carrying amount and the cost of the property transferred.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of 10-50 years for buildings and improvements. Leasehold land is depreciated over the lease term.

On disposal of an investment property, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal, it shall be derecognised (eliminated from the statement of financial position). The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period of the retirement or disposal.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(d) Leased assets

(i) Finance lease

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment, or as investment property if held to earn rental income or for capital appreciation or for both.

(ii) Operating lease

Leases, where the Group or the Company does not assume substantially all the risks and rewards of the ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised in the statements of financial position.

Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

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

(e) Financial instruments

(i) Initial recognition and measurement

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

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(e) Financial instruments *cont'd*

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

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

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(b) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market, trade and other receivables and cash and cash equivalents.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

(c) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss are subject to review for impairment (see Note 2.2(h)(i)).

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(e) Financial instruments *cont'd*

(ii) Financial instrument categories and subsequent measurement *cont'd*

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments that do not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(iii) Regular way purchase or sale of financial assets

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(e) Financial instruments *cont'd*

(iv) Hedge accounting

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the profit or loss.

In a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value or the foreign currency component of its carrying amount translated at the exchange rate prevailing at the end of the reporting period is recognised in profit or loss. The gain or loss on the hedged item, except for hedge item categorised as available-for-sale, attributable to the hedged risk is adjusted to the carrying amount of the hedged item and recognised in profit or loss. For a hedge item categorised as available-for-sale, the fair value gain or loss attributable to the hedge risk is recognised in profit or loss.

Fair value hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective or the hedge designation is revoked.

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect the profit or loss. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the hedge item is a non-financial asset or liability, the associated gain or loss recognised in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into profit or loss.

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(e) Financial instruments *cont'd*

(v) Derecognition

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

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(f) Inventories

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

The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of work-in-progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(g) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months of less, and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(h) Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss and investments in subsidiaries) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in the other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(h) Impairment *cont'd*

(ii) Other assets

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the cash-generating unit (or a group of cash-generating units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(i) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Issue expenses

Costs directly attributable to issue of instruments classified as equity are recognised as a deduction from equity.

(ii) Ordinary shares

Ordinary shares are classified as equity.

(iii) Repurchase, disposal and reissue of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares in the statements of changes in equity.

When treasury shares are distributed as share dividends, the cost of the treasury shares is applied in the reduction of the share capital account or distributable reserves, or both.

When treasury shares are sold or reissued subsequently, the difference between the sales consideration net of directly attributable costs and the carrying amount of the treasury shares is recognised in equity.

(j) Employee benefits

(i) Short term employee benefits

Short term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(j) Employee benefits *cont'd*

(ii) Defined benefit plan

The Group operates an unfunded defined benefit scheme for the eligible employees. The present value of the defined benefit obligation as required by MFRS 119, Employee Benefits has not been used in deriving at the provision, as the amount involved is not material to the Group. Accordingly, no further disclosure as required by the standard is made.

(iii) Share-based payments

The Group operates equity-settled share-based compensation plans for the employees of the Group under the Malaysian Pacific Industries Berhad's Executive Share Scheme ("ESS").

In connection with the ESS, trusts have been set up and are administered by an appointed trustee ("ESS Trusts"). The trustee will be entitled, from time to time, to accept advances from the Group, upon such terms and conditions as the Group and the trustee may agree, to purchase the ordinary shares of MPI from the open market for the ESS Trusts ("Trust Shares").

The fair value of the share options or grant offers granted to employees is recognised as an employment cost with a corresponding increase in the executive share scheme reserve over the vesting period. When the share options are exercised or grant offers are completed, the amount from the executive share scheme reserve is transferred to retained earnings. When the share options not exercised or grant offers not completed are expired, the amount from the executive share scheme reserve is transferred to retained earnings.

The fair value of the share options or grant offers is measured using Black Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The ESS Trust Shares are consolidated into the Group's consolidated financial statements as a deduction from equity and classified as reserve for own shares. Dividends received by the ESS Trusts are eliminated against the Company's dividend payment.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(k) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currencies at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not restranslated at the end of reporting date, except for those that are measured at fair value are retranslated to the functional currencies at the exchange rate at the date that fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the foreign currency translation reserve in equity.

(ii) Operations denominated in functional currencies other than Ringgit Malaysia

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period, except for goodwill and fair value adjustments arising from business combinations before 1 July 2011 which reported using the exchange rates at the date of acquisition. The income and expenses of foreign operations are translated to RM at average exchange rates for the year.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve ("FCTR") in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(l) Provisions

A provision is recognised if, as a result of a past event, the Group or the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(m) Contingent liabilities

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

(n) Revenue and other income

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances and trade discounts. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss.

(iii) Dividend income

Dividend income is recognised in profit or loss on the date that the Group's or the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(o) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

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

(p) Taxation

Taxation comprises current and deferred taxation. Taxation is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current taxation is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred taxation is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statements of financial position and their tax bases. Deferred taxation is not recognised for the following temporary differences: the initial recognition of goodwill, and the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred taxation is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A tax incentive that is not a tax base of an asset is recognised as a reduction of tax expense in profit or loss as and when it is granted and claimed. Any unutilised portion of the tax incentive is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentive can be utilised.

Unutilised reinvestment allowance and investment tax allowance are treated as tax base of assets and are recognised as a reduction of tax expense as and when they are utilised.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(q) Earnings per ordinary share

The Group presents basic earnings per share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

(r) Operating segments

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

(s) Research and development

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

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

(t) Fair value measurement

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(t) Fair value measurement *cont'd*

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: unobservable inputs for the asset or liability.

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

2.3 Statement of compliance

The financial statements of the Group and the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group and the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- Amendments to MFRS 12, *Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle*)
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.3 Statement of compliance *cont'd*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group and the Company plan to apply the abovementioned applicable accounting standards, amendments and interpretations:

- from the annual period beginning on 1 July 2017 for those amendments that are effective for annual periods beginning on or after 1 January 2017;
- from the annual period beginning on 1 July 2018 for those accounting standards, interpretations and amendments that are effective for annual periods beginning on or after 1 January 2018;
- from the annual period beginning on 1 July 2019 for those accounting standard and interpretation that are effective for annual periods beginning on or after 1 January 2019; and
- from the annual period beginning on 1 July 2021 for accounting standard that is effective for annual periods beginning on or after 1 January 2021.

The Group and the Company are currently assessing the financial impact that may arise from the adoption of the aforesaid accounting standards, amendments and interpretations.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

3. COMPANIES IN THE GROUP

The principal activities of the companies in the Group, their country of incorporation and the effective interest of Malaysian Pacific Industries Berhad are shown below:

Name of subsidiary	Principle place of business/ country of incorporation	Effective interest 2017 %	2016 %	Principal activities
Carsem (M) Sdn Bhd	Malaysia	**70**	70	Manufacturing and testing of semiconductor devices and electronic components
• Recams Sdn Bhd	Malaysia	**–**	70	Dissolved
Carsem Holdings Limited ♦*	Bermuda	**100**	100	Investment holding
• Carsem Holdings (HK) Limited #♦	Hong Kong	**100**	100	Sale and marketing of semiconductor devices and electronic components
• Carsem Semiconductor (Suzhou) Co., Ltd #	The People's Republic of China	**100**	100	Manufacturing and testing of semiconductor devices and electronic components
Dynacraft Industries Sdn Bhd	Malaysia	**100**	100	Manufacturing and sale of leadframes
Carter Resources Sdn Bhd	Malaysia	**70**	70	Investment holding
• Carsem Inc. *♦	United States of America	**70**	70	Semiconductor devices' and electronic components' marketing agent
Technoplex Realty Sdn Bhd	Malaysia	**100**	100	Dormant

Notes:
- • Sub-subsidiary companies.
- # The financial statements of these subsidiary companies are not audited by KPMG PLT.
- ♦ These subsidiary companies have been consolidated based on unaudited financial statements.
- * These financial statements are not required to be audited in their respective countries of incorporation.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

4. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold land RM'000	Buildings*/ Building improvement RM'000	Plant, equipment and motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Cost					
At 1 July 2015	20,818	381,614	3,113,612	–	3,516,044
Additions	–	765	105,108	19,195	125,068
Disposals	–	–	(157,215)	–	(157,215)
Write off	–	(8,337)	(46,836)	–	(55,173)
Transfers	–	–	4,510	(4,510)	–
Currency translation differences	(27)	(792)	(5,120)	–	(5,939)
At 30 June 2016/1 July 2016	20,791	373,250	3,014,059	14,685	3,422,785
Additions	–	647	122,596	5,738	128,981
Disposals	–	–	(18,341)	–	(18,341)
Write off	–	–	(1,703)	–	(1,703)
Transfers	–	11,575	6,975	(18,550)	–
Currency translation differences	173	5,212	35,763	534	41,682
At 30 June 2017	**20,964**	**390,684**	**3,159,349**	**2,407**	**3,573,404**
Accumulated depreciation and impairment losses					
At 1 July 2015					
Accumulated depreciation	8,994	219,734	2,435,193	–	2,663,921
Accumulated impairment losses	–	–	42,863	–	42,863
	8,994	219,734	2,478,056	–	2,706,784
Charge for the year	246	14,339	193,980	–	208,565
Disposals	–	–	(151,142)	–	(151,142)
Write off	–	(3,712)	(44,715)	–	(48,427)
Reversal of impairment losses for disposal	–	–	(5,182)	–	(5,182)
Currency translation differences	(12)	(494)	(7,274)	–	(7,780)
At 30 June 2016/1 July 2016					
Accumulated depreciation	9,228	229,867	2,426,042	–	2,665,137
Accumulated impairment losses	–	–	37,681	–	37,681
	9,228	229,867	2,463,723	–	2,702,818
Charge for the year	245	12,927	178,904	–	192,076
Disposals	–	–	(16,558)	–	(16,558)
Write off	–	–	(1,323)	–	(1,323)
Currency translation differences	47	1,551	23,600	–	25,198
At 30 June 2017					
Accumulated depreciation	9,520	244,345	2,610,665	–	2,864,530
Accumulated impairment losses	–	–	37,681	–	37,681
	9,520	**244,345**	**2,648,346**	**–**	**2,902,211**

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

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

Group	Leasehold land RM'000	Buildings*/ Building improvement RM'000	Plant, equipment and motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Carrying amounts					
At 1 July 2015	11,824	161,880	635,556	–	809,260
At 30 June 2016/1 July 2016	11,563	143,383	550,336	14,685	719,967
At 30 June 2017	**11,444**	**146,339**	**511,003**	**2,407**	**671,193**

Company	Equipment and motor vehicles RM'000
Cost	
1 July 2015	791
Additions	5
Write-off	(2)
At 30 June 2016/1 July 2016	794
Additions	595
Disposal	(784)
At 30 June 2017	**605**
Accumulated depreciation	
At 1 July 2015	731
Charge for the year	54
Write-off	(1)
At 30 June 2016/1 July 2016	784
Charge for the year	111
Disposal	(782)
At 30 June 2017	**113**
Carrying amounts	
At 1 July 2015	60
At 30 June 2016/1 July 2016	10
At 30 June 2017	**492**

* The buildings of the Group are situated on leasehold land owned by the Group except for certain buildings with a carrying amount of RM32,957,000 (2016: RM34,489,000) of a subsidiary which are situated on a land classified as an operating lease (Note 22).

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

5. INVESTMENT PROPERTIES

	Group RM'000
Leasehold land and building	
Cost	
1 July 2015/30 June 2016/1 July 2016/30 June 2017	**46,283**
Accumulated depreciation	
1 July 2015	
Accumulated depreciation	11,923
Accumulated impairment losses	72
	11,995
Charge for the year	859
At 30 June 2016/1 July 2016	
Accumulated depreciation	12,782
Accumulated impairment losses	72
	12,854
Charge for the year	930
At 30 June 2017	
Accumulated depreciation	13,712
Accumulated impairment losses	72
	13,784
Carrying amounts	
At 30 June 2016/1 July 2016	33,429
At 30 June 2017	**32,499**
Fair value	
At 30 June 2016	70,000
At 30 June 2017	**70,000**

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

5. INVESTMENT PROPERTIES *cont'd*

The followings are recognised in profit or loss in respect of investment properties:

	Group	
	2017	**2016**
	RM'000	**RM'000**
Rental income	**4,619**	3,532
Direct operating expenses		
- income generating investment properties	**747**	532
- non-income generating investment properties	**319**	465

Fair value information

Fair value of investment properties are categorised as Level 3:

Level 3 fair values have been determined by Directors' valuation using sales comparison approach. Sales price of comparable properties are adjusted for differences in key attributes such as property size. The significant unobservable input into the Directors' valuation is price per square feet of comparable properties. The estimated fair value would increase/decrease if expected value per square feet of recent sales and listing of similar properties were higher/lower.

6. INVESTMENTS

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Unquoted shares in subsidiaries, at cost	**–**	–	**432,087**	432,087
Other investments categorised as available-for-sale	**46**	46	**46**	46
	46	46	**432,133**	432,133

The subsidiary companies and their principal activities are disclosed in Note 3 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

6. INVESTMENTS *cont'd*

6.1 Non-controlling interest in subsidiary

The subsidiary that has material non-controlling interests ("NCI") is as follows:

	Carsem (M) Sdn Bhd	
	2017 RM'000	**2016 RM'000**
NCI percentage of ownership interest and voting interest	**30%**	30%
Carrying amount of NCI	**205,362**	187,399
Profit allocated to NCI	**40,630**	39,852

Summarised financial information before intra-group elimination

	Carsem (M) Sdn Bhd	
	As at 30 June 2017 RM'000	**As at 30 June 2016 RM'000**
Statements of financial position		
Total assets	**868,720**	750,818
Total liabilities	**(115,795)**	(107,277)
Net assets	**752,925**	643,541
Statements of profit or loss and other comprehensive income for the year		
Profit for the year	**135,432**	132,841
Total comprehensive income	**178,885**	151,386
Statements of cash flows for the financial year ended		
Net cash flow generated from operating, investing and financing activities	**110,896**	72,957
Dividends paid to NCI	**20,850**	21,000

7. DEFERRED TAXATION

Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following:

Group	Assets 2017 RM'000	Assets 2016 RM'000	Liabilities 2017 RM'000	Liabilities 2016 RM'000	Net 2017 RM'000	Net 2016 RM'000
Property, plant and equipment	**–**	–	**(1,426)**	(1,373)	**(1,426)**	(1,373)
Other items	**–**	–	**(577)**	(2,275)	**(577)**	(2,275)
Deferred tax liabilities	**–**	–	**(2,003)**	(3,648)	**(2,003)**	(3,648)

Movement in temporary differences during the year

Group	At 1.7.2015 RM'000	Recognised in profit or loss (Note 17) RM'000	Recognised in other comprehensive income (Note 19) RM'000	At 30.6.2016/ 1.7.2016 RM'000	Recognised in profit or loss (Note 17) RM'000	Recognised in other comprehensive income (Note 19) RM'000	At 30.6.2017 RM'000
Property, plant and equipment	(40,518)	39,145	–	(1,373)	(53)	–	**(1,426)**
Inventories	3,341	(3,341)	–	–	–	–	**–**
Other items	5,188	(3,979)	(3,484)	(2,275)	353	1,345	**(577)**
	(31,989)	31,825	(3,484)	(3,648)	300	1,345	**(2,003)**

8. INVENTORIES

	Group 2017 RM'000	Group 2016 RM'000
Raw materials	**71,922**	57,104
Work-in-progress	**13,997**	9,437
Finished goods	**12,709**	10,175
Consumable spares	**12,191**	10,954
	110,819	87,670
Recognised in profit or loss:		
Inventories recognised as cost of sales	**1,047,231**	1,001,880

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

9. TRADE AND OTHER RECEIVABLES INCLUDING DERIVATIVES

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Trade receivables		**201,967**	178,246	**–**	–
Allowance for impairment losses		**(7,765)**	(7,242)	**–**	–
		194,202	171,004	**–**	–
Amounts due from subsidiaries	a	**–**	–	**35,870**	71,360
Other debtors		**55,723**	10,480	**88**	11
Deposits		**1,674**	1,300	**5**	5
Prepayments		**21,903**	19,495	**24**	35
Derivative used for hedging					
- Forward exchange contracts		**2,270**	10,089	**–**	–
		275,772	212,368	**35,987**	71,411

Note a

Amounts due from subsidiaries are non-trade, unsecured, interest free and repayable on demand.

10. CASH AND CASH EQUIVALENTS

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Deposits with licensed banks	**424,422**	235,550	**178,700**	112,650
Cash and bank balances	**111,371**	81,789	**362**	294
	535,793	317,339	**179,062**	112,944

Included in deposits and bank balances are the following balances placed with a related company arising from normal business transactions:

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Deposits and bank balances	**425,836**	226,535	**179,049**	112,904

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

11. SHARE CAPITAL

	Group and Company			
	2017		2016	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Issued ordinary shares:				
At beginning of year	**209,884**	**104,942**	209,884	104,942
Transfer from share premium in accordance with Section 618(2) of the Companies Act 2016 (Note 11.1)	**–**	**247,431**	–	–
At end of year	**209,884**	**352,373**	209,884	104,942
	Note 11.2			

There were no shares bought back from the open market during the financial year (2016: 1,000). The average price paid for the share bought back was nil (2016: RM7.98) per ordinary share. As at 30 June 2017, the total number of shares bought back was 10,988,000 (2016: 10,988,000) ordinary shares which are being held as treasury shares in accordance with the requirement of Section 127 of the Companies Act 2016.

