ANNUAL REPORT 2017

KHEE SAN BERHAD

Khee San

(304376-A)

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

DATO' SRI LIEW YEW CHUNG
SSAP, DIMP
Chairman
Non-Independent Non-Executive Director

MR. EDWARD TAN JUAN PENG
Chief Executive Officer

MS. LIEW YET MEI
Non-Independent Non-Executive Director

MR. HUANG YAN TEO
PIS, PPN
Independent Non-Executive Director

MR. LESLIE LOOI MENG
Independent Non-Executive Director

MR. WONG HOCK FOONG
Independent Non-Executive Director

AUDIT COMMITTEE

MR. LESLIE LOOI MENG
(Chairman)

DATO' SRI LIEW YEW CHUNG
(Member)

MR. HUANG YAN TEO
(Member)

REMUNERATION COMMITTEE

MR. LESLIE LOOI MENG
(Chairman)

MR. HUANG YAN TEO
(Member)

DATO' SRI LIEW YEW CHUNG
(Member)

NOMINATING COMMITTEE

MR. HUANG YAN TEO
(Chairman)

MR. LESLIE LOOI MENG
(Member)

DATO' SRI LIEW YEW CHUNG
(Member)

COMPANY SECRETARIES

MS. HOH LEONG CHING
(MAICSA 7006654)

MR. HOH CHEE MUN
(MIA 8891)

SHARE REGISTRAR

BINA MANAGEMENT (M) SDN. BHD.
Lot 10, the Highway Centre,
Jalan 51/205, 46050 Petaling Jaya,
Selangor Darul Ehsan
Tel : 603 - 7784 3922
Fax : 603 - 7784 1988

AUDITORS

MESSRS. ADAM & CO.
(AF 1250)
Chartered Accountants

REGISTERED OFFICE

22-2, Jalan 1/64,
Off Jalan Kolam Air /
Jalan Sultan Azlan Shah,
51200 Kuala Lumpur
Tel : 03 - 4045 1080
Fax : 03 - 4045 1050

PRINCIPAL PLACE OF BUSINESS

Lot 1819-1820, Jalan Kolej,
43300 Seri Kembangan,
Selangor Darul Ehsan
Tel : 03 - 8943 1390
Fax : 03 - 8943 1351
Website : www.kheesan.com.my

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad
- Main Market
Stock Code : 6203

PRINCIPAL BANKER

- OCBC Bank (Malaysia) Berhad

SUBSIDIARIES

- Khee San Food Industries Sdn. Bhd. (100%)
- Khee San Marketing Sdn. Bhd. (100%)

CORPORATE CHART

KHEE SAN BERHAD

100% KHEE SAN FOOD INDUSTRIES SDN. BHD.	100% KHEE SAN MARKETING SDN. BHD.

DIRECTORS' PROFILE

Name	DATO' SRI LIEW YEW CHUNG SSAP, DIMP	EDWARD TAN JUAN PENG
Age	47	44
Gender	Male	Male
Nationality	Malaysian	Malaysian
Qualification	• Bachelor of Science in Business Administration, Drexel University, Philadelphia, United Stated of America in 1991 and majoring in Economics and Finance. • Masters of Business Administration in 1992 and majoring in Accounting Control.	• Bachelor of Arts (Hons) in Business Administration from Coventry University, Warwickshire, United Kingdom. • Associate Member of the Asian Institute of Chartered Bankers (AICB)
Position on Board	Chairman/Non-Independent Non-Executive Director	Chief Executive Officer
Board Committee	• Member of Audit Committee • Member of Nominating Committee • Member of Remuneration Committee	Member of Board of Directors
Date of Appointment	1st November 2008	5th January 2017
Working Experience	He joined London Biscuits Berhad ("LBB") in 1994 as General Manager and was responsible for the day-to-day operations and the business development of LBB. Currently, he is the Group Managing Director of LBB Group of Companies.	He has a career experience of over 20 years in Banking, Securities and Finance, rising to the position as a Director and Head in various departments. He has established a well and good networked across Malaysia Corporate and Financial Institutions. He is well known for his successful management, superior service and innovative solutions covering the whole range of functions from front line sales and possesses depth industry experience especially in the consumer market. His long tenor with the financial institutions has also provided him an immense knowledge of the regulatory process, risk management, compliance knowledge, structure of public equities and novel financing products especially in equity funding and project finance related.
Other Directorships	London Biscuits Berhad	Nil
Family relationship with any Director and/or major shareholders	Son of Dato Sri Liew Kuek Hin and brother of Ms. Liew Yet Mei	Nil
Conflict of interest	Nil	Nil
List of convictions of offences within the past five (5) years	Nil	Nil
Shareholdings in the Company	Direct interest: 11,000,000 shares (10.58%) Indirect interest: 20,830,000 shares (20.03%) Deemed interested by virtue of his shareholdings in LBB and his family member's shareholdings in Khee San Berhad.	Nil

DIRECTORS' PROFILE (CONTINUED)

Name	**LIEW YET MEI**	**HUANG YAN TEO** PIS,PPN
Age	50	70
Gender	Female	Male
Nationality	Malaysian	Malaysian
Qualification	• Bachelor Degree in Accounting, from Drexel University, Philadelphia, United Stated of America in 1992.	• Member of the Association of Chartered Certified Accountants (ACCA) in 1975 and obtain Fellowship in 1980. • Member of the Malaysian Institute of Accountants ("MIA") in 1975. • Member of Chartered Tax Institute of Malaysia ("CTIM") in 2015.
Position on Board	Non-Independent Non-Executive Director	Independent Non-Executive Director
Board Committee	Member of the Board of Directors	• Chairman of Nominating Committee • Member of Audit Committee • Member of Remuneration Committee
Date of Appointment	9th November 2012	31st January 2008
Working Experience	Nil	He served at an audit firm, Messrs. Coopers & Lybrand from 1966 to 1974 and was appointed as the Group Financial Controller in a commercial firm from 1974 to 1981. Currently, he is the Managing Partner of Messrs. Baker Tilly HYT, a Chartered Accountants firm.
Other Directorships	London Biscuits Berhad	London Biscuits Berhad
Family relationship with any Director and/or major shareholders	She is the sister of Dato' Sri Liew Yew Chung.	Nil
Conflict of interest	Nil	Nil
List of convictions of offences within the past five (5) years	Nil	Nil
Shareholdings in the Company	Direct interest: Nil Indirect interest: 31,830,000 shares (30.61%) Deemed interested by virtue of her shareholdings in London Biscuits Berhad and her family member's shareholdings in Khee San Berhad.	Nil

DIRECTORS' PROFILE (CONTINUED)

Name	**LESLIE LOOI MENG**	**WONG HOCK FOONG**
Age	48	33
Gender	Male	Male
Nationality	Malaysian	Malaysian
Qualification	• Bachelor of Art (Law) from the University of Kent, Canterbury, United Kingdom in 1990 • Barrister At Law (Middle Temple) • Admitted to the Malaysian Bar on 15th July 1993 and Singapore Bar thereafter	• Bachelor Degree in Electronic and Electrical Engineering (Hons) from Northumbria University, United Kingdom. • Higher National Diploma in Electronic and Electrical Engineering from Penang Skills Development Centre.
Position on Board	Independent Non-Executive Director	Independent Non-Executive Director
Board Committee	• Chairman of Audit Committee • Chairman of Remuneration Committee • Member of Nominating Committee	Member of Board of Directors
Date of Appointment	25th August 2009	5th January 2017
Working Experience	He is now the partner of Messrs. Dennis Nik & Wong, a legal firm and manages the Johor Bahru branch. He has been in active practice as an Advocates & Solicitor till to-date. His experience includes civil and corporate litigation (i.e. boardroom and shareholders' disputes, corporate liquidation / insolvency and restructuring), corporate acquisitions, tax-restructuring schemes, cross-border joint ventures and corporate bank financing.	He has 9 years working experience including but not limited to engineering, managing of companies, administration, financial planning, costing and budgeting, sourcing and marketing with worldwide suppliers, project management and quality control. He also owns his own company which specializes in heavy machinery industry.
Other Directorships	London Biscuits Berhad	Nil
Family relationship with any Director and/or major shareholders	Nil	Nil
Conflict of interest	Nil	Nil
List of convictions of offences within the past five (5) years	Nil	Nil
Shareholdings in the Company	Nil	Nil

KEY SENIOR MANAGEMENT'S PROFILE

Name	EDWARD TAN JUAN PENG	FOO VOON HOI	TIN WING YEE
Age	44	70	40
Gender	Male	Male	Female
Nationality	Malaysian	Malaysian	Malaysian
Position	Chief Executive Officer	Factory Manager	Group Manager - Customer Service
Qualification	• Bachelor of Arts (Hons) in Business Administration from Coventry University, Warwickshire, United Kingdom. • Associate Member of the Asian Institute of Chartered Bankers (AICB)	Senior Middle Three (Chinese School)	Diploma in Industrial Engineering from Inti College, Subang Jaya, Selangor
Working Experience	He has a career experience of over 20 years in Banking, Securities and Finance, rising to the position as a Director and Head in various departments. He has established a well and good networked across Malaysia Corporate and Financial Institutions. He is well known for his successful management, superior service and innovative solutions covering the whole range of functions from front line sales and possesses depth industry experience especially in the consumer market. His long tenor with the financial institutions has also provided him an immense knowledge of the regulatory process, risk management, compliance knowledge, structure of public equities and novel financing products especially in equity funding and project finance related.	40 years in sugar confectionery industry.	She joined Khee San Food Industries Sdn Bhd since 21st February 2001 as an Executive in Raw Material Planning and promoted as Assistant Operation Manager in year 2006, mainly responsible for planning, purchasing and customer service. In July 2011, she has been promoted as Operation Manager, responsible for the Customer Service Department including exports sales and warehouse & logistics portion. She has been promoted as the Group Manager – Customer Service on 1st October 2015 which responsible for exports customer service and orders, handling customer enquiries and assists in products development. She also oversees the daily delivery / shipment arrangement, monitoring the stock level, allocation and stock issue to achieve the sales target.
Date which first appointed to Key Senior Management	5th January 2017	1st April 1996	1st October 2015
Directorship in public companies and listed issuers	Khee San Berhad	Nil	Nil
Family relationship with any Director and/or Shareholder	Nil	Nil	Nil
Conflict of interest	Nil	Nil	Nil
List of convictions of offences within the past five (5) years	Nil	Nil	Nil

KEY SENIOR MANAGEMENT'S PROFILE (CONTINUED)

Name	**YEN PENG YEW**	**THYE CHEE LIN**	**YAP CHUN CHIH**
Age	48	47	36
Gender	Male	Male	Male
Nationality	Malaysian	Malaysian	Malaysian
Position	Deputy Factory Manager	Purchasing Manager	Accountant
Qualification	• Certificate In Marketing from Advance Tutorial Centre • Singapore-Cambridge General Certificate of Education ("A" Level) from Thomson Pre-University Singapore	Diploma in Electrical and Electronic - City of Guilds of London Institute (Institute Technology Pertama, Kuala Lumpur)	• Member of Malaysian Institute of Accountants • Bachelor in Accountancy – University Putra Malaysia • Diploma in Accountancy – Ungku Omar Polytechnic
Working Experience	Since his graduation from Advance Tutorial Centre, he joined Victory Sochew Food Industries Ltd. (Chouzhou) as a Production Manager, to set up and design the new candy line in Chouzhou plant. He also in-charged on the day-to-day production planning and execution of all manufacturing and operations functions and to seek for raw and packaging material to meet the production requirement. He has joined Khee San Food Industries Sdn Bhd at Telok Panglima Garang as a Deputy Factory Manager since year 2003, mainly in-charged in the new wafer line set up and design. He is now in-charging on the day-to-day production planning and execution of all the manufacturing and operations function to ensure the maximization of the utilization of resources, cost and quality standard maintenance.	In year 1999, he joined Khee San Food Industries Sdn. Bhd. as Production Supervisor cum Technician (Electrical) and now he is the Purchasing Manager in Khee San Food Industries Sdn. Bhd.	• 4 years gained experiences in auditing field • 5 years experiences in manufacturing field.
Date which first appointed to Key Senior Management	1st January 2008	1st July 2013	19th June 2017
Directorship in public companies and listed issuers	Nil	Nil	Nil
Family relationship with any Director and/or Shareholder	Nil	Nil	Nil
Conflict of interest	Nil	Nil	Nil
List of convictions of offences within the past five (5) years	Nil	Nil	Nil

MANAGEMENT DISCUSSION & ANALYSIS

INTRODUCTION

Khee San Berhad and its wholly-owned subsidiaries, Khee San Food Industries Sdn Bhd ("KSFI") and Khee San Marketing Sdn Bhd (collectively "the Group") are the largest domestic Malaysia manufacturer of sweets and candy confectionery ranging from chewy, deposited, tablet and hard candies. It also produces both chewing and bubble gum as while as being one of the largest wafer manufacturers.

The Group currently operates a factory in Seri Kembangan producing the sweets, candies and the wafers.

The Group's vision and mission is to become the Preferred Candies Manufacturer at all times in this region.

OVERVIEW OF THE BUSINESS ENVIRONMENT

In the financial year ended 30th June 2017, the Group's revenue declined by 8.9% from RM156.9 million in the preceding year to RM142.8 million. The decrease in revenue mainly arose from a lower contribution from our export sales. This was due to a rationalisation exercise to reduce or eliminate our exposure to customer accounts which were less profitable as a pivot to rebalance the emphasis on profit and not just on revenue. The Group also benefited from a forex gain resulting in a higher profit before tax of RM5.93 million in 2017 as compared to RM5.05 million in 2016. However, this was offset by a higher provision for deferred tax for 2017 as compared to 2016 causing a decrease of 18.55% from RM4.9 million to RM4 million.

Moving forward, the Management expects that these and other measures in the pipeline will contribute to a continual improvement in the profitability margins of the Group.

The Group continues to face challenges such as fluctuating manufacturing cost and a competitive market environment in both its domestic and overseas markets while factors such as the Malaysian Goods and Services Tax ("GST") continue to weight on consumer sentiment with the volatile exchange for the Ringgit presenting pricing challenges for both production costing and sales pricing.

These challenges are reflected in the FAO Food Price index, being the average indexed value of a group of global commodity price indices, which was on a consistent decreasing trend on a year to year basis from its peak in 2011 but which transited to an increasing trend from September 2016 onward and is now trending at 176.6 index points as of August 2017 being 15.1 points higher the average index of 161.5 for 2016. The sugar price also rebounded slightly from July 2017 onwards with the Management monitoring the prospects of the upcoming harvest in various major sugar producers as there is a general uptrend since 2015 being the lowest index point over the past 10 years period.

Despite these various challenges pertaining to the manufacturing and sales operations of the Group, the Group is continuing with its business plans as envisioned by the Management. The increased capacity for its chewy candy candies continues to support plans for increasing the depth and coverage of existing keys markets in order to ensure strong penetration of points-of-sales locations and to leverage on the success of its candies and wafers.

BUSINESS OPERATIONS REVIEW

The Group recorded sales revenue of RM142,844,009 of which domestic sales accounted for 48.59% and export sales 51.41%. The main categories of products for the Group are the Sweets and Candies and the Wafers.

Sweets and Candies

The Sweet and Candies segment is subdivided into various categories as follows:-

Chewy	: Marketed under the Fruitplus, Choco Plus and Milk Plus Brands
Deposited	: Marketed under the Victory Brand
Hard	: Marketed under the Torrone Brand
Tablet	: Marketed under the Bento Brand
Chewing Gum	: Marketed under the Victory Brand
Bubble Gum	: Marketed under the 88 Super Bubble Gum Brand

The Sweets and Candies segment comprises 78.86% of the Group's turnover and is the single major contributor to the sales of the Group. The bestselling product is the Fruitplus range of chewy candies whilst our torrone barley mint hard candies are an iconic product which is easily recognisable as it has been present in the market for over 28 years. The overall market condition remains strong for the segment with heavy demand in particular for the chewy candies which can be seen from the increase in sales revenue over the previous year and this is being strengthened by the success of the newer flavours introduced in the preceding years.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

Wafers

The wafer segment is subdivided into various categories as follows:-
Wafers Bars : Marketed under the Torrone, Lovin and Tip Top Brand
Wafer Cubes : Marketed under the Snackie Brand

The wafer segment contributes 21.14% of the Group's turnover and its Lovin wafer in red waxed paper packaging is one of the oldest and iconic wafer brands in Malaysia having been in constant production for the past 35 years and remains well known and recognised by consumers.

The Group originally operated 1 wafer production line and due to strong demand for wafers had installed and commissioned a 2nd wafer production line in 2009. This additional production line enabled KSFI to launch new varieties of wafer products under new brands. This includes the Snackie brand of wafer cubes which comes in a reseal able zip bag packaging and the Tip Top brand of large wafer bars. These products are targeted to support the Group's efforts to penetrate the modern distribution channel in outlets such as Aeon, Tesco and Giant with the wafer range. Due to the stable growth and enduring popularity of wafers, the Group is hopeful of commencing plans to acquire a 3rd wafer production line for commissioning sometime in 2018 or 2019 to expand its presence in this segment and capitalise on market demand. Wafers have proven to be enduringly popular and recent trade exhibitions had demonstrated interest from various new markets in North and East Africa.

Production Operations

The Group production operations are based out of the production plant located in Seri Kembangan which produces the candies and wafers.

The Group had recognised that demand exceeds our output capacity and the limitations that the production department currently operates under. The commissioning of 2 state of the art packaging machine acquired in 2011 and 2013 to package the deposited candies in its twist wrap format has proven to be very successful and these have been joined by 2 new units in 2016. These machines are capable of packaging speeds 5 times over that of the older existing packaging machines and as of to date, KSFI is one of the few selected companies in Asia to operate this machine. In late 2014, additional upgrades are being implemented with the installation of an automated candy jar packing line to reduce manpower requirements. New machines for the 150 grams pouch bag packaging found in hypermarkets have also been installed to increase output which is in line with the increasing sales volume to modern trade segments.

Similarly for our Fruitplus chewy candy, 4 packaging machines had been installed to handle the increase in production output for the range in 2010 and each of these new machines has a packaging speed 4 times faster than the existing machines used. The Management had installed additional production lines in early and middle 2013 to support the future expansion plans of KSFI which we anticipate will increase our production capacity by at least 50% and with this in mind had also acquired an additional 4 packaging machines to supplement the earlier batch to support the expanded capacity.

The Management is however concerned that for the past 18 months it has experienced increasing difficulty in retaining its foreign employees labour force in view of the unfavourable forex pressures on the Ringgit and that if persisting up to the medium term it may result in a knowledge / skill gap in which long serving workers are leaving before new incoming recruits are able to absorb their skill set. This may increase pressure on the production department's supervisory team and there is a concern that there may be an impact on product quality over the long term. However, we are cautiously optimistic that this can be mitigated partly be further automation and by advancing the recruitment schedule of new incoming workers to reduce any such impact while also exploring possible opportunities to retain these experienced employees.

Sales and Marketing

The Group derives approximately 48.59% of its revenue from the domestic Malaysian market and the balance 51.41% from exports. This is a strong increase percentage and value wise when compared to 2008 with exports then only accounting of less than 20% of Group revenue. The Group currently exports to approximately 31 countries with major destinations being Singapore, Hong Kong and Vietnam with the assorted contributions from other countries generally in the Asia Pacific, Middle East and African regions while for its domestic market the focus is on increasing the coverage of all the various retails sales point across both the wholesale and modern distribution channels. These sales points can range from mom and pop outlets, to neighbourhood convenience store, 24 hours stores and the various supermarket chains such as Aeon and Tesco.