Note 11.1

In accordance with Section 618 of Companies Act 2016, any amount standing to the credit of the share premium account has become part of the Company's share capital. The Company has 24 months upon the commencement of Companies Act 2016 on 31 January 2017 to utilise the credit.

Note 11.2

Included in share capital is share premium amounting to RM247,431,000 that is available to be utilised in accordance with Section 618(3) of Companies Act 2016 on or before 30 January 2019 (24 months from commencement of Section 74 of the Companies Act 2016).

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

12. RESERVES

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Reserves consist of:					
Share premium	12.1	**–**	247,431	**–**	247,431
Other reserve	12.2	**19,256**	16,414	**–**	–
Exchange fluctuation reserve	12.3	**93,602**	75,361	**–**	–
Reserve for own shares	12.4	**(53,833)**	(53,833)	**(3,134)**	(3,134)
Executive share scheme reserve	12.5	**1,987**	2,367	**88**	–
Hedging reserve	12.6	**1,177**	5,327	**–**	–
Retained earnings		**869,246**	745,453	**461,424**	430,331
		931,435	1,038,520	**458,378**	674,628

Note 12.1
Share premium comprised the premium paid on subscription of shares in the Company over and above the par value of shares. As disclosed in Note 11 and the statements of changes in equity, share premium has become part of the Company's share capital.

Note 12.2
Other reserve comprises capital redemption reserve and capital reserve.

Capital redemption reserve in the previous financial year represented a transfer from the revenue reserve arising from the redemption of redeemable preference shares by a subsidiary of the Company.

Capital reserve represents a transfer from the revenue reserve to capital reserve by a subsidiary as required by the relevant regulations of its country of incorporation.

Note 12.3
Exchange fluctuation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Note 12.4
Reserve for own shares represents Trust Shares purchased by the ESS Trusts as disclosed in Note 2.2(j)(iii).

There were no additional shares purchased by the trustee during the financial year. As at 30 June 2017, the total number of Trust Shares purchased by the trustee was 8,970,000 (2016: 8,970,000) ordinary shares.

Note 12.5
Executive share scheme reserve represents fair value of the share options granted to employees as disclosed in Note 2.2(j)(iii).

Note 12.6
Hedging reserve represents the effective portion of the cumulative net change in the fair value of cash flow hedge related to hedged transactions that have not yet occurred.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

13. LOANS AND BORROWINGS

	Group 2017 RM'000	Group 2016 RM'000
Non Current (unsecured)		
Term loan	**28,553**	–
Current (unsecured)		
Bankers' acceptances	**–**	33,297
Term loan	**63,450**	–
	63,450	33,297
	92,003	33,297

	Group 2017 %	Group 2016 %
Bankers' acceptances	**–**	2.8
Term loan	**4.6 - 5.0**	–

14. EMPLOYEE BENEFITS

(a) Retirement benefits

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Retirement benefits obligation	**245**	245	**245**	245

(b) Share-based payment

The Company has, on 28 February 2014, implemented an executive share grant scheme ("ESGS") of up to 10% of the issued ordinary share capital (excluding treasury shares) of the Company for the benefit of eligible executives. The ESGS together with the existing executive share option scheme ("ESOS") which was implemented on 8 March 2013 ("Effective Date") have been renamed as ESS. The ESS would be in force for a period of 10 years from the Effective Date.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

14. EMPLOYEE BENEFITS *cont'd*

(b) Share-based payment *cont'd*

The main features of the ESS are, inter alia, as follows:

(i) Eligible executives are those executives of the Group who have been confirmed in service on the date of offer or directors of the Group. The Board may from time to time at its discretion select and identify suitable eligible executives to be offered options or grants.

(ii) The aggregate number of shares comprised in:

(a) exercised options;
(b) unexercised options;
(c) unexpired option offers and unexpired grant offers pending acceptances by the eligible executives;
(d) outstanding grants;
(e) completed grants; and
(f) exercised options, unexercised options, outstanding grants, completed grants and unexpired offers pending acceptances, under any other executive share schemes established by the Company which are still subsisting;

shall not exceed 10% of the issued ordinary share capital (excluding treasury shares) of the Company at any one time ("Maximum Aggregate").

(iii) The option price shall not be at a discount of more than 10% (or such discount as the relevant authorities shall permit) from the 5-day weighted average market price of the shares of the Company preceding the date of offer and shall in no event be less than the par value of the shares of the Company.

(iv) The exercise of the options or vesting of shares may, at the absolute discretion of the Board, be satisfied by way of issuance of new ordinary shares in the Company (unless otherwise adjusted); transfer of existing shares; or a combination of both new shares and existing shares.

(v) At any point in time during the existence of the ESS, the allocation to an eligible executive who, either singly or collectively through persons connected with the eligible executive, holds 20% or more of the issued ordinary share capital (excluding treasury shares) of the Company, must not exceed 10% of the Maximum Aggregate.

(vi) The options offered to an option holder under the ESOS is exercisable by the option holder or the shares to be vested to a grant holder under the ESGS will be vested to the grant holder only during his employment or directorship with the Group and within the option exercise period of the ESOS, subject to any maximum limit as may be determined by the Board under the Bye-Laws of the ESS.

14. EMPLOYEE BENEFITS *cont'd*

(b) Share-based payment *cont'd*

During the previous financial years, conditional incentive share options ("Options") were granted to eligible executives of the Company and the following subsidiaries:

Financial Year Ended 30 June 2014

- Carsem (M) Sdn Bhd ("Carsem (M)") granted Options over 7,900,000 ordinary shares in the Company ("MPI Shares") at an exercise price of RM2.61 per share to its eligible executives subject to the achievement of certain performance criteria by the option holders over an option performance period.

- At the end of the performance period, the Board of Carsem (M) has determined that the option holders have not achieved the performance criteria at the end of the option performance period. Hence, the Options over a total of 7,900,000 MPI Shares lapsed during the financial year ended 30 June 2017.

Financial Year Ended 30 June 2015

- Dynacraft Industries Sdn Bhd granted Options over 1,700,000 MPI Shares at an exercise price of RM5.78 per share to its eligible executives subject to the achievement of certain performance criteria by the option holders over the option performance period and the exercise period of the vested options will be up to the 30th month from the vesting date to be determined.

Financial Year Ended 30 June 2017

- The Company granted Options over 250,000 MPI Shares and 75,000 MPI shares at an exercise price of RM7.92 per share to the eligible executives of Carsem Semiconductor (Suzhou) Co., Ltd and Carsem Inc respectively.

- Carsem (M) granted Options over 4,100,000 MPI Shares at an exercise price of RM7.92 per share to its eligible executives.

- The Options granted are subject to the achievement of certain performance criteria by the option holders over the option performance period and the exercise period of the vested options will be up to the 30th month from the vesting date to be determined.

There were no shares granted or options over shares vested under the ESS of the Company during the financial year ended 30 June 2017.

Since the commencement of the ESS, a total of 15,025,000 Options have been granted, of which 5,425,000 Options remained outstanding. None of the Options granted has been vested. The aggregate Options granted to directors (including a past director) and a chief executive of the Group was 7,150,000. The actual percentage of total Options granted to directors (including a past director) and senior management of the Group was 3.97% based on the issued ordinary share capital (excluding treasury shares) of the Company as at 30 June 2017.

The aggregate allocation of Options to directors and senior management of the Group pursuant to the ESS is at the discretion of the Board provided that such allocation does not exceed the Maximum Aggregate.