The Group had also been aggressively promoting its products to new export markets in 2016 by participating in various exhibitions such as Thaifex 2016, FHA Singapore 2016, SIAL Myanmar, SIAL Paris 2016 and SIAL Middle East 2016 in Debai. This was continued in 2017 by World Food Warsaw 2017 to explore the Baltic region, Thaifex Bangkok 2017, Taiwan 2017 and SIAL Middle East 2017. The Management will continue to explore prospective markets such as the United States and the Central Asian regions.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

Distribution Channels

The Group sells its products via 2 types of distribution channels being the wholesale and modern channels.

The wholesale channel is the classic distribution method whereby products are sold in bulk to a major wholesaler who in turn sells to various resellers further down the retail chain such as van sales, school canteen vendors, mom and pop shops and cash and carry stores. This distribution method is more commonly seen in places or districts where the population density is lower due to geographical reasons and also where retail sales point consists on individual shops instead of major supermarket chain stores.

The modern channel is the distribution model consisting of products being directly retailed at major supermarket or hypermarket chain stores and other convenience stores. A strong feature of the modern channel is that products are typically ordered via a centralised purchasing system and delivered to either a distribution centre or to the individual outlets. This channel is often seen in urban population centres with high densities.

The Groups distributes its products via both the wholesale and modern distribution channels in Malaysia while distribution in overseas markets will be dependent on the characteristics of each individual country. For example, in Singapore and Hong Kong only the modern distribution channel will be employed whilst the wholesale channel will be more prevalent in Vietnam.

Objectives and Success Methodology

The Group's objectives are to become the dominant player and a regional one stop centre for sweets and candies to supply the Asia Pacific region. Towards this end, the Group has ensured that it has sufficient production capacity to fulfil its expansion plans for the short to medium term and to capitalise on the popularity of the wafer products. To that end, the Management plans to send Sales Representatives for in depth market survey in identified key markets to develop and strengthen distribution channels.

Capital Expenditure ("CAPEX") Requirements and Other Capital Related Matters

The Group had invested significant resources into expanding its manufacturing base in 2013 and in a tapered form over the preceding 4 years which had been targeted in maintenance CAPEX to maintain the conditions of its machinery, to increase production output in specific sections facing production bottlenecks and to introduce automation to reduce the reliance in manpower. Upcoming developments would mostly be focused on maintenance CAPEX and small scale renovations and partial rebuilds of some antiquated facilities into a more modernised warehouse with racking systems to handle the increased volume of incoming raw materials and finished goods items.

Possible Risks

As the Group's principal raw materials are sugar, semi processed sugar products and packaging wrappers there is an ongoing risk that a poor sugar harvest in key regions and any increases in crude oil could result in sharp fluctuations to our raw material cost breakdown. The Group therefore intends to be fiscally conservative and to concentrate on boosting profit margins to ensure it is able to weather such periodic cyclical factors and will also explore alternate packaging methods such as using short plastic canisters which are increasing prevalent in supermarkets and convenience stores where the necessity arises.

OUTLOOK OF FUTURE PROSPECTS

The Management is optimistic of the Group's future financial and business prospects as its candy capacity is sufficient to underpin growth for up to the medium term and allow for the introduction of new product varieties. The new product launches in 2016 such as the Salt flavoured series of contrasting candies mixed with other flavours such as lemon and Lychee flavours together with strawberry milk flavoured chewy candy which is a double flavoured candy of strawberry and milk are performing well with the Management choosing to continue focusing on growing the existing stable of candies over introducing other flavours.

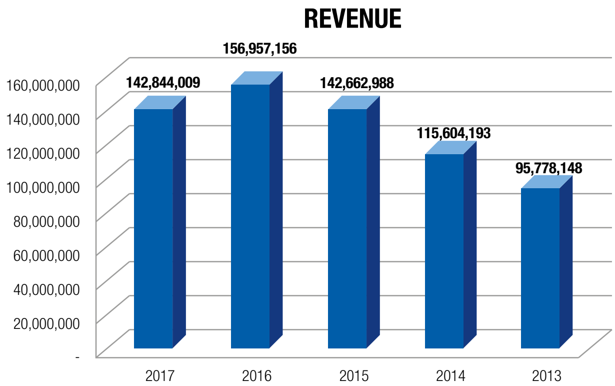
That being said, the Group envisions new products varieties to be introduced in 2018 and will continue its focus on products positioned in the premium range by capitalising on the brand awareness and positioning of the FruitPlus brand and to continue with Above The Line marketing and working together closely with key account distributors.

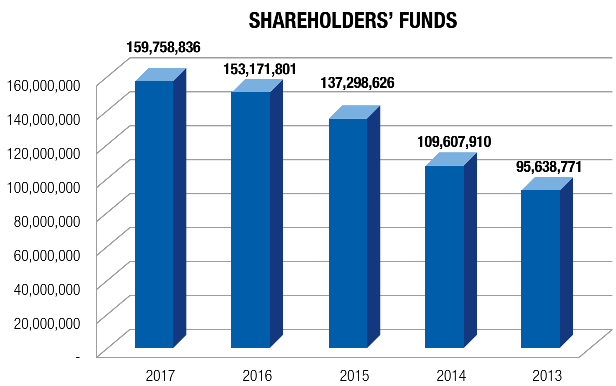
The Group has been conducting consistent market visits to various key territories such as Hong Kong and will continue its brand building campaign in selective markets such as domestic Malaysia, Singapore and Hong Kong to boost product brand awareness of the existing product ranges and planned extensive visits to cover market visits in various key distribution nodes in these places.

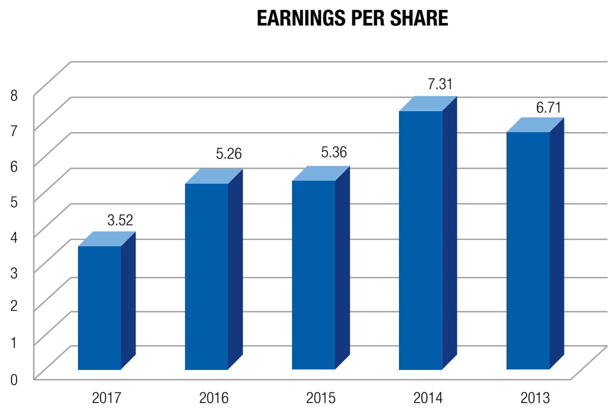
Thank you.

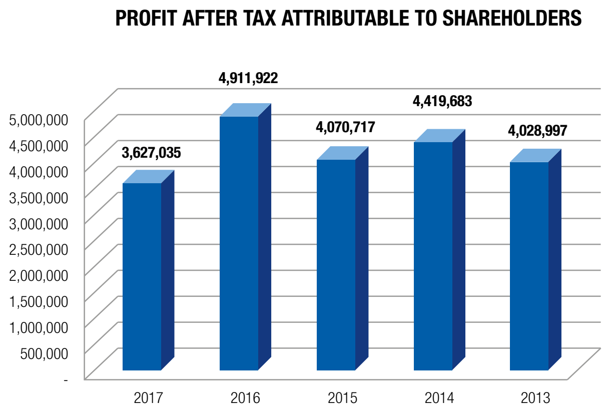
5-YEAR GROUP FINANCIAL HIGHLIGHTS

Group	2017 (RM)	2016 (RM)	2015 (RM)	2014 (RM)	2013 (RM)
Revenue	142,844,009	156,957,156	142,662,988	115,604,193	95,778,148
Profit Before Income Tax	5,929,630	5,056,260	5,095,474	5,269,377	4,503,468
Profit After Income Tax attributable to equity holders of the Company	3,627,035	4,911,922	4,070,717	4,419,683	4,028,997
Profit Attributable To Members	3,627,035	4,911,922	4,070,717	4,419,683	4,028,997
FINANCED BY (RM)					
Shareholders' Funds	159,758,836	153,171,801	137,298,626	109,607,910	95,638,771
STATISTICS					
Earnings per share (Sen) (Basic)	3.52	5.26	5.36	7.31	6.71
Net Asset per share (Sen)	154	153	154	167	159









STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors ("the Board") of Khee San Berhad ("the Company") is pleased to present the statement on corporate governance of the Company and its subsidiaries ("the Group") for the financial year ended 30th June 2017.

The Board recognized and subscribed to the importance of the principles and recommendations set out in the Malaysian Code on Corporate Governance 2012 ("the Code") as a key factor towards achieving high standard of self-regulatory corporate practices to protect the Stakeholders' interest and enhance the business sustainability and corporate accountability and value creation. The Board further acknowledges that the recommended best practices of the Code and except where specifically identified, the Board has generally complied with the best practices set out in the Code.

This statement set out the manner in which the Group has applied the principles and recommendations as set out in the Code.

The Board are pleased to inform that the Company has established the followings which could be viewed from the Company's corporate website at www.kheesan.com.my:-

a. Board Charter
b. Whistle-Blower Policy
c. Terms of Reference of Audit Committee
d. Terms of Reference of Nominating Committee
e. Terms of Reference of Remuneration Committee

1. Board of Directors

Roles and Responsibilities of the Board

The Board is responsible to the overall of the performance of the Group by ensuring the prosperity by collectively directing the Group's affair, whilst meeting the needs of its shareholders and stakeholders.

The position of the Non-Executive Chairman of the Company is primary responsible for the leadership of the Board and ensure the effectiveness of the Board. The Board has delegates the management of the day-to-day business and operations and implementation of the Board's decisions to the Chief Executive Officer to ensure the needs and the policies of the Group are effectively carried out. The Chief Executive Officer leads the senior management of the Group to exercise and implement the decision of the Board, managing the day-to-day operations, managing resources and risk in order to achieve the objective of the Board.

The Board recognises the overall function, duties and responsibilities and the powers of the Board as mentioned in the Companies Act, 2016.

The Board is tasked with the role and responsibility, among others, the following:-
- Review, evaluate, adopt and approve the Group's policies and strategic plans;
- Ensuring the availability of adequate financial resources for business operations;
- Oversee the conduct of the business of the Company and the Group;
- Setting the remunerations, compensation and benefits of the executive directors and non-executive directors;
- Ensuring compliances with the relevant regulatory requirements, codes, guidelines and legislations;
- Identify, assess, select, appoint, review the performance of Directors;
- Review the performance of the Executive Directors;
- Exercise independent judgement on reviewing and approval of any major corporate proposals and corporate exercises;
- Oversee the communications with shareholders of the Company; and
- Review the adequacy and integrity of the risk management and internal controls system of the Group.

Board Composition and Balance

The Board currently has six (6) members, comprising one (1) Non-Independent Non-Executive Chairman, one (1) Executive Director, one (1) Non-Independent Non-Executive Director and three (3) Independent Non-Executive Directors. The profile of each of the Directors is set out in the "Directors' Profile" on pages 3 to 5 of this Annual Report.

The composition of the Board fulfils with the minimum one-third requirement for Independent Directors to be on the Board as stated in the Main Market Listing Requirements ("Listing Requirements") of Bursa Malaysia Securities Berhad ("Bursa Securities"). The Company has also complied with the gender requirements as in the recommendation 2.2 of the Code.

The Directors bring characteristics which allow a mix of knowledge, experience, skills and expertise which includes financial, legal, taxation, secretarial, business management and mechanical engineering which necessary for the successful direction of the Group.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

During the financial year under review, the Non-Independent Non-Executive Chairman, Dato' Sri Liew Kuak Hin has resigned as a director of the Company on 15th December 2016 and Dato' Sri Liew Yew Chung has been appointed as the Non-Independent Non-Executive Chairman cum Chief Executive Officer of the Company with effective from 15th December 2016. Dato' Sri Liew Yew Chung has subsequently on 5th January 2017 resigned as the Chief Executive Officer of the Company after the appointment of the new Chief Executive Officer, Mr. Edward Tan Juan Peng on the same day.

The Board is mindful on the recommendation of the Code that the Board must comprise a majority of Independent Non-Executive Directors where the Chairman of the Board is not an Independent Non-Executive Director. However, the Board is of the view that Dato' Sri Liew Yew Chung, the Non-Independent Non-Executive Chairman of the Board, being the pioneer and contribution towards the Company's growth, his responsibility towards the Group's business and development activities as well as his extensive knowledge on the Company's operations and strategic direction renders him most suitable to represent the Company to its stakeholders.

The Board is of the opinion that the present composition of the Board comprises of experienced and calibre Independent Directors who are sufficient to provide the necessary check and balance of the Board.

Independent Directors

The assessments on the Independence of the Directors are being carried out annually by the Nominating Committee ("NC") and the results of these assessments have confirmed their independence.

The Company acknowledged with the independence of Independent Directors' requirements as in the recommendation 3.2 and 3.3 of the Code. However, the Board is in the view that the independence of the independent director should not be determined based on their serving tenure. The Board believes that the capability, knowledge, experience, qualification, personal qualities and backgrounds of the independent directors are more important to determine their ability to discharge their duties as independent directors.

As at the date of this Statement, Mr. Huang Yan Teo, who had appointed to the Board as an Independent Non-Executive Director of the Company on 31st January 2008 has served more than nine (9) years on the Board. The NC, after assessed Mr. Huang Yan Teo's independence, has recommended to seek the shareholders' approval at the forthcoming Annual General Meeting ("AGM") to retain Mr. Huang Yan Teo as an Independent Director. Alternatively, he may continue to serve on the Board as a Non-Independent Director.

Supply and Access to Information

The Directors has unrestricted access to any information pertaining to the Group and the Company at all times, including access to the Senior Management and the Company Secretaries. All the Directors have full and timely access to the relevant information prior to each Board Meeting and Committees Meeting, in order to obtain a comprehensive understanding of the issues to be deliberated upon or seek clarification, if any.

The Board is regularly updated on new regulatory and regulatory requirements relating to the duties and responsibilities of the Directors and business environment. The Board may seek for the independent professional advice in legal, financial, governance, if necessary, at the Company's expense to enable it to discharge its duties and responsibilities in relation in matters being deliberated.

The Board is being assisted by suitably qualified, experienced and competent Company Secretaries, whom are also the members of the professional bodies. The Company maintains 2 named Company Secretaries, namely, Ms. Hoh Leong Ching, a member of the Malaysia Institute of Corporate Secretarial and Administrative (MAICSA) and Mr. Hoh Chee Mun, a member of Malaysia Institute of Accountants (MIA).

The Company Secretaries plays an advisory role to the Board in relation to the Group's constitution, Board policies and procedures and compliance with the relevant regulatory requirements, codes, guidelines and legislations, as and when necessary. The Company Secretaries is accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the Board. In order to discharge their duties more efficiently and effectively, the Company Secretaries from time to time attended seminars, workshops or conferences which suitable for them to keep updated to the current regulations and requirements.

The Company Secretaries attended all the Boards, Committees Meetings and AGM to ensure the procedures of the meetings are properly carried out. The conclusion of all the Meetings were minuted properly and approved by the Chairman of Meetings accordingly. The company secretaries also ensure all the statutory records of the Company are properly kept and maintained at the Registered Office of the Company.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Board Charter and Code of Conduct

The Board has adopted a Board Charter which provides guidance to the Board in relation to the Board's role, duties, responsibilities, compositions and processes which are in line with the principles of good corporate governance. All Board Members are aware of their duties and responsibilities and are assisted by the Board Charter that acts as a source of reference and primary induction literature for prospective Board members. The Board Charter also serve as a base for the Board in assessing its collective performance and that of each individual Director. The Board Charter also acts as a source of reference for the Senior Management.

The Board Charter comprises the Code of Ethics for Directors. The Code of Ethics is formulated to enhance the standard of corporate governance and corporate behavior. Further that, the Code of Ethics also codifies a standard of conduct by which all directors are expected to abide.

The Board Charter is subject to be reviewed by the Board every 3 years or on an ad-hoc basis, when necessary to ensure its relevance and to remain consistent with the Board's objectives and responsibilities and in accordance with the needs of the Company and new regulations that may have an impact on the discharge of the Board's responsibilities. The Board Charter is also available on the Company's website at www.kheesan.com.my.

2. BOARD COMMITMENTS

Board Meetings

The Board ordinarily meets every quarter to consider all matters relating to the financial results, overall control, business performance and strategy of the Company. Additional meetings will be convened in between the scheduled meetings when necessary especially to discuss urgent and important decisions. The relevant reports (including Minutes of meetings), meeting agenda and Board papers are distributed to all Directors in advance before the Meeting to allow the Directors sufficient time to peruse for effective discussion and decision making during the meetings.

During the financial year, there were 5 Board meetings carried out, of which 4 of the meetings were to review and discuss the Group's quarterly performances whilst the other meeting was held to review the annual audited financial results and the annual report for the year. During the Board Meetings, the Executive Director was present (in the meeting or via tele-conferencing) to provide information, explanation on the performance and areas of concern within the Group.

In the period between the Board Meetings, the Board's approvals were sought via circular resolutions, together with the sufficient information required to make informed decisions.

During the financial year, the Directors' attendances at the Board Meetings were as follows:-

Name	Designation	Attendance
Dato' Sri Liew Yew Chung *(Re-designated on 5th January 2017)*	Chairman / Non-Independent Non-Executive Director	5/5
Edward Tan Juan Peng *(Appointed on 5th January 2017)*	Chief Executive Officer	2/2
Liew Yet Mei	Non-Independent Non-Executive Director	5/5
Huang Yan Teo	Independent Non-Executive Director	5/5
Leslie Looi Meng	Independent Non-Executive Director	5/5
Wong Hock Foong *(Appointed on 5th January 2017)*	Independent Non-Executive Director	1/2
Dato' Sri Liew Kuek Hin *(Resigned on 15th December 2016)*	Chairman / Non-Independent Non-Executive Director	3/3

Based on the above, all Directors have complied with the minimum 50% attendance requirement in respect of Board Meetings as stipulated in the Listing Requirements of Bursa Securities and Articles of Association of the Company. The Board's and Board Committees' Meetings for each of the quarter were scheduled at the end of each of the Meeting, to allow the Directors and Members of the Committees to organise and plan their activities ahead to ensure that they would be able to attend all Meetings which have been scheduled earlier.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Directors' Continuing Education

The Directors and representative of the Company continually attended relevant training programmes and seminars to keep abreast with the various issues facing the changing business environment within which the Group operates and further enhance their knowledges and professionalism in discharging their fiduciary duties to the Company.

All the Directors including the new Directors, i.e. Mr. Edward Tan Juan Peng and Mr. Wong Hock Foong have completed the Mandatory Accreditation Programme as required by Bursa Securities.

During the financial year and up to the date of this Statement, the seminars and conferences attended by the Board Members includes:-

Directors	Seminars / Conferences / Talk / Training Programmes
Dato' Sri Liew Yew Chung	- Companies Act, 2016
Edward Tan Juan Peng	- Mandatory Accreditation Programme for Directors of Public Listed Companies - Corporate Governance Breakfast Series – "Board Excellence : How to Engage and Enthuse Beyond Compliance with Sustainability" - Malaysian Code On Corporate Governance: A New Dimension
Liew Yet Mei	- Corporate Governance Breakfast Series with Directors – "The Cyber Security Threat and How Board should Mitigate the Risks" - Companies Act, 2016 - Bursa Malaysia Focus Group on Corporate Governance & Sustainability Microsite
Huang Yan Teo	- Companies Act, 2016
Leslie Looi Meng	- Companies Act, 2016
Wong Hock Foong	- Mandatory Accreditation Programme for Directors of Public Listed Companies
Dato' Sri Liew Kuek Hin *(Resigned on 15th December 2016)*	- Companies Act, 2016

The Board would continually evaluate and determine the training needs, particularly on relevant new regulations and essential practices for effective Board to enable them to effectively discharging their roles and duties as a director. The Company Secretaries also updated the Board on the relevant training programmes relating to the regulatory, governance, industry related on an on-going basis.

5. BOARD COMMITTEES

The Board has delegated specific responsibilities to the following Board Committees to assist the Board to examine specific issues and report to the Board with their recommendations. These Committees operated under defined terms of reference or by-laws:

- Audit Committee
- Nominating Committee
- Remuneration Committee
- ESOS Committee

Audit Committee

The Audit Committee ("AC") was established on 31st January 1996 and is currently chaired by Mr. Leslie Looi Meng (Independent Non-Executive Director). Members of the AC are Mr. Huang Yan Teo (Independent Non-Executive Director) and Dato' Sri Liew Yew Chung (Non-Independent Non-Executive Director) who discharged their duties and function as stipulated in the Terms of Reference of the AC.

The details of activities of AC can be found in the "Audit Committee Report" of this Report.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Nominating Committee

The NC was established on 27th November 2008 to ensure the Board has an appropriate balance, size and the required mix of skills, experience and core competencies to govern the organisation towards achieving the intended goals and objectives.

The NC was currently comprises of the following members:-

- Mr. Huang Yan Teo – Chairman (Independent Non-Executive Director)
- Mr. Leslie Looi Meng – Member (Independent Non-Executive Director)
- Dato' Sri Liew Yew Chung – Member (Non-Independent Non-Executive Director) *(Appointed on 6th January 2017)*
- Dato' Sri Liew Kuek Hin – Member (Non-Independent Non-Executive Director) *(Resigned on 15th December 2016)*

The members of the NC have discharged their duties as set out in the Terms of Reference of the NC. Under the Terms of Reference, the members is tasked with the duties of, among others, the following:-

- Assess, consider, recommend the suitable candidates to the Board with the necessary experience, skills, competences, commitments, contributions and performance for new appointments;
- Undertake annual assessment of the Board and the Board Members on the effectiveness of the board as a whole (including the independences of the independent directors, structure, mixture of skills, experience, competencies, composition, gender diversity, time commitments and contribution);
- Annual review of the terms of office and performance of the Board and Board Committees for present and future;
- Recommending the retiring directors for re-election or re-appointment as Directors;
- Review the Terms of Reference of NC; and
- Review the Board Charter and recommend any amendments to the Board.

The Terms of Reference of NC is also available at the Company's website at www.kheesan.com.my.

Activities of NC

During the financial year under review, the NC has met once with full attendance of its Members and has carried out the following key activities:-

- Reviewed and assessed the performance of the Board, Board Committees and Individual Directors;
- Reviewed and assessed the retiring Directors according to Article 77 of the Company's Articles of Association; and
- Assessed and determined the independency of the Independent Directors as recommended by the Code.

Appointment to the Board

The assessment in relation to the appointment of suitable candidates to the Board and the committees has been delegated to the NC.

The process for the appointment of new directors are as follows:-

1. The candidates would be recommended by the existing directors, senior management or the shareholders.

2. The NC would evaluate the suitability of the identified candidates in accordance to their skills, contributions, background, gender, commitments and experiences. In the case of the appointment of Independent Non-Executive Director, the NC would evaluate the candidate's independency.

3. The NC would recommended the identified new director to the Board for approval.

On 5th January 2017, the Company has appointed Mr. Edward Tan Juan Peng as Chief Executive Officer and Mr. Wong Hock Foong as Independent Non-Executive Director following with the resignation of Dato' Sri Liew Kuek Hin (Non-Independent Non-Executive Chairman) on 15th December 2016. The NC has evaluated and assessed their skills, integrity, and suitability to the Board as a whole.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Re-Election and Re-Appointment Process

The NC also responsible for the assessment and recommendation of the re-election or re-appointment of directors during the AGM.

The procedures in relation to the re-election of the directors are contained in the Articles of Association of the Company. The Article 77 of the Articles of Association provides that at least one-third of the directors are subject to retirement by rotation at each of the AGM and that all the directors shall retire once in every three (3) years, and they are eligible to offer themselves for re-election. The Article 82 also provides that a Director who is appointed during the year shall be subject to re-election at the next AGM to be held following his appointment.

The following directors would be recommended for re-election under Article 77 of the Company's Articles of Association at the forthcoming AGM:-

- Dato' Sri Liew Yew Chung

The newly appointed directors, i.e. Mr. Edward Tan Juan Peng and Mr. Wong Hock Foong who were appointed during the year will also retire at the forthcoming AGM pursuant to Article 82 of the Company's Articles of Association.

With the coming in force of the Companies Act, 2016 on 31st January 2017, there is no age limit for a director. Therefore, a Director of a public company of or over the age of seventy (70) is no longer subject to retirement at the AGM. On 30th July 2017, Mr. Huang Yan Teo has attained the age of 70 and there is no requirement for him to seek for re-appointment at the forthcoming AGM.

As stated above, Mr. Huang Yan Teo, who had appointed to the Board as an Independent Non-Executive Director of the Company on 31st January 2008 has served more than nine (9) years on the Board. He will be subject to re-appointment as Independent Non-Executive Director at the forthcoming AGM. Alternatively, he may continue to serve on the Board as a Non-Independent Director.

Annual Assessment

During the financial year under review, the NC had conducted an annual assessment on the individual directors and the Board committees. The assessment were based on the criteria of their skills, experiences, expertise, commitment, independences and strength, in discharging their roles and responsibilities as the Directors or committee members.

Remuneration Committee

The Remuneration Committee ("RC") was established on 27th November 2008 to recommend the fair remuneration practices for the Board and key executive of the Group in order to attract, develop, retain and motivate the talented individuals to serve the Company.

The RC was currently comprises of the following members:-

- Mr. Leslie Looi Meng – Chairman (Independent Non-Executive Director)
- Mr. Huang Yan Teo – Member (Independent Non-Executive Director)
- Dato' Sri Liew Yew Chung – Member (Non-Independent Non-Executive Director) *(Appointed on 6th January 2017)*
- Dato' Sri Liew Kuek Hin – Member (Non-Independent Non-Executive Director) *(Resigned on 15th December 2016)**

** Dato' Sri Liew Kuek Hin was previously the Chairman of Remuneration Committee.*

The members of the RC have discharged their duties as set out in the Terms of Reference of the RC. The Terms of Reference is also available on the Company's website at www.kheesan.com.my.

During the financial year, the RC has met once with full attendance of its Members and has carried out the following key activities:-

- Reviewed the Terms of Reference of RC;
- Reviewed and recommended the payment of Directors' fees for the financial year ended 30th June 2016;
- Reviewed and recommended the payment of Directors' fees for the financial year ended 30th June 2017; and
- Reviewed and recommended the proposed revision of the meeting allowances payable to the Non-Executive Directors.

The Directors' fees are recommended by the Board and are subject to the approval of the Shareholders of the Company at AGMs. The individual Directors do not participate in the discussion of their own remuneration during the RC Meeting.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

ESOS Committee

The ESOS Committee was established upon the implementation of the ESOS on 20th November 2015 to manage the policy and administrative function of the ESOS. The ESOS Committee was administered in accordance with the objectives and regulations set out in the By-Laws make rules and regulations or impose such terms and conditions in such manner as it deems fit and with such powers and duties as are conferred upon by the Board.

The current ESOS Committee Members are as follows:-

- Mr. Foo Voon Hoi (Chairman)
- Ms. Tin Wing Yee (Secretary)
- Mr. Kong Ching Ho (Member)
- Ms. Lee Chai Hong (Member)

6. DIRECTORS' REMUNERATION

The aggregate remuneration of Directors paid or payable by the Company and the Group for the financial year under review were as follows:-

Company

Category	Fee (RM)	Salaries & Other Emoluments (RM)	Total (RM)
Executive Director	10,000	5,000	15,000
Non-Executive Directors*	110,000	52,100	162,100

Group

Category	Fee (RM)	Salaries & Other Emoluments (RM)	Total (RM)
Executive Director	157,115	5,000	162,115
Non-Executive Directors*	830,000	52,100	882,100

The remuneration paid to the Directors of the Company and the Group during the financial year under review, were analysed into bands of RM50,000 which complies with the disclosure requirements under the Listing Requirements as follows:-

Company

Range of Remuneration (RM)	Executive Director	Non-Executive Directors
Below 50,000*	1	6

Group

Range of Remuneration (RM)	Executive Director	Non-Executive Directors
Below 50,000	-	5*
50,001 – 100,000	1	-
800,001 – 850,000	-	1*

Note:

* *Denotes inclusive of a Non-Executive Director and a Chief Executive Officer of the Company who resigned on 15th December 2016 and 5th January 2017 respectively.*

For security and confidentially reasons, the details of Directors' remuneration are not shown with reference to Directors individually. The Board is of the view that the transparency and accountability aspect of the corporate governance on Directors' remuneration are appropriately served by the band disclosure made.

Directors' fees for the financial year ending 30th June 2018 are subject to the approval by Shareholders at the forthcoming AGM.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

7. ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board takes responsibility to present a clear, fair, balance and meaningful assessment of the Group's position and prospects in the various financial reports and to ensure that the financial statements are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act. In ensuring that the financial reports are properly prepared, the Directors are briefed and updated by the External Auditors on the current accounting standards, new accounting standards, recommended best practices at least once a year.

The Board is assisted by the AC to ensure that the accounting records of the Group are properly kept and audited. The Committee also assists in scrutinising information for disclosure to ensure accuracy, adequacy and completeness to give a true and fair view of the state of affairs of the Group especially of the Group's quarterly and audited financial statements before recommending to the Board for its approval and announce to the public.

A statement by the Directors of their responsibilities for preparing the financial statements is set out under the Statement on Directors' Responsibility on page 29 of this Annual Report.

External Auditors

The AC reviews and monitors the suitability and independence of the External Auditors, i.e. Messrs. Adam & Co. The External Auditors has confirmed that they were, and has been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.

The AC would meet the External Auditors to review the scope of audit process, the audit findings and the audited financial statements. The Executive Director and the management were invited to the meetings whenever necessary. The External Auditors are invited to attend the AGM of the Company and are available to respond to shareholders' questions on the conduct of the statutory audit and the preparation and contents of the annual audited financial statements according to their knowledge and ability.

The External Auditors could be engaged to perform non-audit services that would not be perceived to be in conflict with their roles as the External Auditors. During the financial year ended 30th June 2017, the External Auditors or the firm or corporation affiliated to the External Auditors' firm did not perform any non-audit services to the Company and the subsidiaries.

During the financial year, the amount of audit fees paid or payable to the External Auditors, Messrs. Adam & Co. by the Company and the Group respectively for the financial year ended 30th June 2017 were as follows:-

	Company (RM)	Group (RM)
Statutory audit fees paid/payable to:- - Adam & Co.	24,000	100,969
Total	24,000	100,969

The AC has assessed the competence and independence of the External Auditors based on the following criteria:-

a) the quality of services, adequacy of the experiences and resources of the audit firm;
b) the firm's audit engagements and audit planning;
c) the size and complexity of the Company's group being audited;
d) the number and experience of supervisory and professional staff assigned to the particular audit; and
e) ensure the audit firm do not have any interest with the major shareholders or directors in the Company.

The External Auditors had indicated that they do not wish to seek re-appointment at the forthcoming AGM.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Risk Management and Internal Control

The Board minded the importance of risk management and internal control in the daily operation and management of the Company and the Group. The Board recognises that the risk cannot be totally be eliminated but can control and minimize.

The Statement on Risk Management and Internal Control is set out on pages 26 to 28 of this Annual Report. The said Statement has been duly reviewed by the External Auditors.

8. RELATION WITH SHAREHOLDERS

Corporate Disclosure

The Board will ensure that the disclosure to the investing public regarding the business operations and financial performance of the Company are accurate, timely, factual, informative, consistent and broadly disseminated and where necessary, information filed with regulators is in accordance with applicable regulatory requirements.

The Board has delegated the authority to the Executive Director to approve all announcements for release to the public. The Chief Executive Officer work closely with the Board, the Senior Management and the Company Secretaries, whom are privy to the information to maintain strict confidentially of the information.

The public and Shareholders may obtain the latest information of the Company via the Company's website at www.kheesan.com.my.

Dialogues between Company and Investors

The Board recognises the importance of implementation and maintenance of an effective communication and engagement with Shareholders and Stakeholders. The Company's corporate website, provides a platform for the Shareholders, investors, and the public to access to the Company's corporate information, products, announcements, annual reports and its activities.

To maintain a high level of transparency and to effectively address any issues and concerns, the Company has a dedicated electronic mail, i.e. info@kheesanbhd.com, to which the Stakeholders could raise their requests, queries and concerns directly.

AGMs

The Company's AGM is the principal forum for dialogue with the Shareholders, whereby the Directors would be available during the meetings to response to the Shareholders' queries and concerns. The External Auditors also invited to the meeting to provide their professional and independent clarifications on queries which would be raised by any Shareholders.

The Shareholders are encouraged to attend the meetings of the Company. Shareholders are being notified and being provided with a softcopy of the Company's Annual Report together with the annual audited financial statements at least 21 days prior to the date of meeting and the notice of the meeting would be advertised at the local national daily newspaper.

Each shareholder could vote in person or by appointing a proxy(ies) to attend and vote on his/her behalf. Any Special Business included in the Notice of the AGM would be accompanied by an explanation of the effects of the proposed resolutions. Shareholders are given the opportunity to participate in the question and answer session on the proposed resolutions and the operations of the Group. Separate resolutions would be prepared for different transactions and the outcome of the resolutions voted upon would be announced by the Chairman during the AGMs and subsequently announced to Bursa Securities on the same day after the Meetings.

Encourage Poll Voting

In line with the Code and Listing Requirements, all the resolutions passed by the shareholders at the 22nd AGM held on 11th November 2016 were voted by way of a poll. The poll voting procedures were briefed by the Company Secretary before the voting process while the process and results of the poll voting were verified by the independent scrutineer, Messrs. SLCC Networks Sdn Bhd.

In accordance with Paragraph 8.29A of the Listing Requirements, the Company would ensure that all the resolutions tabled at the general meetings would be voted by poll. As such, the Company will ensure that all the resolutions to be tabled at the forthcoming 23rd AGM be carried out by way of poll voting.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

9. SUSTAINABILITY

The Board promotes corporate governance in the application of sustainability practices throughout the Company, the benefits of which are believed to translate into better corporate performance and its growing impact to the Group including emphasis in the social and environmental impact of its business operations.

The Board views the commitment to sustainability and Environmental, Social and Governance performance as part of its broader responsibility to clients, shareholders and the communities in which it operates. The Group is committed to the continuous efforts in maintaining a delicate balance between its sustainability agenda and the shareholders' interests. The Group's activities on corporate social responsibilities for the financial year under review are disclosed in the Statement of Corporate Social Responsibilities in this Annual Report.

10. COMPLIANCE WITH THE CODE

The Board considers and is satisfied that the Company has fulfilled its obligation under the Code, the Listing Requirements of Bursa Securities and all applicable laws and regulations throughout the financial year ended 30th June 2017. The Group will continue to review and comply with all the key principles and recommendations of the Code where the Board deems appropriate, in its effort to observe high standards of transparency, accountability and integrity.

This statement was made in accordance with a resolution of the Board dated 16th October 2017.

STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility ("CSR") is becoming more mainstream/important as forward-thinking companies embedded sustainability into the core of their business operations to create shared value for business and society.

Khee San Berhad and its subsidiaries ("the Group") is committed to be a successful and responsible corporate citizen by not just delivering quality products and services and generating attractive returns to our customers and shareholders, but also recognising that it is our responsibility to ensure that we conduct our business in an ethical, professional and socially responsible manner. As we strive to achieve this aim, we continued our social responsibility based on our corporate philosophy to our employees, business associates and community within which we conduct our business as well as the environment we operated in.

Marketplace

The Group is committed to produce quality products to our customers and ensure its productivity is at a high standard available to be consumed by our customers. We are committed to continuously improve and innovate, our products to promote a healthy lifestyle and intend to introduce a range of sweets enhanced with health supplements. It also aims for continuous improvement towards building long term relationships with all its stakeholders. The Group's initiatives in supporting CSR are an ongoing commitment towards creation of a competitive nation, yet a moral, ethical, caring and economically just society.

Workplace & Ethical Conduct

The Group is committed in providing a safe, fair and stimulating work environment that empowers employees to make a meaningful contribution to the organisation's performance and development, and offers challenging and rewarding opportunities for personal and professional growth. Continuous learning and development programmes were carried out throughout the year to equip the staff with relevant skills, knowledge and experience which would enhance the individual staff's competency and eventually add value to the Group.

Occupational Safety and Health Programme have been established to provide a safe and healthy workplace and environment for the employees and visitors.

Employees are introduced to the ethical corporate culture of the Group during employee induction and thereafter, employees are constantly monitored to ensure the culture is upheld in their dealings within the Group and also in their association with customers, distributors, suppliers, governmental and regulatory authorities and other business associates.

Environment

The Group also committed to create a conducive working environment for our employees and ensures the workplace environment is a safe and healthy area for all employees and visitors. The Group has in place proper waste treatment facilities at the candies and wafers process factories to avoid environmental contamination from its production. In addition, the employees are encouraged to save the papers by printing double sided or uses recycled papers as worksheets.

Community

Donations in monetary terms and products were made to needy community during the festive seasons, such as Chinese New Year, Hari Raya Puasa, Deepavali and Christmas.

As a socially responsible corporate citizen, the Group believes in creating business sustainability will enhance value for all its stakeholders. The Group looks at positive investments by engaging with communities where the Group has direct impact and where shareholders may have an influence on operations. Over the years, our commitment towards the community has continued to expand, be improved and refined. We pledge to ensure business sustainability without compromising the rights and needs of future generations.

AUDIT COMMITTEE REPORT

The Board of Directors of Khee San Berhad ("the Company") is pleased to present the Audit Committee Report for the year ended 30th June 2017.

The Audit Committee ("the Committee") was established on 31st January 1996 to oversee of the financial reporting process, the audit process, the system of internal controls and compliances with the laws and regulations.

A. COMPOSITION OF THE AUDIT COMMITTEE

The Committee consists of the following members:-

Leslie Looi Meng (Chairman)
Independent Non-Executive Director

Huang Yan Teo (Member)
Independent Non-Executive Director

Dato' Sri Liew Yew Chung (Member)
Non-Independent Non-Executive Director
(Appointed on 6th January 2017)

Dato' Sri Liew Kuek Hin (Member)
Non-Independent Non-Executive Director
(Resigned on 15th December 2016)

The Independent Non-Executive Director, Mr. Huang Yan Teo is a member of the Malaysian Institute of Accountants and Malaysian Institute of Taxation. All members of the Committee are financially literate. The details of the members of the Committee are contained in the "Directors' Profile" as set out on pages 3 to 5 of this Annual Report.

The Company Secretaries of the Company, Ms. Hoh Leong Ching and Mr. Hoh Chee Mun, are also the Secretaries of the Committee.

B. ATTENDANCE OF MEMBERS

The Committee held five (5) meetings during the financial year. The details of attendance of the Committee members are as follows:-

Directors	Attendance
Leslie Looi Meng	5
Huang Yan Teo	5
Dato' Sri Liew Yew Chung (Appointed on 6th January 2017)	2
Dato' Sri Liew Kuek Hin (Resigned on 15th December 2016)	3

The notices of meeting, minutes of the Committee meetings, reports and papers were distributed to all the members of the Committee at least 7 days in advance prior to the respective meetings, to allow the members to have sufficient time to peruse the reports and papers for effective discussion and notation.

The executive director and accountant were invited to the Committee's Meetings, to report on the overall operations of the Company and its subsidiaries ("the Group"). The External Auditors were also invited to attend the Committee's Meeting, as and when necessary.