During the financial year, the Group has reviewed the fair value of employee services received in relation to options granted to eligible executives of the Group. Based on the best available estimate of the number of options expected to vest, fair value amounted to RM1,802,000 (2016: RM1,802,000) is deemed excess and hence, has been reversed accordingly.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

14. EMPLOYEE BENEFITS *cont'd*

(b) Share-based payment *cont'd*

Value of employee services received for issue of share options

	Group	
	2017 RM'000	**2016 RM'000**
Share options granted in 2014	**(1,802)**	(853)
Share options granted in 2015	**4**	782
Share options granted in 2017	**1,216**	–
	(582)	(71)

Weighted average fair value of share options and assumptions

	2017	**2016**
Weighted average fair value at grant date	**RM1.94**	RM0.75

At grant date:		
Weighted average share price	**RM7.64**	RM3.14
Weighted average exercise price	**RM7.53**	RM3.17
Expected volatility (weighted average volatility)	**31.55%**	29.16%
Option life (expected weighted average life)	**4 years**	6 years
Weighted average expected dividends	**3.91%**	3.87%
Weighted average risk-free interest rate (based on Malaysian government bonds)	**3.71%**	3.75%

15. TRADE AND OTHER PAYABLES INCLUDING DERIVATIVES

		Group		Company	
	Note	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Trade payables		**93,196**	51,414	**–**	–
Amounts due to:					
- Related companies	a	**1,789**	518	**–**	–
Other payables		**67,314**	58,235	**–**	–
Accrued expenses		**43,141**	50,437	**494**	499
Derivative used for hedging					
- Forward exchange contracts		**19**	–	**–**	–
		205,459	160,604	**494**	499

Note a

Amounts due to related companies are non-trade, unsecured, interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

16. PROFIT BEFORE TAXATION

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Other than those disclosed elsewhere in the financial statement, profit before taxation is arrived at after charging/(crediting):				
Auditors' remuneration				
Holding company's auditors				
- Statutory audits	**149**	144	**30**	28
- Other services	**32**	29	**8**	8
Other auditors				
- Statutory audits	**63**	60	**–**	–
- Other services	**21**	21	**–**	–
Allowance for slow moving inventories	**5,041**	4,038	**–**	–
Fair value loss/(gain) on financial instruments designated as hedge instruments	**1,064**	(6,392)	**–**	–
(Gain)/Loss on disposal of property, plant and equipment	**(422)**	291	**(150)**	–
(Gain)/Loss on foreign exchange				
- Realised	**(7,882)**	34,580	**(124)**	–
- Unrealised	**12,368**	13,693	**(4,500)**	(4,487)
Gross dividends from:				
- Unquoted subsidiaries	**–**	–	**(78,650)**	(99,000)
- Other investments	**(9,205)**	(4,508)	**(4,077)**	(2,626)
Insurance compensation from fire incident	**–**	(24,744)	**–**	–
Property, plant and equipment written off	**380**	6,746	**–**	1
Personnel expenses:				
- Wages, salaries and others	**311,553**	307,302	**–**	–
- Contributions to Employees Provident Fund	**40,176**	38,689	**–**	–
- Share-based payment	**(822)**	100	**–**	–
Rental of property, plant and equipment	**3,552**	3,608	**53**	53
Research and development expenditure	**24,286**	25,123	**–**	–

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

17. TAXATION

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Current taxation				
Malaysian				
- Current year	**22,363**	29,976	**99**	52
- Prior years	**(1,007)**	(543)	**8**	8
Overseas				
- Current year	**18,439**	4,710	**–**	–
- Prior years	**(7,248)**	(2,753)	**–**	–
	32,547	31,390	**107**	60
Deferred taxation				
- Current year	**(300)**	(31,825)	**–**	–
	32,247	(435)	**107**	60

Reconciliation of taxation

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Profit before taxation	**250,987**	196,386	**84,811**	103,541
Taxation at Malaysian statutory tax rate of 24%	**60,237**	47,133	**20,355**	24,850
Difference of tax rate in foreign jurisdiction	**(5,200)**	(1,638)	**–**	–
Effect of tax rate change	**–**	(547)	**–**	–
Non-deductible expenses	**8,566**	5,349	**678**	669
Tax exempt income	**(23,101)**	(29,615)	**(20,934)**	(25,467)
Effect of temporary differences arising in pioneer period	**–**	(17,821)	**–**	–
	40,502	2,861	**99**	52
(Over)/under provision in prior years	**(8,255)**	(3,296)	**8**	8
	32,247	(435)	**107**	60

During the preceeding financial year ended 30 June 2016, a subsidiary of the Company has been granted 100% pioneer tax exemption on the statutory income for 10 years beginning year of assessment 30 June 2015 in respect of the approved business by the Malaysian Investment Development Authority under the Income Tax (Exemption) (No. 11) Order 2006 [P.U. (A) 112/2006] of the Income Tax Act, 1967.

18. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The basic earnings per ordinary share is calculated by dividing the Group's profit attributable to owners of the Company of RM177,915,000 (2016: RM157,518,000) by the weighted average number of ordinary shares outstanding during the financial year of 189,926,419 (2016: 189,926,807) as follows:

Weighted average number of ordinary shares

	2017 '000	**2016 '000**
Issued ordinary shares at beginning of year	**209,884**	209,884
Less:		
Treasury shares held at beginning of year	**(10,988)**	(10,987)
Trust shares held at beginning of year	**(8,970)**	(8,970)
Weighted average number of ordinary shares at end of year	**189,926**	189,927
Basic earnings per ordinary share (sen)	**93.68**	82.94

Diluted earnings per ordinary share

The Group has no dilution in its earnings per ordinary share in the current and previous financial year as there are no dilutive potential ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

19. OTHER COMPREHENSIVE INCOME

	Before tax RM'000	Tax benefit RM'000	Net of tax RM'000
2017			
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedge			
- Loss arising during the year	**(7,837)**	**1,601**	**(6,236)**
- Reclassification adjustments for gain included in profit or loss	**1,064**	**(256)**	**808**
	(6,773)	**1,345**	**(5,428)**
Foreign currency translation differences for foreign operations			
- Gain arising during the year	**18,241**	**–**	**18,241**
	11,468	**1,345**	**12,813**
2016			
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedge			
- Gain arising during the year	23,404	(5,044)	18,360
- Reclassification adjustments for loss included in profit or loss	(6,392)	1,560	(4,832)
	17,012	(3,484)	13,528
Foreign currency translation differences for foreign operations			
- Loss arising during the year	(3,637)	–	(3,637)
	13,375	(3,484)	9,891

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

20. DIVIDENDS

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
First interim				
8.0 sen per share single tier (2016: 8.0 sen per share single tier)	**15,194**	15,194	**15,885**	15,885
Second interim				
19.0 sen per share single tier (2016: 15.0 sen per share single tier)	**36,086**	28,489	**37,726**	29,784
	51,280	43,683	**53,611**	45,669

Dividends received by the ESS Trusts for the Group and the Company amounted to RM2,421,900 (2016: RM2,063,100) and RM90,828 (2016: RM77,372) respectively are eliminated against the dividend expense of the Company upon consolidation of the ESS Trusts as disclosed in Note 2.2(j)(iii).

21. OPERATING SEGMENTS

The Group's operating and reportable segments are geographical segments by location of customers. For each geographical segment by location of customers, the Board of Directors reviews internal management reports on at least a quarterly basis. The Group's reportable segments are as follows:

- Asia
- The United States of America ("USA"); and
- Europe

These segments are engaged in manufacturing and testing of semiconductor devices and electronic components and sale of leadframes.

Segment profit

Performance is measured based on segment profit before interest income, finance costs and taxation as included in the internal management reports that are reviewed by the Board of Directors.

Segment assets

Segment assets information is not presented to the Board of Directors and hence no disclosure is made on segment assets.

Segment liabilities

Segment liabilities information is not presented to the Board of Directors and hence no disclosure is made on segment liabilities.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

21. OPERATING SEGMENTS *cont'd*

	Asia		USA		Europe		Total	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Segment profit	**145,788**	106,806	**42,927**	33,778	**59,752**	55,987	**248,467**	196,571
Included in the measure of segment profit are:								
Revenue from external customers	**852,812**	773,496	**300,099**	327,818	**387,557**	359,339	**1,540,468**	1,460,653
Depreciation and amortisation	**110,539**	114,723	**38,404**	48,634	**43,936**	46,000	**192,879**	209,357
Property, plant and equipment written off	**268**	4,389	**72**	382	**33**	1,974	**373**	6,745

Reconciliations of reportable segment profit

	2017 RM'000	2016 RM'000
Profit		
Reportable segments	**248,467**	196,571
Non-reportable segments	**3,164**	932
Finance costs	**(2,422)**	(2,168)
Interest income	**1,778**	1,051
Consolidated profit before taxation	**250,987**	196,386

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

21. OPERATING SEGMENTS *cont'd*

Reconciliations of reportable segment profit *cont'd*

	2017 External revenue RM'000	2017 Depreciation & amortisation RM'000	2016 External revenue RM'000	2016 Depreciation & amortisation RM'000
Reportable segments	**1,540,468**	**192,879**	1,460,653	209,357
Non-reportable segments	**4,077**	**127**	2,626	67
	1,544,545	**193,006**	1,463,279	209,424

Geographical segments

Revenue of the Group by geographical location of the customers is as follows:

	Revenue 2017 RM'000	Revenue 2016 RM'000
Singapore	**353,873**	303,904
USA	**300,099**	327,818
Malaysia	**253,837**	249,925
Ireland	**131,767**	142,008
Taiwan	**133,355**	95,068
Switzerland	**56,365**	50,023
Others	**311,172**	291,907
	1,540,468	1,460,653