C. FUNCTIONS AND DUTIES

The Committee has discharged their functions and duties in accordance with the Terms of Reference of the Committee.

The activities carried out by the Committee during the financial year are as follows:-

(a) Financial Reporting

i. Reviewed the quarterly unaudited financial results, annual audited financial statements and draft announcements to Bursa Malaysia Securities Berhad ("Bursa Securities") before recommending to the Board for approval of the same as follows focusing more particularly on:-
   - Changes in or implementation of major accounting policy changes;
   - Significant matters highlighted including financial reporting issues, significant judgements made by management, significant and unusual events or transactions, and how these matters are addressed; and
   - Compliance with the accounting standards and other legal requirements.

AUDIT COMMITTEE REPORT (CONTINUED)

Date of Meeting	Financial Statements
23rd August 2016	Unaudited Fourth Quarter Result for the Financial Year Ended 30th June 2016
28th September 2016	Audited Financial Statements for the Financial Year Ended 30th June 2016
28th November 2016	Unaudited First Quarter Result for the Financial Year Ended 30th June 2017
27th February 2017	Unaudited Second Quarter Resultfor the Financial Year Ended 30th June 2017
29th May 2017	Unaudited Third Quarter Result for the Financial Year Ended 30th June 2017

ii. Reviewed promptly the quarterly unaudited financial results of the Group and obtained clarifications from the Management Team prior to tabling and recommending the same for the Board's consideration and approval before submission to Bursa Securities and Securities Commission Malaysia.

(b) Internal Audit

i. Reviewed and approved the Internal Audit Plans of the Group proposed by the Internal Auditors.

ii. Reviewed the quarterly executive summary of the internal audit reports which were prepared by the Internal Auditors and based on the approved Annual Internal Audit Plans for the Group. The Committee also reviewed the audit findings, shortcomings actions taken and the recommendations to improve any weaknesses or non-compliance. The previous audit issues will be monitored by the internal auditors through the follow up reports to ensure that the issues are being properly addressed.

iii. Reviewed the adequacy of the scope, functions, competency and resources of the Internal Audit Functions and that it has the necessary authority to carry out its work.

iv. Reviewed with Management on corrective actions taken on all matters raised in the internal audit reports to improve the system of internal control.

(c) External Auditors

i. Reviewed and discussed the annual audited financial statements of the Group with External Auditors prior to submission to the Board for its consideration and approval. The review is to ensure that the Audited Financial Statements were drawn up in accordance with the provisions of the Malaysia Financial Reporting Standards ("MRFS"), International Financial Reporting Standards ("IFRS") and the Companies Act.

ii. Carried out meetings with the External Auditors without the presence of the Executive Board members and management, to discuss issues arising from their reviews regarding the financial matters, and their evaluation of the system of internal controls.

iii. Reviewed and discussed with the External Auditor their scope of work and Audit Memorandum Planning for the year.

iv. Evaluated the performance and effectiveness of the External Auditors and reviewed the nomination of the External Auditors before recommending to the Board for its approval.

(d) Recurrent Related Party Transactions ("RRPTs")

i. Reviewed the transaction limit of the RRPTs on a quarterly basis for compliance under the Shareholders' Mandate.

ii. Reviewed the information, procedures and processes contained in the Shareholders' Circular yearly in relation to the RRPTs between a subsidiary of Company, Khee San Food Industries Sdn Bhd and London Biscuits Berhad, the holding company, with the Management Team before tabling and recommending the same for the Board's approval.

London Biscuits Berhad has ceased to be the holding company of the Company with effective from 5th January 2017 by virtue of the change of composition of the Board of Directors in the Company.

iii. Reviewed and considered the new transaction limit of the RRPTs proposed by the Management Team before recommending for the Board's approval.

(e) Related Party Transactions

Made enquiries if there were any related party transactions and reviewed to ensure the related party transactions, if any, were of ordinary commercial terms and were not favourable to the related party than would generally available to the public, and that the transactions were not detrimental to the minority party.

AUDIT COMMITTEE REPORT (CONTINUED)

(f) Other Activities

i. Whistle-blower Policy

Reviewed and formalised the Whistle-blower Policy with the Internal Auditor before recommending for the Board's approval and uploaded on the Company's website.

ii. Terms of Reference of the Committee

Reviewed and updated the existing Terms of Reference of the Committee to be in line with the requirements of the Listing Requirements of Bursa Securities and Malaysian Code on Corporate Governance 2012 before recommending for the Board's approval and uploaded onto the Company's website.

iii. Employees' Share Option Scheme ("ESOS")

Verified the ESOS allocation which allotted in compliance with the established and approved ESOS By-Laws. The existing ESOS will be expired on 19th November 2020.

The Committee has verified the allocation of options in accordance with the ESOS By-Laws and confirmed that the criteria's for allocation of options have been disclosed to the employees and the allocations have been duly complied with the criteria set.

iv. Statements in Annual Report

Prepared the Report of the Committee, reviewed the Statement on Corporate Governance and Statement of Risk Management and Internal Control for insertion into the Company's Annual Report before tabling and recommending for the Board's approval.

D. SUMMARY OF THE WORK OF THE INTERNAL AUDIT FUNCTION

The internal Audit Function of the Group for the financial year ended 30th June 2017 was conducted by the Internal Audit Division of London Biscuits Berhad in accordance with its responsibilities to audit its suppliers in which the Group is a supplier to London Biscuits Berhad.

The principal activity of the Internal Audit is to perform regular and systematic reviews of the Group's system of risk management and internal controls, recommending cost-effective measures to mitigate these risks, enhance operational efficiency and implementation of sound governance processes.

The costs incurred for the internal audit function in respect of the financial year under review was approximately RM10,050.

The Committee has full access to the Internal Auditor for internal audit purposes. A summary of its activities carried during the financial year under review as follows:-

(a) Conducted audits of the various departments of the Group to be in compliance with internal control procedures.

(b) Conducted follow-up audits on the implementation of the Committee's recommendations and Management's actions taken to improve on issues identified during the audits.

(c) Prepared annual internal audit plans for the Committee's consideration and approval.

(d) Prepared the Whistle-blower Policy of the Group and recommended to the Committee for its approval before tabling to the Board's approval.

The internal audit activities have been carried out according to the internal audit plan approved by the Committee for the financial year under review.

E. TERMS OF REFERENCE

The Committee is governed by its Terms of Reference which can be viewed on the Company's website at www.kheesan.com.my. The Terms of Reference of the Committee was formalised and approved by the Board and it was last reviewed and updated on 26th August 2016.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

1. INTRODUCTION

Pursuant to paragraph 15.26(b) and Practice 9 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad in relation to the requirement to prepare the statement on risk management and internal controls, in which the Statement shall be guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers. The Board of Directors ("the Board") of Khee San Berhad ("the Company") is pleased to present the statement on the state of the risk management and internal controls of the Company and its subsidiaries ("the Group") for the financial year ended 30th June 2017.

The Board believes the practice of good risk management and internal control is an important continuous process to safeguard Shareholders' investment and the Group's assets and not just a matter to be covered as compliance in its Annual Report.

2. BOARD'S RESPONSIBILITIES

The Board upholds its overall responsibility for the Group's system of internal control, including the assurance of its adequacy and integrity of the risk management and internal control system and its alignment with the corporate objectives. The internal control system covers risk management, financial, organisational and operation, business environment and compliance controls.

The Board also affirm that they will be continuously improve the process for identifying, evaluating, monitoring and managing the significant risks faced by the Group as to safeguard the Shareholders and Stakeholders interest. However, in view of the limitation inherent in any system of internal controls and risk management, it should be noted that a system of internal controls and risk management framework is designed to manage the principal risks of the Group rather than to eliminate the risks of failure. As such, the internal control system can only provide reasonable and not absolute assurance against material misstatement of management and financial information or against loss or fraud.

The Board is assisted by the Management in implementing the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to manage and control these risks.

3. RISK MANAGEMENT FRAMEWORK

With the increasingly complex and dynamic business environment, proactive management of the overall business risks is a prerequisite in ensuring that the risk management and control framework is embedded into the culture, processes and structures of the Company to achieve its strategic objectives. The Group is committed to ensure that the risks inherent in its business are identified and effectively managed through its planned activities.

As the effectiveness of the risk management system is dependent on constant awareness of potential risks and regular practice of risk assessment processes by all levels of an organisation, the level of success in the implementation of mitigation actions have been incorporated as one of the criteria in the annual performance appraisal of Senior Management. The deliberation of risks and related mitigating responses are carried out at regular management meetings of the Group and significant risks are conveyed to the Board at the quarterly scheduled meetings, if necessary.

4. INTERNAL AUDIT FUNCTION

The Group's Internal Audit was carried out by the Internal Audit Department of London Biscuits Berhad, being part of its responsibilities to audit its suppliers, as the Group is a supplier to London Biscuits Berhad. The duties of the internal audit were to perform internal audit functions as recommended by the Malaysian Code on Corporate Governance 2012 which to assists the Audit Committee to monitor and review the effectiveness of the internal control system. The scope of work of the internal audit includes reviewing the adequacy and the integrity of the Group's internal control systems, management information systems and the system methodology on compliance with the applicable laws, regulations, rules and guidelines. The Internal Auditors report directly to the Audit Committee and they are independent of the Management and operations.

The Audit Committee had approved the Internal Audit Plan for the internal control system of the Group. The Internal Auditors carries out continuous internal controls reviews on the business processes that manage the principal risks identified on a quarterly basis.

All findings and the recommendations together with the management actions for further improvement were submitted to the Audit Committee on a quarterly basis. In assessing the adequacy and effectiveness of the system, the Audit Committee reports to the Board on its activities, audit findings and the necessary recommendations or actions needed to be taken by the Management to rectify those issues.

During the financial year ended 30th June 2017, the Internal Auditors have conducted various approved internal audit plans which were in consistent with the corporate goal of the Group and all internal Auditors' reports were deliberated by the Audit Committee during its Audit Committee Meetings and recommendations made to the Board and/or the Management was acted upon thereafter.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

5. KEY ELEMENTS OF INTERNAL CONTROL

The key elements of risk management and internal control system are described as follows:-

- Establishment of a conducive control environment in accordance with the increasing of level of awareness as well as the actions of the Directors and Management and overall attitude in relation to the risk management and internal control system and its importance to the Group.

- Establishment of the relevant terms of reference and organisational structure which defined limits of authority, responsibility and accountability to enhance the Group's ability to achieve its strategies and operational objectives.

- A clear and detailed organisational structure has been established to focus on the related reporting responsibilities and accountabilities to ensure and clarify task ownership.

- Board meetings and Management meetings are held more often on the operational issues, financial performance, human resources matter and business plans to review, discuss, identify and manage the key risks so that it is still within controlled environment.

- The initiative to implement a comprehensive policies and procedures manuals including staff handbook to ensure adherence with internal controls and the relevant laws and regulations that have been enforced, provide general rules on, and authority limits over diverse operating, financial, human resources inclusive of health and safety matters.

- Internal policies and procedures as set out in the Group's policies and procedures which include different operational and management aspects are being updated from time to time to address operational deficiencies and changes of risk.

- Different types of communication such as intranet, email, and teleconferencing are seen as effective instruments for communication and knowledge sharing among the employees.

- A Code of Ethics which defines the ethical standards is introduced to all employees and conduct at work. New employees are briefed on the Group's culture, organisational structure, relevant job descriptions, responsibilities and key performance index expectations upon joining the Group by their immediate supervisors and a documents copy of the same is filed in their respective personnel files.

- Recruitment of experienced, skilled and professional staff to fulfill the respective responsibilities and ensuring adequate control are in place.

- Continuous provision of information to the management, which covers the financial performance of the Company, such as cashflow performance.

- The major capital expenditure and assets disposals are appraised and approved by the Board as well as the Board of Directors of the subsidiaries, whenever applicable.

- The Group's financial performance and statements has been reviewed by Audit Committee which is then reported to the Board. Regular and comprehensive management reports to the Audit Committee from various lines of operations and business units, on key business performance, operating statistics and regular matters to allow an effective monitoring of significant variances and deviation from standard operating procedures and budget.

The system of internal control was satisfactory and has not resulted in any material losses, contingencies or uncertainties that would require disclosure in the Annual Report.

6. ASSURANCE PROVIDED BY THE CHIEF EXECUTIVE OFFICER

The ex-Chief Executive Officer, Dato' Sri Liew Yew Chung and the current Chief Executive Officer, Mr. Edward Tan Juan Peng, being the person primarily responsible for the management of the financial affairs of the Company, have provided assurance to the Board that the Group's risk management and internal control system, have been operated adequately and effectively, in all material aspects, based on the Group's policies and procedures.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

7. OPINION AND CONCLUSION

The Board considered the risk management and internal control process in the Group during the financial year to be satisfied and sufficient to safeguard the Stakeholders' interest.

The Board considers the system of internal controls described in this statement to be satisfactory and the risks to be at an acceptable level within the context of the Group's business environment. And, there is no significant breakdown or weaknesses in the current system of the Group for the financial year ended 30th June 2017. As the development of an efficient system of internal controls is an ongoing basis, the Board and the Management will continue to take necessary measures and maintain ongoing commitment to strengthen the risk management and internal controls environment and processes of the Group.

During the financial year under reviewed, there were no material losses caused by the failure in internal controls.

8. REVIEW BY EXTERNAL AUDITORS

As required under Paragraph 15.23 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the External Auditors, Messrs. Adam & Co. have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Recommended Practice Guide ("RPG") 5 issued by the Malaysian Institute of Accountants ("MIA"). RPG 5 does not require the External Auditors to consider whether the Statement covers all risks and controls, or to for, an opinion on the adequacy and effectiveness of the risk management and internal controls system of the Group.

The External Auditors had reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of the internal controls system within the Group.

This statement is made in accordance with the resolution of the Board dated 16th October 2017.

STATEMENT ON DIRECTORS' RESPONSIBILITY IN PREPARING THE REPORTS AND FINANCIAL STATEMENTS

This statement is prepared in accordance to the Paragraph 15.26(a) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The Directors are required by the Companies Act, 2016, to prepare the financial statements for every, financial year in accordance with the approved accounting standards and give a true and fair view of the financial position as at the end of the financial year and the financial performance for the financial year under review.

During the preparation of the financial statement for the financial year ended 30th June 2017, the Board of Directors had:-

- ensured that all appropriate and approved accounting policies and standards had been adopted in preparation of financial statements;
- made reasonable and prudent judgment and estimates;
- ensured that the financial statements had been prepared on the going concern basis;
- ensured that the Group and the Company have adequate resources to continue in ongoing operations for the foreseeable future; and
- reviewed the adequacy and integrity of the Group and the Company's systems of internal controls and of its management information.

The Directors has ensured that the accounting and other records are sufficient to explain the transactions and financial position of the Company and enable true and fair profit and loss accounts and balance sheets to be prepared and kept in a manner as to enable the accounting and other records to be conveniently and properly audited.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

The Directors hereby submit 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 that of investment holding. The principal activities of the subsidiary companies are disclosed in Note 13 to the financial statements.

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

FINANCIAL RESULTS

	2017	
	Group RM	Company RM
Profit for the financial year	3,627,035	1,055,972
Retained earnings brought forward	44,151,380	1,927,688
Dividend paid	(1,040,000)	(1,040,000)
Retained earnings carried forward	46,738,415	1,943,660

RESERVES AND PROVISIONS

All material transfers to or from reserves or provisions during the financial year are disclosed in the financial statements.

DIVIDENDS

On 5 December 2016, the Company declared a single tier interim dividend of 1% out of the ordinary share of the Company amounting to RM1,040,000 and payable on 3 March 2017 in respect of the financial year ended 30 June 2017. The net dividend per share was RM0.10.

On 28 June 2017, the subsidiary Company, Khee San Food Industries Sdn Bhd, declared a single-tier interim dividend of 14.28% out of ordinary shares amounting to RM1,550,000 in respect of the financial year ended 30 June 2017. The net dividend per share was RM0.14.

ISSUE OF SHARES AND DEBENTURES

During the financial year, the issued and paid-up ordinary share capital of the Company was increased from RM100,000,000 to RM104,000,000 by way of the issuance of 4,000,000 ordinary shares of RM1.00 each arising from a grant and exercise of options under the Employees' Share Option Scheme ("ESOS") of RM1.00 per share, the par value being the exercise price.

No debentures were issued during the financial year.

EMPLOYEES' SHARE OPTION SCHEME ("ESOS")

The Company's ESOS is governed by the by-laws approved by the shareholders at the Annual General Meeting held on 11th November 2015.

Details of all the options to subscribe for ordinary shares of RM1.00 each in the share capital of the Company granted to the ESOS are as follows:-

			Number of options over ordinary shares of RM1.00 each			
Grant date	Expiry date	Exercise price RM per share	Balance at 01.07.2016	Granted	Exercised	Outstanding and exercisable as at 30.06.2017
21.9.2016	-	1.00	-	4,000,000	(4,000,000)	-

The main features of the Company's ESOS are disclosed in Note 20 to the financial statements. There were no options granted during the financial year and all options have been exercised during the financial year.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

DIRECTORS

The Directors who served since the date of the last report are: -

• Dato' Sri Liew Yew Chung, SSAP, DIMP	
• Edward Tan Juan Peng	(Appointed w.e.f. 5 January 2017)
• Liew Yet Mei	
• Huang Yan Teo, PIS, PPN	
• Leslie Looi Meng	
• Wong Hock Foong	(Appointed w.e.f. 5 January 2017)
• Dato' Sri Liew Kuek Hin, SSAP, DIMP, PJK, JP	(Resigned w.e.f. 15 December 2016)

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings, the interest of Directors in office at the end of the financial years in shares in the Company and its related corporations during the financial year were as follow:-

	← Ordinary Shares of RM1 each →			
Shares in the Company	**At 1.7.2016**	**Bought**	**Sold**	**At 30.6.2017**
The Company				
Direct interest:				
Dato' Sri Liew Yew Chung, SSAP, DIMP	7,500,000	3,500,000	-	11,000,000
Indirect interest:				
Dato' Sri Liew Yew Chung, SSAP, DIMP	19,750,300	1,079,700	-	20,830,000
Liew Yet Mei	27,250,300	4,579,700	-	31,830,000

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director is entitled or become entitled to receive any benefit (other than as disclosed in the financial statements) 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.

Neither during nor at the end of the financial year was the Company a party to any arrangements whose object is to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

BAD AND DOUBTFUL DEBTS

Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of impairment of receivables and are satisfied that all known bad debts have been written off and adequate impairment had been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances that would render the amount written off for bad debts, or the amount of the allowance for impairment, in the financial statements of the Group and of the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the Directors took reasonable steps to ascertain whether any current assets, other than debts, which were unlikely to realise in the ordinary course of business their value as shown in the accounting records of the Group and of the Company and to the extent so ascertained were written down to an amount that they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances that would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

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

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

(ii) any contingent liabilities in respect of the Group and of the Company that has arisen since the end of the financial year, other than as disclosed in the financial statements.

In the opinion of the Directors, except disclose in Note 27, no contingent liabilities or other liabilities of the Group and of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or in the financial statements of the Group and of the Company that would render any amount stated in the respective financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and of the Company during the financial year, in the opinion of the Directors, may be substantially affected by items, transactions or events of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

EVENTS SUBSEQUENT TO BALANCE SHEET DATE

There has not arisen in the interval between the end of the year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Group and the Company for the year in which this report is made.

AUDITORS

The Auditors, Messrs. Adam & Co., retire at the forthcoming annual general meeting of the Company and do not wish to seek re-election as the Auditors of the Company.

Signed in accordance with a resolution of the Directors:-

EDWARD TAN JUAN PENG
Director

DATO' SRI LIEW YEW CHUNG, SSAP, DIMP
Director

Kuala Lumpur,
Date: 16 October 2017

STATEMENT BY DIRECTORS PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

We, DATO' SRI LIEW YEW CHUNG, SSAP, DIMP and EDWARD TAN JUAN PENG, being two of the Directors of KHEE SAN BERHAD, state that, in the opinion of the Directors, the financial statements set out on pages 38 to 77 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of 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.

The supplementary information on page 77 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad. 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.

Signed on behalf of the Board in accordance with a resolution of the Directors: -

EDWARD TAN JUAN PENG
Director

DATO' SRI LIEW YEW CHUNG,
SSAP, DIMP
Director

Kuala Lumpur,
Date: 16 October 2017

STATUTORY DECLARATION PURSUANT TO SECTION 251(1)(b) OF THE COMPANIES ACT, 2016

I, EDWARD TAN JUAN PENG, the Director primarily responsible for the financial management of KHEE SAN BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 38 to 77 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the)
abovenamed EDWARD TAN JUAN PENG)
at Kuala Lumpur in the state of)
Wilayah Persekutuan on 16 October 2017)

Before me,

EDWARD TAN JUAN PENG

Commissioner for Oaths
Samsiah Bt. Ali (No. W589)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KHEE SAN BERHAD

Opinion

We have audited the financial statements of Khee San Berhad, which comprise the statements of financial position as at 30 June 2017 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 38 to 77.

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 report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 judgment, 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. For the matter described below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, including in relation to the matter described below. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis of our audit opinion on the accompanying financial statements.

(a) Assessment on carrying value and useful life of intangible assets with indefinite useful life
(Refer Notes 2.3(c) and 14 to the financial statements)

The carrying amount of intangible assets of the Group as at 30th June 2017 is RM912,000. The intangible assets represent trademarks of Bento and Kiss Me product line. The trademarks of both Bento and Kiss Me were acquired on 15th February 2008.

We focused on the impairment of trademarks due to the significant judgement involved in determining the key assumptions used in performing the impairment test, i.e. revenue growth, gross margin and discount rate, as well as the materiality and risk associated with the trademark to the financial statements of the Group.

The recoverable amount of the trademarks was determined using the discounted cash flow model.

Audit procedure:
Our audit procedures included among others:

- Evaluated the reasonableness of the key assumptions used by the management in the cash flow projections, i.e. revenue growth and gross margin;
- Compared the revenue growth rates and gross margin to historical assessed data where appropriate;
- Assessed the reliability of management's forecast by comparing past trends of actual financial performances against previous forecast results;

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KHEE SAN BERHAD (CONTINUED)

Key Audit Matters (continued)

(a) **Assessment on carrying value and useful life of intangible assets with indefinite useful life (continued)**

- Involved our internal valuation expert to assess the discount rate;
- Assessed the appropriateness of sensitivity analysis performed by the management on a reasonably possible change in revenue growth and discount rate on the recoverable amount and the corresponding effect of the impairment;
- Checked the adequacy of disclosures made by the Directors in the financial statements.

Based on the above procedures performed, no material exception noted.

(b) Assessment on impairment of inventories
(Refer Notes 2.3(g), 3(v) and 16 to the financial statements)

The carrying amount of inventories of the Group as at 30th June 2017 is RM10,279,069. It represents raw materials, work in progress and finished goods.

Assessing valuation of inventory is an area of significant judgement as there is a risk in estimating the net realizable value of inventory, as well as assessing which items may be slow moving or obsolete.

Audit procedure:
Our audit procedures included among others:
- Obtaining the understanding of the Group's inventory management process, the method used by the Group to identify and assess inventory write-downs and the accounting estimates used for inventory write-downs;
- Checking the effectiveness of control associated with the existence and condition of inventory by attending inventory counts at year end in all location;
- Examining the perpetual records for inventory movements and to identify slow moving aged items;
- Making inquiries of management regarding the action plans to clear slow moving aged and obsolete inventories;
- Reviewing the net realizable value of major inventories;
- Reviewing the historical accuracy of inventory provisioning and the level of inventory write-offs during the financial year;
- Evaluating the reasonableness and the adequacy of the allowance for inventories recognized for identified exposures.

Based on the above procedures performed, no material exception noted.

(c) Assessment on impairment of receivables
(Refer Notes 2.3b(i), 3(iii),18 and 17(iii,iv) to the financial statements)

The carrying amount of trade receivables of the Group as at 30 June 2017 is RM61,551,034. The receivables consist of trade receivables, non-trade receivables, deposits, prepayments and input taxation.

We focused on the impairment of receivables due to the significant of the carrying amount of the receivables and the uncertainty inherent in the estimation process.

The receivables are monitored individually and the timing of collection is based on credit term and historical trend of collection. Impairment is assessed based on knowledge of each individual receivable.

Audit procedure:
Our audit procedures included among others:
- Obtaining the understanding of the Group's internal control on receivable collection process, the method used by the Group to identify and assess impairment on receivables and the accounting estimates used for impairment;
- Reviewing the ageing analysis of receivables and testing the reliability thereof;
- Reviewing subsequent cash collections for major receivables and overdue amounts;
- Making inquiries of management regarding the action plans to recover overdue amounts;
- Comparing and challenging management's view on the recoverability of overdue amounts to the historical patterns of collections;
- Examining other evidence including customer correspondences, proposed or existing settlement plans, repayment schedules, etc;
- Evaluating the reasonableness and the adequacy of the allowance for impairment recognized for identified exposures.

Based on the above procedures performed, no material exception noted.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KHEE SAN BERHAD (CONTINUED)

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 Directors' report, 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 other information included in the Group's 2016 Annual Report, which is expected to be made available to us after the date of this auditors' report.

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 when it becomes available 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 Directors' report that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this Directors' report, we are required to report that fact. We have nothing to report in this regard.

When we read the other information included in the Group's 2016 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 action.

Responsibilities of Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements 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 expressing an opinion on the effectiveness of the Company's internal control.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KHEE SAN BERHAD (CONTINUED)

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

- 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the 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 Company to cease to continue as a going concern.

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

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

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

From the matters communicated with the Directors, we determine the matter that was of most significance in the audit of the financial statements of the Group and of the Company for the current year and is therefore the key audit matter. We describe this matter 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.

Other Reporting Responsibilities

The supplementary information set out in Note 31 on page 77 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other matters

This report is made solely to the members of the Company, as a body, in accordance with Section 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.

ADAM & CO.
AF 1250
Chartered Accountants

ADAM SELAMAT BIN MUSA
Approval No.: 2019/03/18(J)
Chartered Accountant

Kuala Lumpur,
Date: 16 October 2017

STATEMENTS OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

		Group		Company	
		2017	2016	2017	2016
	Note	RM	RM	RM	RM
Revenue	4	**142,844,009**	156,957,156	**1,550,000**	900,000
Cost of sales		**(122,618,411)**	(136,352,494)	**-**	-
Gross profit		**20,225,598**	20,604,662	**1,550,000**	900,000
Other operating income	5	**7,049,353**	3,457,267	**-**	77,384
Distribution costs		**(8,518,459)**	(11,003,932)	**-**	-
Administration expenses		**(8,794,857)**	(3,807,710)	**(481,371)**	(511,436)
Finance cost	6	**(4,032,005)**	(4,194,027)	**-**	-
Profit before taxation	7	**5,929,630**	5,056,260	**1,068,629**	465,948
Taxation	10	**(2,302,595)**	(144,338)	**(12,657)**	(10,056)
Profit for the financial year		**3,627,035**	4,911,922	**1,055,972**	455,892
Profit for the financial year attributable to:-					
Owners of the parent		**3,627,035**	4,911,922	**1,055,972**	455,892
Earnings per ordinary share attributable to equity holders of the Company (sen)	11				
- Basic		**3.52**	5.26		
- Diluted		**3.52**	5.26		
Profit for the financial year		**3,627,035**	4,911,922	**1,055,972**	455,892
Other comprehensive income					
- Revaluation surplus on properties		**-**	31,253	**-**	-
Total comprehensive income		**3,627,035**	4,943,175	**1,055,972**	455,892
Total comprehensive income attributable to:-					
Owners of the parent		**3,627,035**	4,943,175	**1,055,972**	455,892

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

STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2017

		Group		Company	
	Note	2017 RM	2016 RM	2017 RM	2016 RM
NON-CURRENT ASSETS					
Property, plant and equipment	12	**162,331,752**	166,379,942	**-**	-
Investment in subsidiary companies	13	**-**	-	**32,662,625**	32,691,952
Intangible assets	14	**912,000**	1,600,000	**-**	-
Amount due from subsidiaries	15	**-**	-	**71,949,094**	68,602,094
TOTAL NON-CURRENT ASSETS		**163,243,752**	167,979,942	**104,611,719**	101,294,046
CURRENT ASSETS					
Inventories	16	**10,279,069**	10,626,942	**-**	-
Trade receivables	17	**61,551,034**	53,569,208	**-**	-
Non - trade receivables,deposits and prepayments	18	**3,230,116**	16,846,630	**1,037**	1,037
Amount due from Related Company		**657,236**	-	**-**	-
Tax recoverable		**181,246**	443,312	**-**	-
Cash and bank balances		**8,639,548**	5,962,354	**1,579,518**	893,448
TOTAL CURRENT ASSETS		**84,538,249**	87,448,446	**1,580,555**	894,485
TOTAL ASSETS		**247,782,001**	255,428,388	**106,192,274**	102,188,531
EQUITY					
Share capital	19	**104,000,000**	100,000,000	**104,000,000**	100,000,000
Merger reserve		**(17,443,699)**	(17,443,699)	**-**	-
Revaluation reserve		**26,464,120**	26,464,120	**-**	-
Retained earnings		**46,738,415**	44,151,380	**1,943,660**	1,927,688
TOTAL EQUITY		**159,758,836**	153,171,801	**105,943,660**	101,927,688

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

STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2017 (CONTINUED)

		Group		Company	
	Note	2017 RM	2016 RM	2017 RM	2016 RM
NON-CURRENT LIABILITIES					
Hire purchase creditors	21	**5,574,142**	11,850,124	**-**	-
Borrowings	22	**-**	5,266,667	**-**	-
Deferred tax	23	**3,356,453**	1,715,191	**-**	-
TOTAL NON-CURRENT LIABILITIES		**8,930,595**	18,831,982	**-**	-
CURRENT LIABILITIES					
Trade payables	24	**15,333,695**	18,617,682	**-**	-
Non - trade payables and accruals	25	**2,709,179**	4,883,135	**227,845**	255,894
Hire purchase creditors	21	**6,480,713**	7,054,361	**-**	-
Borrowings	22	**54,419,667**	52,869,427	**-**	-
Tax payables		**149,316**	-	**20,769**	4,949
TOTAL CURRENT LIABILITIES		**79,092,570**	83,424,605	**248,614**	260,843
TOTAL EQUITY AND LIABILITIES		**247,782,001**	255,428,388	**106,192,274**	102,188,531

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

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

Group		Share capital RM	Merger reserve RM	Revaluation reserves RM	Retained earnings RM	Total RM
At 1 July 2015		89,070,000	(17,443,699)	27,422,579	38,249,746	137,298,626
Shares excercised under ESOS		10,930,000	-	-	-	10,930,000
Revaluation surplus on properties		-	-	31,253	-	31,253
Transfer reserve		-	-	(989,712)	989,712	-
Net profit for the year ended 2016		-	-	-	4,911,922	4,911,922
At 30 June 2016		100,000,000	(17,443,699)	26,464,120	44,151,380	153,171,801
Shares excercised under ESOS	20	4,000,000	-	-	-	4,000,000
Dividend paid		-	-	-	(1,040,000)	(1,040,000)
Net profit for the year ended 2017		-	-	-	3,627,035	3,627,035
At 30 June 2017		**104,000,000**	**(17,443,699)**	**26,464,120**	**46,738,415**	**159,758,836**

Company	Note	Share capital RM	Retained earnings RM	Total RM
At 1 July 2015		89,070,000	1,471,796	90,541,796
Shares excercised under ESOS		10,930,000	-	10,930,000
Net profit for the year ended 2016		-	455,892	455,892
At 30 June 2016		100,000,000	1,927,688	101,927,688
Shares excercised under ESOS	20	4,000,000	-	4,000,000
Net profit for the year ended 2017		-	1,055,972	1,055,972
Dividend paid		-	(1,040,000)	(1,040,000)
At 30 June 2017		**104,000,000**	**1,943,660**	**105,943,660**

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

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
CASH FLOW FROM OPERATING ACTIVITIES				
Profit before taxation	**5,929,630**	5,056,260	**1,068,629**	465,948
Adjustment for:-				
Depreciation	**5,879,238**	5,736,871	**-**	-
Dividend income	**-**	-	**(1,550,000)**	(900,000)
Impairment on inventories	**2,668,219**	46,237	**-**	-
Impairment on intangible assets	**688,000**	-	**-**	-
Impairment/(reversal) on investment	**-**	-	**29,327**	(77,384)
Interest expenses	**4,032,005**	4,194,027	**-**	-
Loss on disposal of property, plant and equipment	**-**	149,034	**-**	-
Provision of doubtful debt	**143,193**	23,414	**-**	-
Reversal of impairment on doubtful debt	**(29,751)**	-	**-**	-
Unrealised gain on foreign exchange	**(2,882,787)**	(1,787,087)	**-**	-
Operating profit/(loss) before working capital changes	**16,427,747**	13,418,756	**(452,044)**	(511,436)
Changes in working capital:				
(Increase) / Decrease in inventories	**(2,320,346)**	344,249	**-**	-
(Increase) / Decrease in trade receivables	**(5,139,819)**	396,518	**-**	-
Decrease / (Increase) in non-trade receivables, deposits and prepayments	**13,543,852**	(14,507,038)	**-**	-
Increase in amount due from Subsidiaries	**-**	-	**(3,347,000)**	(11,496,700)
(Decrease) / Increase in trade payables	**(3,283,987)**	2,084,459	**-**	-
(Decrease) / Increase in non-trade payables and accruals	**(2,173,956)**	1,884,617	**(28,049)**	64,599
Decrease in amount due to Ultimate Holding Company	**-**	(1,677,033)	**-**	-
Decrease in amount due to Related Company	**(657,236)**	-	**-**	-
Cash generated from / (used in) operating activities	**16,396,255**	1,944,528	**(3,827,093)**	(11,943,537)

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

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

	Group		Company	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
Cash generated from / (used in) operating activities	**16,396,255**	1,944,528	**(3,827,093)**	(11,943,537)
Tax paid	**(449,340)**	(208,000)	**(8,000)**	(8,000)
Dividend received	**-**	-	**1,550,000**	900,000
Dividend paid	**(1,040,000)**	-	**(1,040,000)**	-
Tax refund	**199,389**	136,968	**11,163**	7,404
Interest paid	**(4,032,005)**	(4,194,027)	**-**	-
Net cash generated from / (used in) operating activities	**11,074,299**	(2,320,531)	**(3,313,930)**	(11,044,133)
CASH FLOW FROM INVESTING ACTIVITIES				
Proceed from disposal of investment properties	**-**	3,250,000	**-**	-
Proceed from disposal of property, plant and equipment	**-**	8,493,567	**-**	-
*Purchase of property, plant and equipment	**(1,831,048)**	(17,559,719)	**-**	-
Transfer of asset to holding company	**-**	4,863,056	**-**	-
Net cash (used in) / generated from investing activities	**(1,831,048)**	(953,096)	**-**	-
CASH FLOW FROM FINANCING ACTIVITIES				
(Repayment) / Proceeds from bankers' acceptance	**(2,991,757)**	4,592,178	**-**	-
Repayments of term loans	**(724,670)**	(789,605)	**-**	-
Proceeds from issuance of shares	**4,000,000**	10,930,000	**4,000,000**	10,930,000
Repayments of hire purchase creditor	**(6,849,630)**	(344,931)	**-**	-
Net cash (used in) / generated from financing activities	**(6,566,057)**	14,387,642	**4,000,000**	10,930,000

The accompanying notes form an integral part of these financial statements

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Net increase / (decrease) in cash and cash equivalents	**2,677,194**	11,114,015	**686,070**	(114,133)
Cash and cash equivalents brought forward	**5,962,354**	(5,151,660)	**893,448**	1,007,581
Cash and cash equivalents at end of the financial year	**8,639,548**	5,962,354	**1,579,518**	893,448
Cash and cash equivalents comprise:				
Cash at bank	**8,630,566**	5,962,354	**1,579,518**	893,448
Cash in hand	**8,982**	-	**-**	-
	8,639,548	5,962,354	**1,579,518**	893,448

* During the year, the Group acquired property, plant and equipment with an aggregate cost of RM1,831,048 (2016: RM17,559,719) of which RM1,034,946 (2016: RM17,068,541) was acquired by means of finance lease. Cash payments of RM796,102 (2016: RM491,178) were made to purchase property, plant and equipment.

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company is principally engaged in investment holding. The principal activities of the subsidiary companies are disclosed in Note 13 to the financial statements.

There have been no significant changes in the principal activities of the Group during the financial year.

The Company is a public listed company, incorporated and domiciled in Malaysia and is listed on the Main Market, Bursa Malaysia Securities Berhad.

The registered office and principal place of business of the Company is located at 22-2, Jalan 1/64, Off Jalan Kolam Air/Jalan Sultan Azlan Shah, 51200 Kuala Lumpur and Lot 1819-1820, Jalan Kolej, 43300 Seri Kembangan, Selangor Darul Ehsan respectively.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 16 October 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation of the financial statements

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

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Ringgit Malaysia (RM).

The preparation of financial statements in conformity with MFRS requires the use of certain accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and reported amounts of revenue and expenses during the reported financial period. It also requires Directors' best knowledge of current events and action, and therefore actual results may differ.

Companies Commission of Malaysia (CCM) has announced that the Companies Act 2016 (CA 2016) will be implemented in phase with the phase of which came into effect January 31st, 2017. With the enforcement of the first phase of the CA 2016, the Companies Act 1965 is repealed.

2.2 Standards issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:-

Title	Effective for the financial period beginning on or after
Amendments to MFRS 9 : Financial Instruments	1 January 2018
MFRS 15 : Revenue from Contracts from Customers	1 January 2018
Amendments to MFRS 2 : Classification and Measurement of Share-based Payments Transactions	1 January 2018
MFRS 16 : Leases	1 January 2019

The initial application of the above mentioned MFRSs are not expected to have any significant impacts on the financial statements of the Group and the Company except as mentioned below:-

MFRS 9 Financial Instruments

MFRS 9 Financial Instruments replaces earlier versions of MFRS 9 and introduces a package of instruments which includes a classification and measurement model, a single forward looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. MFRS 9 when effective will replace MFRS 139 Financial Instruments: Recognition and Measurement.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Standards issued but not yet effective (continued)

MFRS 9 Financial Instruments (continued)

MFRS 9 retains but simplified the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measure at fair value through profit or loss with the irrevocable option at inception to present changes in fair value through other comprehensive income without subsequent recycling to profit or loss. There is now a new expected credit losses model that replaces the classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. MFRS 9 relaxes the requirements of hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between hedged item and hedging instruments and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under MFRS 139.

The Group is currently assessing the financial impact that may arise from the adopting MFRS 9.

MFRS 15 Revenue from Contracts with Customers

MFRS 15 replaces MFRS 118 Revenue, MFRS 111 Construction Contracts and related IC interpretations. The standard deals with revenue recognition and establishes principles for reporting useful information to uses of financial statements about the nature, timing and uncertainty revenue and cash flows arising from an entity's contracts with customers.