Non-current assets (except for financial assets) of the Group by geographical location of the assets are as follows:

	Non-current assets 2017 RM'000	Non-current assets 2016 RM'000
Malaysia	**356,549**	409,042
The People's Republic of China	**347,088**	344,329
Others	**55**	25
	703,692	753,396

Major customer

During the financial year, revenue from two customers (2016: two customers) amounted to RM338,734,000 (2016: RM351,782,000) contributed to more than 10% of the Group's revenue.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

22. COMMITMENTS

	Group 2017 RM'000	Group 2016 RM'000
Property, plant and equipment:		
Contracted but not provided for	**24,522**	16,903
Authorised but not contracted for	**4,945**	8,486
	29,467	25,389

	Group 2017 RM'000	Group 2016 RM'000
Leases as lessees		
Operating lease commitments:		
Expiring within one year	**1,532**	1,532
Expiring between one to five years	**7,432**	6,972
Expiring after five years	**23,993**	25,985
	32,957	34,489

Group

The Group has lease commitments of RM1,532,000 (2016: RM1,532,000) per annum in respect of three lots of land sub-leased at cost from a third party. The annual rental rate per square foot will increase by 30% every five years and the lease expires on 30 August 2031. The Group has an option to purchase outright from the third party, at market value, the remaining lease tenure of the land, which is exercisable in any of the calendar years 2019, 2024 and 2029. None of the leases include contingent rental.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

23. RELATED PARTIES

23.1 The Group has related party transactions with corporations which are related to the Directors and/or major shareholders of the Company and/or related corporations and/or persons connected with them as follows:

(i) Hong Leong Company (Malaysia) Berhad ("HLCM") is a major shareholder of the Company through Hong Leong Manufacturing Group Sdn Bhd ("HLMG"). YBhg Tan Sri Quek Leng Chan is a major shareholder of the Company, and a Director and a major shareholder of HLMG and HLCM. YBhg Datuk Kwek Leng San is a Director of the Company, HLMG and HLCM, and a shareholder of the Company and HLCM. Mr Kwek Leng Beng is a Director of HLCM and a major shareholder of the Company and HLCM. Mr Kwek Leng Kee is a major shareholder of the Company and HLCM. Mr Quek Leng Chye is a past major shareholder of the Company and HLCM. YBhg Tan Sri Quek Leng Chan, YBhg Datuk Kwek Leng San and Mr Quek Leng Chye are brothers. HLCM is a person connected with YBhg Tan Sri Quek Leng Chan, YBhg Datuk Kwek Leng San, Mr Kwek Leng Beng and Mr Kwek Leng Kee;

(ii) Hong Leong Industries Berhad ("HLI"), HLMG Management Co Sdn Bhd ("HLMGMC"), Hong Leong Assurance Berhad ("HLA"), Hong Leong Capital Berhad ("HLCB"), GuocoLand (Malaysia) Berhad ("GLM"), GL Limited ("GL"), GuoLine Intellectual Assets Limited ("GIAL") and GuoLine eMarketing Sdn Bhd ("GuoLine eMarketing") are subsidiaries of HLCM; and

(iii) Guardian Security Consultants Sdn Bhd ("GSC") is an indirect associate of HLCM.

Significant transactions with related parties are as follows:

	Transactions	Related party	Group 2017 RM'000	Group 2016 RM'000
(a)	Rental of properties	HLMGMC	**53**	53
(b)	Receipt of insurance and insurance broking services, stock broking and corporate advisory services, hotel-related services, security guard services, after sales services in respect of air conditioners and related products	HLA, HLCB and its subsidiaries, GLM, GL and its subsidiaries, GSC, HLI and its subsidiaries	**68**	89
(c)	Receipt of group management and/or support services	Subsidiaries of HLCM	**12,102**	10,331
(d)	Payment for usage of the Hong Leong logo and trade mark	GIAL	**21**	17
(e)	Purchase of motor vehicles, electrical/electronic products	GuoLine eMarketing	**523**	–

Significant balances with related parties at the reporting date are disclosed in Note 9 and Note 15 to the financial statements.

The above transactions have been carried out on commercial terms consistent with the usual business practices and policies of the Group and of the Company.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

23. RELATED PARTIES *cont'd*

23.2 Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel includes all the Directors of the Group.

The fees, remuneration and other benefits of the Directors of the Group and the Company are as follows:

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Executive Directors				
Remuneration and other benefits	**3,119**	2,305	**–**	–
Non-Executive Directors				
Fees*	**462**	462	**422**	422

* This includes fee for a Director which has been assigned in favour of the Company where the Director is appointed.

The estimated monetary value for Directors' benefit-in-kind of the Group and Company are as follows:

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Executive Directors	**166**	194	**–**	–
Non-Executive Directors	**28**	28	**28**	28
	194	222	**28**	28

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

24. FINANCIAL INSTRUMENTS

24.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables ("L&R");
(b) Available-for-sale financial assets ("AFS"); and
(c) Financial liabilities measured at amortised cost ("FL").

	Carrying amount RM'000	L&R/ FL RM'000	AFS RM'000	Derivatives used for hedging RM'000
2017				
Financial assets				
Group				
Other investments	**46**	**–**	**46**	**–**
Trade and other receivables including derivatives (excluding prepayments)	**253,869**	**251,599**	**–**	**2,270**
Cash and cash equivalents	**535,793**	**535,793**	**–**	**–**
	789,708	**787,392**	**46**	**2,270**
Company				
Other investments	**46**	**–**	**46**	**–**
Trade and other receivables including derivatives (excluding prepayments)	**35,963**	**35,963**	**–**	**–**
Cash and cash equivalents	**179,062**	**179,062**	**–**	**–**
	215,071	**215,025**	**46**	**–**
Financial liabilities				
Group				
Loans and borrowings	**92,003**	**92,003**	**–**	**–**
Trade and other payables including derivatives	**205,459**	**205,440**	**–**	**19**
	297,462	**297,443**	**–**	**19**
Company				
Trade and other payables including derivatives	**494**	**494**	**–**	**–**

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

24. FINANCIAL INSTRUMENTS *cont'd*

24.1 Categories of financial instruments *cont'd*

	Carrying amount RM'000	L&R/ FL RM'000	AFS RM'000	Derivatives used for hedging RM'000
2016				
Financial assets				
Group				
Other investments	46	–	46	–
Trade and other receivables including derivatives (excluding prepayments)	192,873	182,784	–	10,089
Cash and cash equivalents	317,339	317,339	–	–
	510,258	500,123	46	10,089
Company				
Other investments	46	–	46	–
Trade and other receivables including derivatives (excluding prepayments)	71,376	71,376	–	–
Cash and cash equivalents	112,944	112,944	–	–
	184,366	184,320	46	–
Financial liabilities				
Group				
Loans and borrowings	33,297	33,297	–	–
Trade and other payables including derivatives	160,604	160,604	–	–
	193,901	193,901	–	–
Company				
Trade and other payables including derivatives	499	499	–	–

24. FINANCIAL INSTRUMENTS *cont'd*

24.2 Net gains and losses arising from financial instruments

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Net gains/(losses) arising from:				
Loans and receivables	**108,400**	62,893	**8,932**	7,234
Fair value through profit or loss				
- (Loss)/gain on financial instruments designated as hedge instruments	**(1,064)**	6,392	**–**	–
Financial liabilities measured at amortised cost	**(97,300)**	(103,179)	**(1)**	(1)
	10,036	(33,894)	**8,931**	7,233

24.3 Financial risk management

The Group and the Company have exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

24.3.1 Credit risk

Credit risk is the risk of a financial loss to the Group and the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers, short term deposit and bank balances and outstanding forward exchange contracts. The Company's exposure to credit risk arises principally from advances to subsidiaries.

Receivables

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

At the reporting date, there were no significant concentrations of credit risk. The maximum exposure to credit risk for the Group and the Company is represented by the carrying amount of each financial asset.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

24. FINANCIAL INSTRUMENTS *cont'd*

24.3 Financial risk management *cont'd*

24.3.1 Credit risk *cont'd*

Receivables *cont'd*

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are measured at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due, which are deemed to have higher credit risk, are monitored individually.

The exposure of credit risk for trade receivables, net of impairment loss, as at the end of the reporting period by geographic region was:

	Group	
	2017	**2016**
	RM'000	**RM'000**
Singapore	**60,663**	34,575
USA	**37,869**	36,179
Malaysia	**28,998**	26,255
Ireland	**13,610**	8,070
Taiwan	**18,787**	18,026
Switzerland	**377**	368
Others	**33,898**	47,531
	194,202	171,004

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

24. FINANCIAL INSTRUMENTS *cont'd*

24.3 Financial risk management *cont'd*

24.3.1 Credit risk *cont'd*

Receivables *cont'd*

Impairment losses

The ageing of receivables as at the end of the reporting period was:

	Gross RM'000	Individual impairment RM'000	Net RM'000
2017			
Not past due	**146,420**	**–**	**146,420**
Past due 1 - 30 days	**50,988**	**(3,206)**	**47,782**
Past due 31 - 60 days	**2,316**	**(2,316)**	**–**
Past due more than 60 days	**2,243**	**(2,243)**	**–**
	201,967	**(7,765)**	**194,202**
2016			
Not past due	124,873	–	124,873
Past due 1 - 30 days	49,549	(3,418)	46,131
Past due 31 - 60 days	2,403	(2,403)	–
Past due more than 60 days	1,421	(1,421)	–
	178,246	(7,242)	171,004

The movements in the allowance for impairment losses of receivables during the financial year were:

	Group	
	2017 RM'000	2016 RM'000
At beginning of year	**7,242**	6,405
Provision	**523**	837
At end of year	**7,765**	7,242

The allowance account in respect of receivables is used to record impairment losses. Unless the Group is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

24. FINANCIAL INSTRUMENTS *cont'd*

24.3 Financial risk management *cont'd*

24.3.1 Credit risk *cont'd*

Intercompany balances

Risk management objectives, policies and processes for managing the risk

The Company provides advances to its subsidiaries. The Company monitors the results of the subsidiaries regularly.

Exposure to credit risk and credit quality

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

Impairment losses

As at the end of the reporting period, there was no indication that the advances to the subsidiaries were not recoverable. The Company does not specifically monitor the ageing of the advances to the subsidiaries.

Short term deposit and bank balances and outstanding forward exchange contract

Short term deposit and bank balances are placed and forward exchange contracts are entered into with licensed banks with good credit rating. The maximum exposure to credit risk is represented by the carrying amounts in the statements of financial position.

24.3.2 Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet their financial obligations as and when they fall due. The Group's and the Company's exposure to liquidity risk arises principally from their various payables, loans and borrowings.

The Group and the Company actively manage their operating cash flows and the availability of funding so as to ensure that all repayments and funding needs are met. As part of its overall prudent liquidity management, the Group and the Company maintain sufficient levels of cash and cash equivalents and bank facilities to meet their working capital requirements.

24. FINANCIAL INSTRUMENTS *cont'd*

24.3 Financial risk management *cont'd*

24.3.2 Liquidity risk *cont'd*

Maturity analysis

The table below summarises the maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000	1-2 years RM'000
2017					
Group					
Non-derivative financial liabilities					
Trade and other payables	**205,440**	**–**	**205,440**	**205,440**	**–**
Loans and borrowings	**92,003**	**4.6 - 5.0**	**94,794**	**63,767**	**31,027**
Derivative financial liabilities					
Forward exchange contracts					
Outflow	**19**	**–**	**14,267**	**14,267**	**–**
Inflow	**–**	**–**	**(14,248)**	**(14,248)**	**–**
	297,462		**300,253**	**269,226**	**31,027**
Company					
Non-derivative financial liabilities					
Trade and other payables	**494**	**–**	**494**	**494**	**–**

	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000
2016				
Group				
Non-derivative financial liabilities				
Trade and other payables	160,604	–	160,604	160,604
Loans and borrowings	33,297	2.8	33,297	33,297
	193,901		193,901	193,901
Company				
Non-derivative financial liabilities				
Trade and other payables	499	–	499	499

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

24. FINANCIAL INSTRUMENTS *cont'd*

24.3 Financial risk management *cont'd*

24.3.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, that will affect the Group's and the Company's financial position or cash flows.

Currency risk

The Group and the Company are exposed to foreign currency risk on sales, purchases, cash and cash equivalents and loans and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily USD.

Risk management objectives, policies and processes for managing the risk

Material foreign currency transaction exposures are hedged, mainly with derivative financial instruments such as forward foreign exchange contracts, on a case by case basis.

Exposure to foreign currency risk

The Group's exposure to foreign currency risk, based on carrying amounts (nominal amounts for the forward exchange contracts) as at the end of the reporting period was:

	Denominated in USD	
Group	**2017 RM'000**	**2016 RM'000**
Trade receivables	**170,093**	169,534
Forward exchange contracts – receivables	**(205,567)**	(265,580)
Cash and cash equivalents	**81,965**	55,746
Trade and other payables	**(97,104)**	(75,312)
Net exposure	**(50,613)**	(115,612)

Currency risk sensitivity analysis

A 5% (2016: 5%) strengthening of the Ringgit Malaysia against USD at the end of the reporting period would have increased profit before taxation of the Group by RM2,531,000 (2016: RM5,781,000). A 5% (2016: 5%) weakening of the Ringgit Malaysia against USD would have had equal but opposite effect on profit or loss. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

24. FINANCIAL INSTRUMENTS *cont'd*

24.3 Financial risk management *cont'd*

24.3.3 Market risk *cont'd*

Interest rate risk

The Group and the Company manage its interest rate exposure by maintaining available lines of fixed and floating rate borrowings.

Exposure to interest rate risk

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period were:

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Fixed rate instruments				
Deposits with licensed banks	**424,422**	235,550	**178,700**	112,650
Loans and borrowings	**–**	(33,297)	**–**	–
	424,422	202,253	**178,700**	112,650
Floating rate instruments				
Loans and borrowings	**(92,003)**	–	**–**	–

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss and the Group does not designate derivatives as hedging instruments under a fair value hedged accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

An increase of 50 basis points (bp) (2016: 50 bp) in interest rates at the end of the reporting period would have decreased the profit before taxation of the Group by RM460,000 (2016: Nil). A decrease of 50 bp in interest rates would have had equal but opposite effect on profit or loss. This analysis assumes that all other variables remained constant.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

24. FINANCIAL INSTRUMENTS *cont'd*

24.3 Financial risk management *cont'd*

24.3.4 Hedging activities

24.3.4.1 Cash flow hedge

The Group has entered into a number of forward exchange contracts to hedge the cash flow risk in relation to the variations of cash flows arising from future forecasted transactions. These forward exchange contracts have a total notional amount of USD47,130,000 (2016: USD62,781,000) and all of the forward exchange contracts have maturities of less than one year after the end of the reporting period.

The following table indicates the periods in which the cash flows associated with the foreign exchange currencies are expected to occur and affect profit or loss:

	Carrying amount RM'000	Expected cash flow RM'000	Under 1 year RM'000
Group			
2017			
Forward exchange contract	**2,251**	**2,251**	**2,251**
2016			
Forward exchange contract	10,089	10,089	10,089

During the financial year, a loss of RM6,236,000 (2016: a gain of RM18,360,000) was recognised in other comprehensive income and RM808,000 (2016: RM4,832,000) was reclassified from equity to profit or loss as other operating income (2016: other operating expenses).

Ineffectiveness loss amounting to RM112,000 (2016: Gain of RM3,119,000) was recognised in profit or loss during the financial year in respect of the hedge.

24.3.5 Fair value of financial instruments

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings approximate fair values due to the relatively short term nature of these financial instruments. Accordingly, the fair values and fair value hierarchy levels have not been presented for these instruments.

It is not practicable to estimate the fair value of the Company's investment in unquoted shares due to the lack of comparable quoted prices in an active market and the fair value cannot be reliably measured.

24. FINANCIAL INSTRUMENTS *cont'd*

24.3 Financial risk management *cont'd*

24.3.6 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group			
2017			
Financial assets			
Investments	**–**	**46**	**–**
Forward exchange contracts	**–**	**2,270**	**–**
Financial liabilities			
Forward exchange contracts	**–**	**(19)**	**–**
2016			
Financial assets			
Investments	–	46	–
Forward exchange contracts	–	10,089	–

The table below analyses financial instruments not carried at fair value, by valuation method. The different levels have been defined as follows:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group			
2017			
Financial liabilities			
Term loan	**–**	**–**	**(28,553)**

Level 2 fair value

Derivatives

The fair value of derivatives are obtained from observable market prices in active markets, including recent market transactions and valuation techniques that include discounted cash flow models and option pricing models, as appropriate.

Level 3 fair value

In respect of financial instruments not carried at fair value, the fair value is derived based on the discounted cash flow valuation method.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

25. CAPITAL MANAGEMENT

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Directors monitor and determine to maintain an optimal debt-to-equity ratio.

The debt-to-equity ratios are as follows:

	Group	
	2017 RM'000	**2016 RM'000**
Total loans and borrowings	**92,003**	33,297
Less: Cash and cash equivalents	**(535,793)**	(317,339)
Net cash	**(443,790)**	(284,042)
Total equity	**1,328,957**	1,170,116
Debt-to-equity ratio	**Nil**	Nil

26. SUPPLEMENTARY FINANCIAL INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of the retained earnings of the Group and of the Company, into realised and unrealised profits or losses, is as follows:

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Total retained earnings				
- realised	**942,130**	790,728	**456,924**	425,844
- unrealised	**(11,759)**	(6,217)	**4,500**	4,487
	930,371	784,511	**461,424**	430,331
Less: Consolidation adjustments	**(61,125)**	(39,058)	**–**	–
	869,246	745,453	**461,424**	430,331

The determination of realised and unrealised profits is based on the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits or losses above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia Securities Berhad and should not be applied for any other purposes.

STATEMENT BY DIRECTORS

pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 57 to 120 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2017 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 26 on page 121 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

On behalf of the Board,

Manuel Zarauza Brandulas

Datuk Syed Zaid bin Syed Jaffar Albar

28 August 2017

STATUTORY DECLARATION

pursuant to Section 251(1)(b) of the Companies Act 2016

I, Cheah Wing Ket, the person primarily responsible for the financial management of MALAYSIAN PACIFIC INDUSTRIES BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 57 to 121 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Cheah Wing Ket at Ipoh in the State of Perak Darul Ridzuan on 28 August 2017.

Cheah Wing Ket

Before me:

GOH CHOON HUAT
Commissioner for Oaths
Ipoh, Perak Darul Ridzuan

INDEPENDENT AUDITORS' REPORT

to the members of Malaysian Pacific Industries Berhad

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Malaysian Pacific Industries Berhad, which comprise the statements of financial position as at 30 June 2017 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 57 to 120.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 30 June 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Key Audit Matters

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

INDEPENDENT AUDITORS' REPORT

to the members of Malaysian Pacific Industries Berhad
(cont'd)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *cont'd*

Key Audit Matters *cont'd*

1. Revenue recognition

Refer to Note 2.2(n)(i) to the financial statements.

The key audit matter	How the matter was addressed in our audit
The Group recorded RM1,540 million of revenue for the current financial year. Revenue of the Group comprises manufacturing and testing of semiconductor devices and electronic components, and sale of lead frames. We have identified revenue recognition as a key audit matter because of the variety of goods sold and services rendered by the Group, with different pricing and terms relating to customers' acceptance, for different customers. Accordingly, there was a risk that the amount and timing of revenue were not recognised in the respective financial period.	Our audit procedures included, among others: • We evaluated the design and implementation, and tested the operating effectiveness of selected controls over the process of revenue recognition. • We checked samples of sales transactions recorded throughout the financial year to invoices and delivery documents that substantiated the significant risks and rewards of ownership of the goods have been transferred in the respective financial periods. • We checked samples of transactions that were recorded before and after the financial year end date of 30 June 2017 to invoices and delivery documents to assess whether the revenue was recognised in the respective financial periods.

We have determined that there are no key audit matters in the audit of the separate financial statements of the Company to communicate in our auditors' report.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Directors' Report, and Statement on Risk Management and Internal Control (but does not include the financial statements of the Group and of the Company and our auditors' report thereon), which we obtained prior to the date of this auditors' report, and the remaining parts of the annual report, which are expected to be made available to us after that date.

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

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, 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.

When we read the remaining parts of the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors of the Company and take appropriate actions in accordance with approved standards on auditing in Malaysia and International Standards on Auditing.

INDEPENDENT AUDITORS' REPORT

to the members of Malaysian Pacific Industries Berhad
(cont'd)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *cont'd*

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

INDEPENDENT AUDITORS' REPORT

to the members of Malaysian Pacific Industries Berhad
(cont'd)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *cont'd*

Auditors' Responsibilities for the Audit of the Financial Statements *cont'd*

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

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

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in Note 3 to the financial statements.

Other Reporting Responsibilities

The supplementary information set out in Note 26 on page 121 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other Matter

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

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Chong Chen Kian
Approval Number: 3232/02/18 (J)
Chartered Accountant

Petaling Jaya, Selangor
28 August 2017

OTHER INFORMATION

1. PROPERTIES HELD BY THE GROUP AS AT 30 JUNE 2017

Location	Tenure	Existing use	Acquisition Date	Approximate Area (Sq Ft)	Approximate Age of Building (Year)	Net Book Value as at 30 June 2017 (RM'000)
Jalan Lapangan Terbang 30720 Ipoh, Perak Darul Ridzuan	20 Apr 2074	Office and factory building	21 Sep 1998	158,297	21 - 42	7,318
Jalan Lapangan Terbang 30720 Ipoh, Perak Darul Ridzuan	15 Aug 2081	Office and factory building	21 Sep 1998	64,469	19 - 29	7,782
Jalan Lapangan Terbang 30720 Ipoh, Perak Darul Ridzuan	23 May 2082	Office and factory building	21 Sep 1998	19,849	21 - 29	310
Jalan Lapangan Terbang 30720 Ipoh, Perak Darul Ridzuan	08 May 2039	Industrial land-factory under construction	28 Jan 1999 & 30 Mar 1998	53,274	–	9,634
Jalan Lapangan Terbang 30720 Ipoh, Perak Darul Ridzuan	08 May 2039	Office and factory building	07 Apr 1989	45,680	23	137
Jalan Lapangan Terbang 30720 Ipoh, Perak Darul Ridzuan	06 Nov 2063	Multi-storey car park	07 Nov 2003	66,812	10	4,445
Lot 52986 Kawasan Perindustrian Taman Meru, Jelapang Perak Darul Ridzuan	29 Oct 2091	Office and factory building	30 Oct 1992	1,348,966	26	24,345
No. 88, West Shen Hu Road Suzhou Industrial Park Suzhou, Province of Jiangsu, 215021 The People's Republic of China	19 Aug 2052	Office and factory building	30 Apr 2002	645,823	14	87,423
Lot 2367, Bayan Lepas Pulau Pinang	30 Aug 2031	Office and factory building *	18 Jun 1995	257,000	23	13,883
Lot 8, Bayan Lepas Pulau Pinang	06 Jan 2070	Office and factory building ^	18 Jun 1995	227,441	18	12,037
Plot 15, Bayan Lepas Pulau Pinang	06 Jan 2070	Office and factory building ^	24 Feb 2005	208,357	12	20,462

Notes :

* *This building is situated on an operating lease land as disclosed in Note 22 of the financial statements.*

^ *These buildings are classified as investment properties as disclosed in Note 5 of the financial statements.*

OTHER INFORMATION
(cont'd)

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2017

Class of Shares : Ordinary shares
Voting Rights : 1 vote for each share held

Distribution Schedule Of Shareholders As At 30 August 2017

Size of Holdings	No. of Shareholders	%	No. of Shares*	%
Less than 100	707	16.41	15,187	0.01
100 – 1,000	1,618	37.57	977,858	0.49
1,001 – 10,000	1,429	33.18	5,054,124	2.54
10,001 – 100,000	406	9.43	13,901,331	6.99
100,001 – less than 5% of issued shares	146	3.39	74,561,831	37.49
5% and above of issued shares	1	0.02	104,386,088	52.48
	4,307	100.00	198,896,419	100.00

* *Excluding 10,988,000 shares bought back and retained by the Company as treasury shares.*

List Of Thirty Largest Shareholders As At 30 August 2017

	Name of Shareholders	No. of Shares	%
1.	Assets Nominees (Tempatan) Sdn Bhd - Hong Leong Manufacturing Group Sdn Bhd	104,386,088	52.48
2.	Assets Nominees (Tempatan) Sdn Bhd - Exempt AN for Malaysian Pacific Industries Berhad (Carsem-ESOS)	7,783,600	3.91
3.	AmanahRaya Trustees Berhad - Public Smallcap Fund	4,798,900	2.41
4.	Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board	3,931,300	1.98
5.	AmanahRaya Trustees Berhad - Public Islamic Opportunities Fund	2,924,500	1.47
6.	Assets Nominees (Tempatan) Sdn Bhd - Hong Leong Industries Berhad	2,438,469	1.23
7.	AmanahRaya Trustees Berhad - Public Strategic Smallcap Fund	1,978,600	1.00
8.	Citigroup Nominees (Asing) Sdn Bhd - CBLDN for Polunin Emerging Markets Small Cap Fund, LLC	1,976,200	0.99
9.	Citigroup Nominees (Asing) Sdn Bhd - UBS AG	1,451,617	0.73
10.	AmanahRaya Trustees Berhad - PB Smallcap Growth Fund	1,416,300	0.71
11.	Public Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Chan See Min Realty Sdn Bhd (E-KUG)	1,350,000	0.68

OTHER INFORMATION
(cont'd)

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2017 *cont'd*

List Of Thirty Largest Shareholders As At 30 August 2017 *cont'd*

	Name of Shareholders	No. of Shares	%
12.	HSBC Nominees (Asing) Sdn Bhd - Exempt AN for Morgan Stanley & Co. LLC (Client)	1,329,759	0.67
13.	HSBC Nominees (Asing) Sdn Bhd - JPMCB NA for Evli Emerging Frontier Fund	1,260,000	0.63
14.	Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (Affin-Hwg)	1,221,000	0.61
15.	DB (Malaysia) Nominee (Asing) Sdn Bhd - Deutsche Bank AG London	1,122,700	0.57
16.	Citigroup Nominees (Asing) Sdn Bhd - CBNY for Emerging Market Core Equity Portfolio DFA Investment Dimensions Group Inc	1,046,625	0.53
17.	Citigroup Nominees (Asing) Sdn Bhd - Exempt AN for Citibank New York (Norges Bank 9)	1,013,000	0.51
18.	Assets Nominees (Tempatan) Sdn Bhd - Soft Portfolio Sdn Bhd	995,500	0.50
19.	Citigroup Nominees (Asing) Sdn Bhd - Exempt AN for Citibank N.A Singapore (UBP SG2)	990,000	0.50
20.	Citigroup Nominees (Tempatan) Sdn Bhd - Exempt AN for AIA Bhd	850,400	0.43
21.	Assets Nominees (Tempatan) Sdn Bhd - Exempt AN for Malaysian Pacific Industries Berhad (DCI-ESOS)	850,000	0.43
22.	Citigroup Nominees (Asing) Sdn Bhd - Exempt AN for Citibank New York (Norges Bank 14)	835,100	0.42
23.	Citigroup Nominees (Asing) Sdn Bhd - CBNY for DFA Emerging Markets Small Cap Series	776,613	0.39
24.	Hong Bee Hardware Company, Sdn. Berhad	757,250	0.38
25.	Hong Leong Assurance Berhad - As Beneficial Owner (Life Par)	744,029	0.37
26.	DB (Malaysia) Nominee (Asing) Sdn Bhd - The Bank Of New York Mellon for Commonwealth Of Pennsylvania State Employees' Retirement System	740,700	0.37
27.	HSBC Nominees (Tempatan) Sdn Bhd - HSBC (M) Trustee Bhd for CIMB Islamic Dali Equity Theme Fund	740,300	0.37
28.	HSBC Nominees (Asing) Sdn Bhd - Exempt AN for Credit Suisse Securities (USA) LLC (PB Client)	717,500	0.36
29.	HSBC Nominees (Asing) Sdn Bhd - Exempt AN for Skandinaviska Enskilda Banken AB (UCITS V Swedish)	710,300	0.36
30.	AmanahRaya Trustees Berhad - Public Islamic Treasures Growth Fund	704,700	0.35
		151,841,050	76.34

OTHER INFORMATION
(cont'd)

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2017 *cont'd*

Substantial Shareholders

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 30 August 2017 are as follows:

		Direct Interest		Indirect Interest		
	Name of Shareholders	**No. of shares**	**%**	**No. of shares**	**%**	
1.	Hong Leong Manufacturing Group Sdn Bhd	104,386,088	52.48	2,438,469	1.23	^
2.	Hong Leong Company (Malaysia) Berhad ("HLCM")	–	–	107,955,257	54.28	^
3.	YBhg Tan Sri Quek Leng Chan	–	–	108,950,757	54.78	*
4.	HL Holdings Sdn Bhd	–	–	107,955,257	54.28	#
5.	Hong Realty (Private) Limited	–	–	108,712,507	54.66	*
6.	Hong Leong Investment Holdings Pte. Ltd.	–	–	108,712,507	54.66	*
7.	Kwek Holdings Pte Ltd	–	–	108,712,507	54.66	*
8.	Mr Kwek Leng Beng	–	–	108,712,507	54.66	*
9.	Mr Kwek Leng Kee	–	–	108,712,507	54.66	*
10.	Davos Investment Holdings Private Limited	–	–	108,712,507	54.66	*

Notes:

^ *Held through subsidiary(ies).*
* *Held through HLCM and a company in which the substantial shareholder has interest.*
# *Held through HLCM.*

3. DIRECTORS' INTERESTS AS AT 30 AUGUST 2017

Subsequent to the financial year end, there was no change, as at 30 August 2017, to the Directors' interests in the ordinary shares and/or options over ordinary shares of the Company and/or its related corporations, appearing in the Directors' Report on pages 53 to 54 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016 except for the change set out below:

Indirect interest	**No. of ordinary shares**	**%**
Mr Manuel Zarauza Brandulas in:		
Southern Steel Berhad	10,400 (1)	0.002 (1)

Note:

(1) Interest pursuant to Section 59(11)(c) of the Companies Act 2016 in shares held by a family member.

4. MATERIAL CONTRACTS

There are no material contracts (not being contracts entered into in the ordinary course of business) which had been entered into by the Company and its subsidiaries involving the interest of Directors, chief executive and major shareholders, either still subsisting at the end of the financial year or entered into since the end of the previous financial year pursuant to Item 21, Part A, Appendix 9C of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

Malaysian Pacific Industries Berhad (4817-U)

A Member of the Hong Leong Group

FORM OF PROXY

I/We____

NRIC/Passport/Company No.__________________________

of ____

being a member of **MALAYSIAN PACIFIC INDUSTRIES BERHAD** ("the Company"), hereby appoint_____________________

____

____

NRIC/Passport No.____________________________________

of ____

____

or failing him/her ___________________________________

____

____

NRIC/Passport No.____________________________________

of ____

____

or failing him/her, the Chairman of the meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Fifty-sixth Annual General Meeting of the Company to be held at the Theatrette, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Wednesday, 25 October 2017 at 2.30 p.m. and at any adjournment thereof.

My/Our proxy/proxies is/are to vote on a poll as indicated below with an "X":

	RESOLUTIONS	FOR	AGAINST
1.	To approve the payment of Director fees and Directors' Other Benefits		
2.	To re-elect Ir. Dennis Ong Lee Khian as a Director		
3.	To re-elect YBhg Dato' Mohamad Kamarudin bin Hassan as a Director		
4.	To re-appoint Messrs KPMG PLT as Auditors and to authorise the Directors to fix their remuneration		
	Special Business		
5.	To approve YBhg Datuk Syed Zaid bin Syed Jaffar Albar to continue in office as an Independent Non-Executive Director		
6.	To approve the ordinary resolution on authority to Directors to allot shares		
7.	To approve the ordinary resolution on the proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature with Hong Leong Company (Malaysia) Berhad ("HLCM") and persons connected with HLCM		
8.	To approve the ordinary resolution on the proposed authority for the purchase of own shares by the Company		

Dated this___________ day of ____________________2017

_____________________________ Number of shares held

_____________________________ Signature(s) of Member

Notes:

1. *For the purpose of determining members' eligibility to attend this meeting, only members whose names appear in the Record of Depositors as at 19 October 2017 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.*
2. *If you wish to appoint other person(s) to be your proxy, insert the name(s) and address(es) of the person(s) desired in the space so provided.*
3. *If there is no indication as to how you wish your vote(s) to be cast, the proxy will vote or abstain from voting at his/her discretion.*
4. *A proxy may but need not be a member of the Company.*
5. *Save for a member who is an exempt authorised nominee, a member shall not be entitled to appoint more than two (2) proxies to attend, participate, speak and vote at the same meeting. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account. A member who is an exempt authorised nominee for multiple beneficial owners in one securities account ("Omnibus Account") may appoint any number of proxies in respect of the Omnibus Account.*
6. *Where two (2) or more proxies are appointed, the proportions of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies, failing which the appointments shall be invalid (please see note 9 below).*
7. *In the case where a member is a corporation, this Form of Proxy must be executed under its Common Seal or under the hand of its Attorney.*
8. *All Forms of Proxy must be duly executed and deposited at the Registered Office of the Company at Level 9, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than twenty-four (24) hours before the time appointed for holding of the meeting or adjourned meeting.*
9. *In the event two (2) or more proxies are appointed, please fill in the ensuing section:*

Name of proxies	% of shareholdings to be represented

10. *Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the Notice of the Fifty-sixth Annual General Meeting will be put to a vote by way of a poll.*

Please fold here

Affix
Stamp

The Company Secretaries
Malaysian Pacific Industries Berhad (4817-U)
Level 9, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Malaysia

Please fold here

Malaysian Pacific Industries Berhad (4817-U)
Level 9, Wisma Hong Leong
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