Revenue is recognised when customer obtains control of the good or service. The core principles of MFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to the customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services.

The Group is currently assessing the financial impact that may arise from the adopting of MFRS 15.

MFRS 16 Leases

MFRS 16 Leases which upon the effective date will supersede MFRS 117 Leases, introduces a single lessee accounting model and requires a lessee to recognised assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under MFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognised depreciation of the right-of-use asset and the interest on lease liability, and also classifies cash repayments of the lease liability into principal portion and interest portion and presents them in the statement of cash flow. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise the option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standards, MFRS 117.

In the respect of the lessor accounting, MFRS 16 substantially carried forward the lessor accounting requirement in MFRS 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types differently.

The Group is currently assessing the financial impact that may arise from the adopting of MFRS 16.

2.3 Significant accounting policies

The financial statements of the Company have been prepared under the historical cost convention other than as disclosed in the notes to the financial statements and in the requirements of the Companies Act, 2016, MFRS and IFRS.

(a) Basis of consolidation and subsidiaries

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 30 June 2017.

A subsidiary is defined as a company in which the parent company has the power, directly or indirectly, to exercise control over its financial and operating policies so as to obtain benefits from its activities.

The subsidiaries are consolidated using the merger method of accounting except for Khee San Marketing Sdn. Bhd., which is consolidated using the purchase method of accounting.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting policies (continued)

(a) Basis of consolidation and subsidiaries (continued)

The subsidiaries acquired which have previously met the criteria for merger accounting are accounted for using merger accounting principles. When the merger method is used, the cost of investment in the Company's books is recorded at the nominal value of shares issued. The difference between the carrying value of the investment and the nominal value of the shares of the subsidiaries is treated as a merger deficit or merger reserve as applicable. The results of the subsidiaries being merged are included for the entire financial year.

The MFRS 3 "Business Combinations" states that all business combinations shall be accounted for by applying the purchase method. However, the Group has adopted the exemption allowed to apply MFRS 3 on a prospective basis. Accordingly, business combinations entered into prior to 1 July 2007, have not been restated to comply with this Standard.

Under the purchase method of accounting, the results of subsidiaries acquired or disposed of during the financial year are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. The difference between the consideration paid for the investment in the subsidiaries and the fair value of attributable net assets acquired is reflected as goodwill or reserve on consolidation as appropriate. The carrying amount of goodwill is reviewed annually and written down for impairment where it is considered necessary.

Intragroup transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

(b) Financial instruments

Financial instruments are recognised in the statements of financial position when the Group has become a party to the contractual provisions of the instruments. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

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

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.

Financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

The Group and the Company categorise the financial instruments as follows:-

(i) Financial assets

On initial recognition, financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables financial assets, or available-for-sale financial assets, as appropriate.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss when the financial asset is either held for trading or is designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Dividend income from this category of financial assets is recognised in profit or loss when the Group's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Financial assets (continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the management has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment loss, with revenue recognised on an effective yield basis.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated in this category or are not classified in any of the other categories.

After initial recognition, available-for-sale financial assets are remeasured to their fair values at the end of each reporting period. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the fair value reserve, with the exception of impairment losses. On derecognition, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified from equity into profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less accumulated impairment losses, if any.

Loans and receivables financial assets

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables financial assets. Loans and receivables financial assets are measured at amortised cost using the effective interest method, less any impairment loss. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial

<u>Derecognition</u>

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:-

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of MFRS 139, are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

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

Financial liabilities held for trading include derivatives entered into by the Group and the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

Other financial liabilities

The Group's and the Company's other financial liabilities include trade payables, other payables, loans and borrowings.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(iii) Equity instruments

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

Dividends on ordinary shares are recognised as liabilities when approved for appropriation.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting policies (continued)

(c) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each statement of financial position date.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

(d) Property, plant and equipment and depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Property, plant and equipment are stated at cost modified by the revaluation of certain property less accumulated depreciation and impairment loss, if any.

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognized as an expense in the income statement.

No depreciation is provided on freehold lands and plant and machinery in-progress.

Depreciation is provided on the straight-line method in order to write off the cost of each asset to its residual value over its estimated useful life. Depreciation of an asset does not cease when the assets becomes idle or is retired from active use unless the asset is fully depreciated.

The principal rate used is as follows:-

Buildings	2%
Furniture, fittings and equipment	5% – 10%
Electrical equipment	10% – 20%
Motor vehicles	20%
Plant and machinery	5% – 20%

The Group adopts a policy to revalue at a regular interval of at least once in every five years for its freehold land and buildings with additional valuations in the intervening years where market conditions indicate that the carrying values of the revalued land and buildings materially differ from the market value.

Surpluses arising from the revaluation are recognised in other comprehensive income and accumulated in equity under the revaluation reserve. Deficits arising from the revaluation, to the extent that they are not supported by any previous revaluation surpluses, are recognised in statement of comprehensive income.

The residual values and useful life of assets and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. The effects of any revisions of the residual values, useful lives and depreciation method are included in profit or loss for the financial year in which the changes arise. Fully depreciated assets are retained in the financial statements until the assets are no longer in use.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting policies (continued)

(d) Property, plant and equipment and depreciation (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of comprehensive income in the financial year the asset is derecognised.

(e) Impairment of assets

(i) Impairment of financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss and investment 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 equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the fair value reserve. In addition, the cumulative loss recognised in other comprehensive income and accumulated in equity under fair value reserve, is reclassified from equity to profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss made is recognised in other comprehensive income.

(ii) Impairment of non-financial assets

The carrying values of assets, other than those to which MFRS 136 - Impairment of Assets does not apply, are reviewed at the end of each reporting period for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount of the assets is the higher of the assets' fair value less costs to sell and their value-in-use, which is measured by reference to discounted future cash flow.

An impairment loss is recognised in profit or loss immediately unless the asset is carried at its revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of a previously recognised revaluation surplus for the same asset.

When there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in profit or loss immediately, unless the asset is carried at its revalued amount. A reversal of an impairment loss on a revalued asset is credited to other comprehensive income. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the statements of comprehensive income, a reversal of that impairment loss is recognised as income in the statements of comprehensive income.

(f) Investments

Investments in subsidiaries are initially stated at cost in the statement of financial position of the Company, and are reviewed for impairment at the end of the financial year if events or changes in circumstances indicate that their carrying values may not be recoverable.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting policies (continued)

(g) Inventories

Inventories are valued at the lower of cost and net realisable value on the weighted average cost basis. Cost of raw materials comprised the cost of purchase plus the cost of bringing the inventories to their present location and condition. For finished goods and work-in-progress cost consist of raw materials, direct labour and an appropriate proportion of production overheads.

Net realisable value is the estimated selling price in the ordinary course of business less selling expenses. In arriving at net realisable value, due allowance is made for all obsolete and slow moving inventories.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and fixed deposits, net of bank overdrafts which have an insignificant risk of changes in value.

(i) Hire-purchase

Property, plant and equipment acquired under hire-purchase are capitalised and are depreciated in accordance with the policy stated in Note 2.3 and the corresponding obligations relating to the remaining capital payments are treated as liabilities. Finance charges are charged to the statement of comprehensive income over the period of the plan so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(j) Interest-bearing borrowings

Interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs directly attributable to the acquisition of property, plant and equipment are capitalised as part of the cost of those assets, until such time as the assets are ready for their intended use. All other borrowing costs are charged to the statement of comprehensive income as an expense in the period in which they are incurred.

(k) Share capital

Ordinary shares are recorded at the nominal value and proceeds in excess of the nominal value of shares issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity. Cost incurred directly attributable to the issuance of the shares are accounted for as a deduction from share premium, otherwise it is charged to the statement of comprehensive income.

Dividends to shareholders are recognised in equity in the period in which they are declared or approved by shareholders at general meeting.

(l) Provisions

Provisions are recognised when the Group and the Company has present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability and the present value of the expenditure expected to be required to settle the obligation.

(m) Taxation

Income tax on the profit for the year comprises current and deferred income tax liabilities. Current income tax liabilities is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the statement of financial position date.

Deferred income tax liabilities is provided for, using the liability method, on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred income tax liabilities are recognised for all taxable temporary differences and deferred income tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting policies (continued)

(m) Taxation (continued)

A deferred income tax asset is recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of a deferred income tax asset is reviewed at each statement of financial position date. If it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred income tax asset to be utilised, the carrying amount of the deferred income tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profit will be available, such reduction will be reversed to the extent of the taxable profit.

(n) Functional and foreign currencies

(i) Functional and presentation currency

The functional currency of the Group is measured using the currency of the primary economic environment in which the Group operates.

The consolidated financial statements are presented in Ringgit Malaysia ("RM") which is the parent's functional and presentation currency.

The principal closing rates used in translation of foreign currency amounts are as follows:-

Foreign currency	2017 RM	2016 RM
1 Singapore Dollar	3.118	2.982
1 US Dollar	4.294	4.023
1 Euro	4.913	4.466
1 Australian Dollar	3.306	2.989
1 Hong Kong Dollar	0.550	0.518
1 Japanese Yen	0.038	0.039
1 Thai Baht	0.126	0.114
100 Indonesian Rupiah	0.032	0.031

(ii) Transactions and balances

Transactions in foreign currency are converted into RM at the approximate rates of exchange ruling at the transaction dates. Transactions in foreign currency are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities at the statement of financial position date are translated at the rates ruling as of that date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. All exchange differences are taken to the statement of comprehensive income.

(o) Employee benefits

Short term employee benefits

Wages, salaries and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when employees render services that increase their entitlement to future compensated absences. Non-accumulating compensated absences, such as sick and medical leaves are recognised when the absences occur. The expected cost of accumulating compensated absences is measured as the additional amount expected to be paid as a result of the unused entitlements that have accumulated at the balance sheet date.

Defined contribution plan

Contributions to the Employees Provident Fund are recognised as an expense in the statement of comprehensive income in the period to which they relate.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting policies (continued)

(o) Employee benefits (continued)

Share based compensation

The Khee San Berhad Employees' Share Option Scheme ("ESOS"), an equity-settled, share based compensation plan, allows the Group's employees to acquire ordinary shares of the Company. The total fair value of share options granted to employees is recognized as an employee cost with a corresponding increase in the share options reserve within equity over the vesting period and taking into account the probability that the options will be vested.

The fair value of share options is measured at grant date, taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to become exercisable on vesting date. It recognizes the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognized in the share options reserve until the options are exercised, upon which it will be transferred to share premium. The share option reserve in relation to the unexercised option at the expiry of the share option scheme will be transferred to retained earnings.

If the options are exercised, the Group issues new shares to the employees. The proceeds received, not of any directly attributable transaction costs are recognized in ordinary share capital at nominal value, and any excess would be recognized in share premium.

(p) Contingency liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a probable asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

(q) Revenue recognition

Revenue is measured at fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. It is recognized when it is probable that the economics benefits associated with the transaction will flow to the entities and the amount of the revenue can be measured reliably. Revenue is shown net of goods and services tax, rebates and discounts.

Other revenue earned by the Group and by the Company are recognised on the following basis:-

(i) Interest income

Interest income from investment is recognised when the right to receive payment is established.

(ii) Dividend income

Dividend income recognized as and when the shareholders' right to receive payment is established.

(iii) Rental income

Rental income recognized on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires Directors to exercise their judgement in the process of applying the Group's accounting policies.

The estimates and judgements that affect the application of the Group's accounting policies and disclosures, and have a significant risk of causing a material adjustment to the carrying amounts of assets, liabilities, income and expenses are discussed below:-

(i) *Depreciation of property, plant and equipment*

The estimates for the residual values, useful lives and related depreciation charges for the property, plant and equipment are based on commercial and production factors which could change significantly as a result of technical innovations and competitors' actions in response to the market conditions.

The Group anticipates that the residual values of its property, plant and equipment will be insignificant. As a result, residual values are not being taken into consideration for the computation of the depreciable amount.

Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

(ii) *Taxation*

There are certain transactions computations for which the ultimate tax determination may be different from the initial estimate. The Group recognizes tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final outcome of these matters is different from the amounts that were initially recognized, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

(iii) *Impairment of non-financial assets*

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

(iv) *Recoverability of receivables*

The Group makes impairment of receivables based on an assessment of the recoverability of receivables. Impairment are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyses historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the impairment for doubtful debts of receivables. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

(v) *Allowance for inventories*

Reviews are made periodically by management on damaged, obsolete and slow-moving inventories. These reviews require judgement and estimates. Possible changes in these estimates could result in revisions to the valuation of inventories.

(viii) *Fair value estimates for certain financial assets and liabilities*

The Company carries certain financial assets and liabilities at fair value, which require extensive use of accounting estimates and judgement. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group uses different valuation methods. Any changes in fair value of these assets and liabilities would affect profit and equity.

NOTES TO THE FINANCIAL STATEMENTS

4. REVENUE

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Sales of goods				
Local sales	69,459,529	86,250,958	-	-
Export sales	73,384,480	70,706,198	-	-
Dividends	-	-	1,550,000	900,000
	142,844,009	156,957,156	1,550,000	900,000

5. OTHER OPERATING INCOME

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Realised gain on foreign exchange	3,330,054	1,193,028	-	-
Unrealised gain on foreign exchange	2,882,787	1,787,087	-	-
Sundry income	308,710	202,544	-	-
Sales of scrap	89,185	84,230	-	-
Reversal of impairment on subsidiary	-	-	-	77,384
Others	438,617	190,378	-	-
	7,049,353	3,457,267	-	77,384

6. FINANCE COST

	Group	
	2017 RM	2016 RM
Bank commission	112,698	83,254
Bank overdraft interest	573,912	625,043
Banker's acceptance interest	2,509,098	2,124,761
Commitment fee	14,567	11,541
Financial charges	3,766	15,233
Hire-purchase interest	783,365	1,259,628
Letter of credit charges	1,650	2,634
Term loan interest	32,949	71,933
	4,032,005	4,194,027

NOTES TO THE FINANCIAL STATEMENTS

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging / (crediting) amongst other items the following:-

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Auditor's remuneration				
- current year	100,969	97,320	24,000	24,000
- (over)/under provision of prior year	(3,234)	3,100	-	3,100
Depreciation (Note 12)	5,879,238	5,736,871	-	-
Doubtful debt:				
Charge during the year (Note 18(i, ii), 17(iv))	143,193	23,414	-	-
Reversal of impairment (Note 17(iv))	(29,751)	-	-	-
Directors' remuneration (Note 9)	1,044,215	191,800	177,100	191,800
Impairment of inventory (Note 16.1)	2,668,219	46,237	-	-
Impairment/reversal of investment	-	-	29,327	(77,384)
Unrealised gain on foreign exchange	(2,882,787)	(1,787,087)	-	-
Impairment on intangible assets (Note 14)	688,000	-	-	-
Loss on disposal of property, plant and equipment	-	149,034	-	-
Interest expenses (Note 6)	4,032,005	4,194,027	-	-
Rental expenses:				
Office and residential premises	-	393,912	-	-
Lease rental	202,888	188,002	-	-
Equipment	8,040	7,080	-	-
Staff costs (Note 8)	8,533,666	7,926,397	-	-

8. STAFF COSTS

	Group	
	2017 RM	2016 RM
Salaries, wages and allowances	7,079,379	7,456,157
Contributions to defined contribution plan	357,261	339,526
Social security contributions	49,410	44,879
Other staff benefits	1,047,616	85,835
	8,533,666	7,926,397

NOTES TO THE FINANCIAL STATEMENTS

9. DIRECTORS' REMUNERATION

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Directors of the Company:				
Executive:				
Directors' fee	157,115	21,500	10,000	21,500
Attendance fee	5,000	1,500	5,000	1,500
Non executive:				
Fees	830,000	129,400	110,000	129,400
Attendance fee	29,600	16,900	29,600	16,900
Annual committee members fee	22,500	22,500	22,500	22,500
	1,044,215	191,800	177,100	191,800

There are a total of 6 Directors in the Group inclusive of 1 Executive and 5 Non-Executive Directors as at 30 June 2017. In the financial year ended 30 June 2016, there were a total of 5 Directors in the Group of which 1 was Executive and 4 were Non-Executive Directors.

10. TAXATION

The numerical reconciliation between the tax expense in the income statement and the income tax expense applicable to profit before taxation at the statutory income tax rates of the Company is as follows:-

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Tax expense for the year	661,333	21,045	12,657	10,169
Deferred taxation (Note 23)	1,641,262	137,009	-	-
Over provision of tax in prior years	-	(13,716)	-	(113)
	2,302,595	144,338	12,657	10,056

NOTES TO THE FINANCIAL STATEMENTS

10. TAXATION (CONTINUED)

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Profit before taxation	5,929,630	5,056,260	1,068,629	465,948
Tax at statutory tax rate of 24% (2016: 25%)	1,423,111	1,264,065	256,471	116,487
Adjustment for:-				
Expenses not deductible for tax expenses	2,910,942	1,915,958	110,785	118,682
Income not subject for taxation	(704,418)	(698,645)	(354,599)	(225,000)
Utilisation of capital allowances	(2,975,125)	(2,462,374)	-	-
Unutilisation of unabsorbed losses	6,823	2,041	-	-
Deferred taxation recognised in income statement (Note 23)	1,641,262	137,009	-	-
Over provision of tax in prior years	-	(13,716)	-	(113)
	2,302,595	144,338	12,657	10,056

Malaysian income tax is calculated at the statutory rate of 24% on chargeable income (2016: 25%)

11. EARNINGS PER SHARE

The basic earnings per share for the financial year has been calculated based on the Group's profit attributable to owners of the Company for the financial year.

	Group	
	2017 RM	2016 RM
Net profit attributable to owners of the Group	3,627,035	4,911,922
Weighted average number of ordinary shares in issue	100,000,000	89,070,000
Effects of dilution due to:- -ESOS	2,991,781	4,245,448
	102,991,781	93,315,448
Basic earnings per share (sen)	3.52	5.26

For the diluted earnings per share calculation, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

The dilutive potential ordinary shares for the year of the Group are share options granted to employees.

Share options are deemed to have been converted into ordinary shares at the beginning of the year or on the date when the options were granted whichever is the later.

NOTES TO THE FINANCIAL STATEMENTS

11. EARNINGS PER SHARE (CONTINUED)

	Group 2017 RM	Group 2016 RM
Profit attributable to the equity holders of the Group	3,627,035	4,911,922
Weighted average number of ordinary shares in issue	102,991,781	93,315,448
Adjustment for assumed exercise of share options	-	-
Adjusted weighted average number of ordinary shares in issue and issueable	102,991,781	93,315,448
Diluted earnings per share (sen)	3.52	5.26

The diluted earnings per ordinary share is the same as basic earnings per ordinary share of the Group, as the Group has no dilutive potential ordinary shares during the current and prior financial year.

12. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings RM	Electrical equipment RM	Furniture, fittings and equipment RM	Motor vehicles RM	Plant and machinery RM	Plant and machinery in-progress RM	Total RM
Cost							
At 1 July 2016	33,911,927	14,833,703	1,603,014	4,372,143	153,061,471	9,952,450	217,734,708
Additions	101,699	681,788	12,615	412,189	622,757	-	1,831,048
At 30 June 2017	34,013,626	15,515,491	1,615,629	4,784,332	153,684,228	9,952,450	219,565,756
Represented by:-							
At cost	-	15,515,491	1,615,629	4,784,332	153,684,228	9,952,450	185,552,130
At valuation	34,013,626	-	-	-	-	-	34,013,626
	34,013,626	15,515,491	1,615,629	4,784,332	153,684,228	9,952,450	219,565,756
Accumulated Depreciation							
At 1 July 2016	28,980	8,543,320	1,099,278	1,606,716	40,076,472	-	51,354,766
Charge for the year	88,719	701,374	38,767	338,591	4,711,787	-	5,879,238
At 30 June 2017	117,699	9,244,694	1,138,045	1,945,307	44,788,259	-	57,234,004
Net book value							
At 30 June 2017	33,895,927	6,270,797	477,584	2,839,025	108,895,969	9,952,450	162,331,752

NOTES TO THE FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Freehold land and buildings RM	Electrical equipment RM	Furniture, fittings and equipment RM	Motor vehicles RM	Plant and machinery RM	Plant and machinery in-progress RM	Total RM
Cost							
At 1 July 2015	43,330,085	14,343,113	1,602,426	3,730,298	119,351,464	32,143,006	214,500,392
Additions	20,189	490,590	588	666,545	6,429,357	9,952,450	17,559,719
Reclassification	-	-	-	(700)	27,280,650	(27,279,950)	-
Transfer	-	-	-	-	-	(4,863,056)	(4,863,056)
Disposals	(9,438,347)	-	-	(24,000)	-	-	(9,462,347)
At 30 June 2016	33,911,927	14,833,703	1,603,014	4,372,143	153,061,471	9,952,450	217,734,708
Represented by:-							
At cost	-	14,833,703	1,603,014	4,372,143	153,061,471	9,952,450	183,822,781
At valuation	33,911,927	-	-	-	-	-	33,911,927
	33,911,927	14,833,703	1,603,014	4,372,143	153,061,471	9,952,450	217,734,708
Accumulated Depreciation							
At 1 July 2015	271,951	7,815,708	1,057,187	1,287,532	35,686,516	-	46,118,894
Charge for the year	241,893	727,612	42,091	335,319	4,389,956	-	5,736,871
Disposals	(484,864)	-	-	(16,135)	-	-	(500,999)
At 30 June 2016	28,980	8,543,320	1,099,278	1,606,716	40,076,472	-	51,354,766
Net book value							
At 30 June 2016	33,882,947	6,290,383	503,736	2,765,427	112,984,999	9,952,450	166,379,942

NOTES TO THE FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

12.1 Assets acquired under hire purchase

Included in property, plant and equipment of the Group are plant and machinery and motor vehicle acquired under hire purchase as follows:-

	Cost RM	Accumulated depreciation RM	Net book value RM	Depreciation charge RM
2017				
Plant and machinery	153,684,228	(44,788,259)	108,895,969	1,522,150
Motor vehicles	4,784,332	(1,945,307)	2,839,025	267,982
	158,468,560	(46,733,566)	111,734,994	1,790,132
2016				
Plant and machinery	153,061,471	(40,076,472)	112,984,999	1,190,568
Motor vehicles	4,372,143	(1,606,716)	2,765,427	253,403
	157,433,614	(41,683,188)	115,750,426	1,443,971

12.2 Valuation of property, plant and equipment

The valuation of property, plant and equipment were valued based on valuations by independent external valuer who holds a recognised qualification and has relevant experience.

The fair values of the market comparable approach using a certain unit of comparison such as price per square foot which reflects the recent transaction prices for similar properties within the same area, without any significant adjustments.

Had the revalued land and buildings been carried at historical cost less accumulated depreciation, the net book value of the land and buildings that would have been included in the financial statements of the Group are as follows:-

	Group	
	2017 RM	2016 RM
Freehold land and buildings	33,895,927	33,882,947

NOTES TO THE FINANCIAL STATEMENTS

13. INVESTMENT IN SUBSIDIARIES COMPANIES

	Company	
	2017 RM	2016 RM
Unquoted equity shares, at cost	34,881,664	34,881,664
Less: Impairment loss	(2,219,039)	(2,189,712)
	32,662,625	32,691,952

The details of subsidiaries are as follows:-

Name of the company	Place of incorporation	Effective percentage of equity held 2017 %	2016 %	Principal activities
Subsidiaries of the Company:-				
Khee San Food Industries Sdn. Bhd.	Malaysia	100	100	Manufacturer of candy confectionery and wafer products
Khee San Marketing Sdn. Bhd.	Malaysia	100	100	Temporary ceased operations

14. INTANGIBLE ASSETS

	Group	
	2017 RM	2016 RM
Trademarks	1,600,000	1,600,000
Less : Impairment on trademarks	(688,000)	-
	912,000	1,600,000

The intangible assets represent the trademarks of Bento and Kiss Me product line at cost. The Directors regard these trademarks to have indefinite useful lives as they can be renewed at minimal cost. The trademarks of both Bento and Kiss Me were acquired on 15th February 2008.

The recoverable amount of brand has been determined based on value in use. Value in use is determined by discounting the future cash flows generated from continuing use of the brand and is based on the following key assumptions:

(i) Cash flows are projected based on actual operating results and the 5 years' business plan; and

(ii) The discount rates applied to the cash flows projections are derived from sales growth and actual financial trend.

NOTES TO THE FINANCIAL STATEMENTS

14. INTANGIBLE ASSETS (CONTINUED)

Significant assumptions

	5 years projection		
	Terminal growth rate	**Actual growth rate**	**Pre-tax discount rate**
At 30 June 2017	2.00%	9.57%	10.00%
At 30 June 2016	2.00%	16.97%	10.00%

Based on the latest sales trend, the Company foresee that the sales of both Kiss Me and Bento will experience a decrease in demand for domestic and oversea market. As there was a significant decrease in sales by 43% (2017: RM3,869,652, 2016: RM6,744,611), the management decided to provide an impairment of RM688,000 during the year.

15. AMOUNT DUE FROM SUBSIDIARIES

	Company	
	2017 RM	**2016 RM**
Amount due from subsidiaries	71,949,094	68,602,094

The amount due from subsidiaries are unsecured, interest free and has no fixed terms of repayment.

16. INVENTORIES

	Group	
	2017 RM	**2016 RM**
At cost:		
Raw materials	6,882,708	6,779,809
Work-in-progress	1,703,764	1,719,883
Finished goods	4,488,765	2,255,199
Inventories - Gross	13,075,237	10,754,891
Less: Impairment on inventories (Note 16.1)	(2,796,168)	(127,949)
Inventories - Net	10,279,069	10,626,942

16.1 The reconciliation of movements in impairment of inventories are as follows:-

	Group	
	2017 RM	**2016 RM**
At 1 July	127,949	81,712
Charge for the financial year	2,668,219	46,237
At 30 June	2,796,168	127,949

NOTES TO THE FINANCIAL STATEMENTS

17. TRADE RECEIVABLES

	Group	
	2017 RM	2016 RM
Trade receivables - Gross	62,414,121	54,391,515
Less: Impairment on trade receivables	(863,087)	(822,307)
Trade receivables - Net	61,551,034	53,569,208

(i) Trade receivables are non-interest bearing and the normal credit terms of trade receivables granted by the Group ranged from 30 to 180 days (2016: 30 to 180 days). They are recognised at their original invoices amounts, which represent their fair values on initial recognition.

(ii) The foreign currency exposure profile of trade receivables are as follows:-

	Group	
	2017 RM	2016 RM
US Dollar ($)	27,838,138	21,720,014
Singapore Dollar ($)	-	188,577
Australian Dollar ($)	6,399	-
Hong Kong Dollar ($)	9,557,323	8,634,511
Thailand Baht (฿)	332,615	77,013
Japan Yen (¥)	8,067,140	8,369,373
Euro (£)	1,646,685	1,024,180
Indonesia Rupiah (Rp)	782,961	165,275
	48,231,261	40,178,943

(iii) The ageing analysis of trade receivables of the Group is as follows:-

	Group	
	2017 RM	2016 RM
Neither past due nor impaired	61,480,503	53,564,018
1 to 30 days past due not impaired	-	-
31 to 60 days past due not impaired	-	-
61 to 90 days past due not impaired	-	-
91 to 120 days past due not impaired	-	-
More than 120 days past due not impaired	70,531	5,190
	70,531	5,190
Past due and impaired	863,087	822,307
Trade receivables - Gross	62,414,121	54,391,515

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

None of the trade receivables of the Group that are neither past due nor impaired have been renegotiated during the financial year.

Receivables that past due but not impaired

Based on past experience, the Group is satisfied that no impairment is necessary in respect of these trade receivables. These trade receivables are substantially from companies with good collection track records and no recent history of default. These trade receivables are unsecured in nature.

NOTES TO THE FINANCIAL STATEMENTS

17. TRADE RECEIVABLES (CONTINUED)

iv) The reconciliation of movements in impairment losses of trade receivables are as follows:-

	Group 2017 RM	Group 2016 RM
At 1 July	822,307	798,893
Charge for the financial year	70,531	23,414
Reversal of impairment	(29,751)	-
At 30 June	863,087	822,307

Trade receivables that are individually determined to be impaired at the end of each reporting period relate to those debtors that exhibit significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

18. NON–TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Non-trade receivables*	764,005	12,772,055	1,037	1,037
Deposits	614,393	440,688	-	-
Prepayment (i)	1,209,300	1,262,393	-	-
Input taxation	642,418	2,371,494	-	-
	3,230,116	16,846,630	1,037	1,037

(i)

	Group 2017 RM	Group 2016 RM
Prepayment	1,281,962	1,262,393
Less: Impairment loss	(72,662)	-
Prepayment - Net	1,209,300	1,262,393

(ii) The reconciliation of movements in impairment losses of prepayment are as follows:-

	Group 2017 RM	Group 2016 RM
At 1 July	-	-
Charge for the financial year	72,662	-
At 30 June	72,662	-

Prepayments that are individually determined to be impaired at the end of each reporting period related to those debtors that exhibit significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

NOTES TO THE FINANCIAL STATEMENTS

19. SHARE CAPITAL

	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Authorised:				
Ordinary shares of RM1.00 each				
At beginning of the year	200,000,000	100,000,000	200,000,000	100,000,000
Created during the financial year	-	100,000,000	-	100,000,000
At the end of the year	200,000,000	200,000,000	200,000,000	200,000,000
Issued and fully paid:				
Ordinary shares of RM1.00 each				
At beginning of the year	100,000,000	89,070,000	100,000,000	89,070,000
Employees share option scheme	4,000,000	10,930,000	4,000,000	10,930,000
At the end of the year	104,000,000	100,000,000	104,000,000	100,000,000

(a) During the financial year ended 30 June 2017, the authorized share capital of the Company was increased from RM100,000,000 to RM104,000,000 by the creation of additional 4,000,000 new ordinary share of RM1.00 each.

The issued and fully paid-up ordinary share capital of the Company was increased from RM100,000,000 to RM104,000,000 by way of issuance of RM4,000,000 new ordinary shares of RM1.00 each pursuant to the following:

(i) 4,000,000 options exercised under the Employees' Share Option Scheme (ESOS) at exercise price of RM1.00 per ordinary share for cash, which resulted in 4,000,000 new ordinary shares of RM1.00 each being allotted and issued.

(b) During the financial year ended 30 June 2016, the issued and fully paid-up ordinary share capital of the Company was increased from RM89,070,000 to RM100,000,000 by way of issuance of RM10,930,000 new ordinary shares of RM1.00 each pursuant to the following:

(i) 10,930,000 options exercised under the Employees' Share Option Scheme (ESOS) at exercise price of RM1.00 per ordinary share for cash, which resulted in 10,930,000 new ordinary shares of RM1.00 each being allotted and issued.

20. EMPLOYEES' SHARE OPTION SCHEME ("ESOS")

An Employees' Share Option Scheme ("ESOS" or "Scheme"), governed by the by-laws was approved by the shareholders at the Annual General Meeting held on 11 November 2015.

The principal features of ESOS are as follows:-

(a) Scheme shall be in force for a period of five years from the effective date of implementation of the Scheme but subject to any extension or renewal for a further period of five years.

(b) Eligible persons are employees of the Group, who is a Malaysian citizen who has attained eighteen (18) years of age (including Executive Directors) and have been confirmed and has served at least six (6) months in the employment of the Group on the date of the offer or where the Executive Director or employee is under an employment contract, the contract is for a duration of at least one (1) year and has not expired within three (3) months from the date of offer. The eligibility for participation in ESOS shall be at the discretion of the ESOS Committee appointed by the Board of Directors.

(c) The total number of shares to be issued under ESOS shall not exceed 15% of the issued and paid-up share capital of the Company being, the maximum allowable allotment of shares, at any point of time during the duration of the Scheme.

NOTES TO THE FINANCIAL STATEMENTS

20. EMPLOYEES' SHARE OPTION SCHEME ("ESOS") (CONTINUED)

(d) The option price for each new RM 1.00 share to be offered shall be determined by the ESOS Committee in the following manner:-

(i) a price at a discount of not more than ten percent (10%) from the five (5) days weighted average market price of the Company's shares as shown in the daily official list issued by Bursa Malaysia Securities Berhad immediately preceding the Date of Offer; or

(ii) the par value of the Company's shares of RM 1.00 each, whichever is the higher.

(e) No option shall be granted for less than 100 shares and shall always be in multiples of 100 shares.

(f) An offer made by the ESOS Committee to a selected employee shall be valid for a period of forty-five days from the date of offer and may be accepted within this prescribed period by the selected employee to whom the offer is made by written notice to the ESOS Committee. Upon acceptance of an offer, the Grantee may during the option period exercise his options in full or in part in such manner as stipulated in the offer letter.

(g) All new ordinary shares issued upon exercise of the options granted under ESOS will rank pari-passu in all respects with the existing ordinary shares of the Company except that the shares so issued will not be entitled to any dividends, rights allotments and/or other distributions, the entitlement date of which is prior to the date of allotment of the new ordinary shares.

During the financial year, the number of options over the ordinary shares of RM 1.00 each of the Company granted under the ESOS are as follows:-

			Number of options over ordinary shares of RM1.00 each			
Grant date	Expiry date	Exercise price RM per share	Balance at 01.07.2016	Granted	Exercised	Outstanding and exercisable as at 30.06.2017
21.9.2016	-	1.00	-	4,000,000	(4,000,000)	-

As such, the fair value of the options on their respective grant dates are:-

Listing Date	No. of Shares (Unit)	Exercise Price of Shares (RM)	Fair Value on Grant Date (RM)
30 June 2016			
18 September 2015	190,500	1.00	0.20 (i)
29 December 2015	5,590,000	1.00	0.24 (ii)
24 February 2016	1,700,000	1.00	0.24 (iii)
25 April 2016	3,449,500	1.00	0.18 (iv)
30 June 2017			
6 October 2016	4,000,000	1.00	0.25 (v)

Assumptions used to arrive at the fair value of the share options:-

Assumptions	(i)	(ii)	(iii)	(iv)	(v)
Average Weighted Share Price	RM0.74	RM0.68	RM0.79	RM0.82	RM0.81
Weighted Average Exercise Price	RM1.00	RM1.00	RM1.00	RM1.00	RM1.00
Expected volatility	41.72%	44.58%	42.12%	42.14%	38.01%
Risk Free Interest Rate	3.87%	4.24%	4.26%	3.91%	3.77%
Expected life of option	5 years	5 years	5 years	5 years	5 years

NOTES TO THE FINANCIAL STATEMENTS

20. EMPLOYEES' SHARE OPTION SCHEME ("ESOS") (CONTINUED)

Effect of the ESOS transaction on the Company's profit or loss during the year as per below: -

Value of employee services received for issue of share options:

The authorization of the grant and exercise of Options and the subsequent listing of 4,000,000 new ordinary shares of RM1.00 each pursuant to the ESOS was granted by Members of the Company at the Annual General Meeting held on 11 November 2015 ("the Authorization"). From the implementation of the 1st ESOS for which shareholders' approval was obtained in 2009 until the end of the financial year under review, a total of 37,100,000 options had been granted to the eligible employees of the Group, of which 14,739,500 Options were from said Mandate.

During the financial year and since the implementation of the ESOS until the end of the financial year, the senior management of the Company and its subsidiaries had been granted 31.21% of the total options available under the ESOS.

	Group	
	2017 RM	2016 RM
Share-based payment expense (transaction cost)	1,084	75,505

21. HIRE PURCHASE CREDITORS

Group	Hire Purchase Creditors RM	Hire Purchase Interest Suspense RM	Net RM
Obligations at 30 June 2017			
Over than 2 years	3,501,708	(224,716)	3,276,992
Later than 12 months and not later than 2 years	2,567,879	(270,729)	2,297,150
	6,069,587	(495,445)	5,574,142
Due within 12 months	7,098,663	(617,950)	6,480,713
	13,168,250	(1,113,395)	12,054,855
Obligations at 30 June 2016			
Over than 2 years	6,381,781	(902,328)	5,479,453
Later than 12 months and not later than 2 years	7,298,904	(928,233)	6,370,671
	13,680,685	(1,830,561)	11,850,124
Due within 12 months	8,326,642	(1,272,281)	7,054,361
	22,007,327	(3,102,842)	18,904,485

The hire purchase bears interest at 2.76% - 6.60% (2016:2.86% - 6.60%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

22. BORROWINGS

	Group 2017 RM	2016 RM
Non-current liabilities:-		
Banker's acceptance	-	5,000,000
Term loans	-	266,667
	-	5,266,667
Current liabilities:-		
Banker's acceptance	54,153,000	52,144,757
Term loans	266,667	724,670
	54,419,667	52,869,427
Total borrowings	54,419,667	58,136,094

	Group 2017 RM	2016 RM
Represented by:-		
Banker's acceptance (Note a)	54,153,000	57,144,757
Term loans (Note b)	266,667	991,337
	54,419,667	58,136,094

a) Banker's acceptance

i) The bankers' acceptance bear interest negotiated and agreed at commercial banking rates per annum.

ii) In respect of the financial year ended 30 June 2017, the borrowing rate ranges for bankers' acceptance from 3.63% to 5.85% (2016: 3.27% to 5.72%) per annum.

b) Term loan

i) The term loan is unsecured by corporate guarantees given by the Company to its subsidiary company and negative pledge over the unencumbered assets of the Company.

ii) It is repayable by 60 equal monthly installments ending April 2017 and February 2018.

Interest is charged at 1.5% (2016: 1.5%) above cost of funds.

NOTES TO THE FINANCIAL STATEMENTS

23. DEFERRED TAX

	Group	
	2017 RM	2016 RM
As at beginning of the year	1,715,191	1,578,182
Amount recognised in the income statement	1,641,262	137,009
As at end of the year	3,356,453	1,715,191

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

Deferred tax liabilities of the Group:-

	Property, plant and equipment RM	Others RM	Total RM
As at 1 July 2016	1,715,191	-	1,715,191
Recognised in the income statement	1,641,262	-	1,641,262
As at 30 June 2017	3,356,453	-	3,356,453

24. TRADE PAYABLES

	Group	
	2017 RM	2016 RM
Trade payables	15,333,695	18,617,682

The normal trade credit terms granted to the Group range from 30 to 90 days (2016: 30 to 90 days) from date of invoice.

25. NON-TRADE PAYABLES AND ACCRUALS

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Non-trade payables	2,279,100	2,158,237	48,039	99,394
Accruals	349,006	1,174,515	179,806	156,500
Deposits	21,000	49,900	-	-
Output taxation	60,073	1,500,483	-	-
	2,709,179	4,883,135	227,845	255,894

NOTES TO THE FINANCIAL STATEMENTS

26. SIGNIFICANT RELATED PARTIES' TRANSACTIONS

	Group	
	2017 RM	**2016 RM**
Dividend income charge from a subsidiary company		
- Khee San Food Industries Sdn. Bhd.	(1,550,000)	(900,000)
Amount due from a subsidiary company		
- Khee San Food Industries Sdn. Bhd.	71,949,094	68,602,094
- Khee San Marketing Sdn. Bhd.	4,278,419	-

The Directors are of the opinion that all the transactions above have been entered into the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

27. CONTINGENT LIABILITIES

	Group	
	2017 RM	**2016 RM**
Corporate guarantees given to financial institutions for banking facilities granted to a subsidiary, (unsecured)	83,400,000	71,078,225

The Group provides corporate guarantees up to a total amount of RM83,400,000 (2016: RM71,078,225) to licensed banks for banking facilities granted to a subsidiary.

28. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities within the Group will be able to maintain an optimal capital structure so as to support their businesses and maximise shareholders' value. To achieve this objective, the Group may make adjustments to the capital structure in view of changes in economic conditions, such as adjusting the amount of dividend payment, returning of capital to shareholders or issuing new shares.

The Group manages its capital based on debt-to-equity ratio. The debt-to-equity ratio is calculated as net debt divided by total equity. Net debt is calculated as borrowings plus trade and other payables less cash and bank balances.

During the year, no significant changes were made in the objectives, policies or processes for managing capital.

The debts-to-equity ratio at the reporting date was as follows:-

	Group	
	2017 RM	**2016 RM**
Debts		
Total borrowings	54,419,667	58,136,094
Hire purchase creditors	12,054,855	18,904,485
Trade and other payables	18,042,874	23,500,817
	84,517,396	100,541,396
Less: Cash and bank balances	(8,639,548)	(5,962,354)
Net debts	75,877,848	94,579,042
Capital		
Total equity	159,758,836	153,171,801
Debts-to-equity	0.47	0.62

NOTES TO THE FINANCIAL STATEMENTS

29. SEGMENTAL REPORTING

Segmental information is presented in respect of the Group of business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can allocated on reasonable basis.

For management purposes, the Group is organized into the following operating divisions:-
- Investment
- Manufacturing and trading

	Investment holding		Manufacturing and trading		Consolidated	
Business segments	**2017 RM**	**2016 RM**	**2017 RM**	**2016 RM**	**2017 RM**	**2016 RM**
Revenue						
External revenue	-	-	142,844,009	156,957,156	142,844,009	156,957,156
Inter-segment revenue	-	-	-	-	-	-
	-	-	142,844,009	156,957,156	142,844,009	156,957,156
Results						
Segment result	481,371	511,436	2,689,584	6,304,456	3,170,955	5,793,020
Other operating income	-	-	7,078,680	3,457,267	7,078,680	3,457,267
Operating profit	481,371	511,436	9,768,264	9,761,723	10,249,635	9,250,287
Finance cost	-	-	(4,032,005)	(4,194,027)	(4,032,005)	(4,194,027)
Taxation	(12,657)	(10,056)	(2,577,938)	(134,282)	(2,590,595)	(144,338)
Profit for the financial year	**(494,028)**	**(521,492)**	**3,158,321**	**5,433,414**	**3,627,035**	**4,911,922**
Other information						
* Segment assets	(2,727,191)	889,536	250,298,619	254,095,540	247,571,428	254,985,076
Unallocated assets	-	-	-	443,312	-	443,312
Consolidated total assets	(2,727,191)	889,536	250,298,619	254,538,852	247,571,428	255,428,388
** Segment liabilities	75,999,668	68,346,200	(160,494,419)	(168,887,596)	(84,494,751)	(100,541,396)
Unallocated liabilities	-	-	(3,356,453)	(1,715,191)	(3,356,453)	(1,715,191)
Consolidated total liabilities	75,999,668	68,346,200	(163,850,872)	(170,602,787)	(87,851,204)	(102,256,587)
Capital expenditure	-	-	10,702,708	10,615,124	10,702,708	10,615,124
Depreciation	-	-	5,879,238	5,736,871	5,879,238	5,736,871

* Segment assets comprise total current and non-current assets, less tax recoverable and deferred income tax assets.
** Segment income liabilities comprise total current and long-term liabilities, less tax payable and deferred income tax liabilities.

NOTES TO THE FINANCIAL STATEMENTS

29. SEGMENTAL REPORTING (CONTINUED)

Geographical segments

The Group geographical segments are based on the location of the customers.

Revenue information based on the geographical location of customers are as follows:

	Revenue	
	2017	**2016**
Malaysia	48.7%	56.1%
Singapore	13.7%	15.8%
Hong Kong	12.9%	4.0%
Vietnam	0.2%	3.7%
Others	24.5%	20.4%
	100.0%	100.0%

Major customers

During the financial year, there were few customers that contributed to more than 10% of the Group's revenue.

		Revenue	
Customer	**Origin's Country**	**2017**	**2016**
A	Malaysia	25.8%	20.8%
B	Singapore	13.7%	19.0%
C	Malaysia	17.1%	28.7%
D	Hong Kong	12.9%	11.0%

30. FINANCIAL INSTRUMENTS

The operations of the Group are subject to a variety of market risks, including credit risk, foreign currency exchange risk, interest rate risk, liquidity risk and cash flow risk and market risk. The Group has formulated guidelines and policies as well as internal controls which seek to minimize the Group's exposure to risks associated with the financing, investing and operating activities of the Group.

(a) Financial risk management objectives and policies

(i) Credit risk

Deposits, cash and bank balances placed with major financial institutions of which the Directors believe that the possibility of non-performance by these financial institutions is remote on the basis of their financial strength.

Therefore, credit risk arises mainly from the inability of its customers to make payments when due. The Group has a credit policy in place to evaluate customers requiring credit over a certain amount or period. Credit risk is further minimized and is monitored via strictly limiting the Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via the Group's management reporting procedures.

The Group does not hold any collateral and thus, the credit exposure is continuously monitored by the Directors.

The ageing analysis of trade receivable and movement of impairment of trade receivables are as disclosed in Note 17.

(ii) Interest rate risk

The Group's exposure to interest rate risk arises from interest-bearing borrowings of which the Group reviews and monitors the interest rates at regular intervals. The hire-purchase, bank overdraft, bankers' acceptances, trust receipts and term loan bear interest registered at commercial banking rates per annum.

Sensitivity analysis for interest rate risk: -

As at 30 June 2017, if interest rates at the date had been 100 basis points lower with all other variables held constant, profit before income for the year would have been approximately RM664,745 (2016 : RM770,406) higher and vice versa.

NOTES TO THE FINANCIAL STATEMENTS

30. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial risk management objectives and policies (continued)

(iii) Liquidity risk and cash flow risk

The Group actively manages its operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash and cash equivalents to meet its working capital requirements and prudently balances its portfolio of short term and long term funding requirements.

The table below summarises the maturity profile of the Group's liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	Group			
	Within 1 year RM	1 to 5 years RM	Over 5 years RM	Total RM
Financial liabilities at 30 June 2017:				
Borrowings	54,419,667	-	-	54,419,667
Hire-purchase creditors	6,480,713	2,297,150	3,276,992	12,054,855
Trade and other payables	18,042,874	-	-	18,042,874
Total undiscounted financial liabilities	78,943,254	2,297,150	3,276,992	84,517,396

	Group			
	Within 1 year RM	1 to 5 years RM	Over 5 years RM	Total RM
Financial liabilities at 30 June 2016:				
Borrowings	52,869,427	5,266,667	-	58,136,094
Hire-purchase creditors	7,054,361	6,370,671	5,479,453	18,904,485
Trade and other payables	23,500,817	-	-	23,500,817
Total undiscounted financial liabilities	83,424,605	11,637,338	5,479,453	100,541,396

(iv) Foreign currency exchange risk

The Group is exposed to foreign currency on transactions and balances that are denominated in currencies other than Ringgit Malaysia. The Group monitors the movements in foreign currency exchange rates closely to ensure their exposure is minimized.

The net unhedged financial assets and liabilities of the Group that are not denominated in their functional currencies are as follows:

	Group	
2017	Trade receivables RM	Cash and bank balances RM
Euro	1,646,685	-
Australian Dollar	6,399	-
US Dollar	27,838,138	2,416
Thailand Bhat	332,615	-
Japanese Yen	8,067,140	-
Hong Kong Dollar	9,557,323	-
Indonesia Rupiah	782,961	-
	48,231,261	2,416

NOTES TO THE FINANCIAL STATEMENTS

30. FINANCIAL INSTRUMENTS (CONTINUED)

(iv) Foreign currency exchange risk (continued)

	Group	
	Trade receivables RM	Cash and bank balances RM
2016		
Euro	1,024,180	-
Singapore Dollar	188,577	-
US Dollar	21,720,014	2,631
Thailand Bhat	77,013	-
Japanese Yen	8,369,373	-
Hong Kong Dollar	8,634,511	-
Indonesia Rupiah	165,275	-
	40,178,943	2,631

(b) Classification of financial instruments

(i) Classification of financial instruments is as follows:-

	Group	
	2017 RM	2016 RM
FINANCIAL ASSETS		
Loans and receivables financial assets		
Trade receivables	61,621,565	53,569,208
Other receivables, deposits and prepayments	3,230,116	16,846,630
Cash and bank balances	8,639,548	5,962,354
	73,491,229	76,378,192

	Group	
	2017 RM	2016 RM
FINANCIAL LIABILITIES		
Other financial liabilities		
Trade payables	15,333,695	18,617,682
Other payables and accruals	2,709,179	4,883,135
Hire-purchase creditors	12,054,855	18,904,485
Borrowings	54,419,667	58,136,094
	84,517,396	100,541,396

NOTES TO THE FINANCIAL STATEMENTS

30. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Classification of financial instruments (continued)

(ii) Net gains and losses arising from financial instruments

	Group 2017 RM	2016 RM
Net losses arising from:		
Loans and receivables	73,491,229	76,378,192
Other financial liabilities	(84,517,396)	(100,541,396)
	(11,026,167)	(24,163,204)

(c) Fair values

In the opinion of the Directors, the carrying amounts of financial assets and financial liabilities of the Group at the statement of financial position date are approximate their fair values except as set out below:-

	Group 2017		2016	
Recognised	**Carrying amount RM**	**Fair value RM**	**Carrying amount RM**	**Fair value RM**
Hire-purchase payables	12,054,855	11,476,222	18,904,485	18,082,140
Term loans	26,667	25,520	991,337	950,692
	12,081,522	11,501,742	19,895,822	19,032,832

Unrecognised

The Company provides guarantee to lenders for financial facilities extended to subsidiaries which are disclosed in Note 22 to the financial statements. The fair value of the financial corporate guarantee is negligible as the probability of the subsidiaries defaulting on the financing facilities is remote.

31. SUPPLEMENTARY INFORMATION DISCLOSED PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS

The breakdown of the retained profit of the Group and of the Company as at 30 June 2017 into realised and unrealised profits is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad and prepared 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.

The retained earnings as at 30 June 2017 as follow:-

	Group RM	Company RM
The retained earnings of Khee San Berhad and its subsidiaries		
Realised	39,141,309	1,943,660
Unrealised	3,356,453	-
Less: Consolidated adjustments	4,240,653	-
Total retained earnings	46,738,415	1,943,660

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 and should not be applied for any other purposes.

ADDITIONAL INFORMATION

NON-AUDIT FEES

There was no non-audit fees incurred during the financial year under review.

MATERIAL CONTRACT

There has been no material contracts entered into by the Company (not being contracts entered into in the ordinary course of business of the Company) involving the Directors and Major Shareholders for the financial year under review.

REVALUATION POLICY

The Group adopts a policy to revalue at a regular interval of at least once in every 5 years for its landed properties with additional valuations in the intervening years where market conditions indicate that the carrying values of the revalued land and buildings materially differ from the market value. There was no revaluation exercise on the Group's landed properties during the financial year ended 30th June 2017. The next revaluation will be due in 2021.

UTILISATION OF PROCEEDS

The proceeds from exercise of options by eligible Directors and employees granted in accordance to the By-Laws of Employees' Share Option Scheme ("ESOS") (after deducting expenses incurred in the issuance of new shares) were utilised for the purpose of funding the continuing growth and expansion and working capital requirement of the Group.

RECURRENT RELATED PARTY TRANSACTIONS OF REVENUE OR TRADING NATURE

The recurrent related party transaction entered into by the subsidiary of the Company, i.e. Khee San Food Industries Sdn Bhd ("KSFI") during the financial year ended 30th June 2017 were as follows:-

Related Parties	Nature of Relationship	Nature of Transaction	Transacted Value from 1st July 2016 to 30th June 2017 (RM)
London Biscuits Berhad	London Biscuits Berhad is one of the Substantial Shareholders in the Company with 20.00% Shareholding.	Sale of sweets and confectionery products including contract manufacturing of deposited candies, hard and chewy candies/ sweets, wafers and chewing gums on a perpetual basis by KSFI to London Biscuits Berhad.	41,062,691.50
London Biscuits Berhad	London Biscuits Berhad is one of the Substantial Shareholders in the Company with 20.00% Shareholding.	Purchase of assorted raw materials, such as packaging materials, sugar and flavourings on a perpetual basis by KSFI from London Biscuits Berhad.	10,098,443.51
Kinos Food Industries (M) Sdn Bhd	Kinos Food Industries (M) Sdn Bhd is the wholly-owned subsidiary of London Biscuits Berhad.	Rental of machineries, such as fryer machine, for the purposes of producing the products, such as potato chips and others, on a perpetual basis by KSFI to Kinos Food Industries (M) Sdn Bhd. The transaction will be on an arm's length basis and based on a rate which would be lower than market rate or at market rate.	316,093.32

The Company intends to seek its Shareholders' approval to renew the shareholders' mandate for the Recurrent Related Party Transactions at the forthcoming Annual General Meeting.

ADDITIONAL INFORMATION (CONTINUED)

EMPLOYEES' SHARE OPTION SCHEME ("ESOS")

The current ESOS scheme of the Company is governed by the By-Laws approved by the Shareholders at the Annual General Meeting held on 11th November 2015 and commenced on 20th November 2015 for a period of 5 years and subject to extension or renewal for a further period of 5 years.

During the financial year under review, there were 1 ESOS option which have been offered and subscribed by the eligible employees of the Group, as described below:-

- Allotment of 4,000,000 new ordinary shares of RM1.00 each per share on 1st October 2016 and listed on 6th October 2016.

The information in relation to the ESOS for the financial year under review is as follow:-

Category of Employees	No. of ESOS Options Granted/Vested as at 30th June 2017	No. of ESOS Options Exercised	No. of ESOS Options Lapsed	No. of ESOS Options Outstanding
Directors *	1,500,000	1,500,000	-	-
Senior Management	850,000	850,000	-	-
Other Employees	1,650,000	1,650,000	-	-
Total	4,000,000	4,000,000	-	-

** Dato' Sri Liew Yew Chung has resigned as the Chief Executive Officer of the Company on 5th January 2017. He is currently the Non-Independent Non-Executive Chairman of the Company.*

The percentage of share options applicable to the Directors and senior management under the ESOS are as follows:-

Directors and Senior Management	During the Financial Year Ended 30th June 2017 *	Since Commencement of the ESOS up to 30th June 2017 *
Aggregate maximum allocation	15.94%	41.39%
Actual granted and accepted	15.94%	41.39%

** Dato' Sri Liew Yew Chung has resigned as the Chief Executive Officer of the Company on 5th January 2017. He is currently the Non-Independent Non-Executive Chairman of the Company.*

The Company did not grant any options over the ordinary shares pursuant to the ESOS to any Non-Executive Directors.

LIST OF PROPERTIES OF THE GROUP

AS AT 30TH JUNE 2017

Year of Revaluation (Acquisition)	Location	Postal Address	Tenure & Usage (Approx. age of buildings) (Years)	Land Area (sq. m.)	Description	Net Book Value as at 30th June 2017 (RM)
KHEE SAN FOOD INDUSTRIES SDN BHD						
2016 (1982)	Lot Nos. 1819 to 1824 & 1832, Mukim & District of Petaling Selangor Darul Ehsan	Lots 1819 to 1824, Jalan Kolej, 43300 Seri Kembangan, Selangor Darul Ehsan	Freehold Own Use (30 to 49 years)	22,887.48	Factory and office	27,840,000
2016 (1993 - 1996)	GM 461, Lot 14254 (Lot No. 14254, PT No. 9221) Mukim & District of Petaling, Selangor Darul Ehsan	No CS-16A, Jalan Jinma 1, Taman Jinma, 43300 Seri Kembangan, Selangor Darul Ehsan	Freehold Workers' Hostel (39 to 44 years)	416.84	1 unit of semi-permanent single storey semi-detached house with 2 sections	246,840
2016 (1993 - 1996)	GM 904, Lot 30731 (Lot No. 11251, P.T. No. 9218), Mukim & District of Petaling, Selangor Darul Ehsan	No. CS-30A, Jalan Jinma 1, Taman Jinma, 43300 Seri Kembangan, Selangor Darul Ehsan	Freehold Workers' Hostel (39 to 44 years)	531.13	1 unit of semi-permanent single storey semi-detached house with 2 sections	313,720
2016 (1993 - 1996)	GM 449, Lot 14241 (Lot No. 14241, GM No 68), Mukim & District of Petaling, Selangor Darul Ehsan	No. CS-41A & 41B, Jalan Jinma 1, Taman Jinma, 43300 Seri Kembangan, Selangor Darul Ehsan	Freehold Workers' Hostel (39 to 44 years)	428.18	1 unit of semi-permanent single storey semi-detached house with 2 sections	235,300
2016 (1993 – 1996)	GM 902, Lot 30729 (Lot No. 11244, P.T. No. 9211), Mukim & District of Petaling, Selangor Darul Ehsan	No. CS-43A, Jalan Jinma 1, Taman Jinma, 43300 Seri Kembangan, Selangor Darul Ehsan	Freehold Workers' Hostel (38 to 43 years)	413.14	1 unit of semi-permanent single storey semi-detached house with 2 sections	244,530
					TOTAL	**28,880,390**

Note:
Revalued by Independent Professional Valuer
** The last Revaluation of the Properties of were performed on 31 March 2016*

ANALYSIS OF SHAREHOLDINGS
AS AT 12TH OCTOBER 2017

Issued and Paid-Up Capital : RM104,000,000.00 divided into 104,000,000 ordinary shares
Class of shares : Ordinary shares
Voting rights : One vote per ordinary share

THIRTY LARGEST SECURITIES HOLDERS (WITHOUT AGGREGATING SECURITIES FROM DIFFERENT SECURITIES ACCOUNTS BELONGING TO THE SAME PERSON)

	Name	No. of Shares Held	% of Issued Share Capital
1.	LONDON BISCUITS BERHAD	20,800,000	20.00
2.	LIM PEI TIAM @ LIAM AHAT KIAT	12,633,100	12.15
3.	LOR FOOK YIN	3,898,500	3.75
4.	KENANGA NOMINEES (TEMPATAN) SDN BHD BENEFICIARY : PLEDGED SECURITIES ACCOUNT FOR LIEW YEW CHUNG	2,500,000	2.40
5.	TEE YEOW	2,337,200	2.25
6.	LIM AH WAA	2,106,000	2.03
7.	MIDF AMANAH INVESTMENT NOMINEES (TEMPATAN) SDN BHD BENEFICIARY : PLEDGED SECURITIES ACCOUNT FOR LIEW YEW CHUNG (MGN-LYC0006M)	2,000,000	1.92
8.	SECRET INGREDIENTS SDN BHD	1,631,300	1.57
9.	CIMSEC NOMINEES (TEMPATAN) SDN BHD BENEFICIARY : CIMB BANK FOR LIEW YEW CHUNG (M68106)	1,500,000	1.44
10.	LIM PAY KAON	1,500,000	1.44
11.	JF APEX NOMINEES (TEMPATAN) SDN BHD BENEFICIARY : PLEDGED SECURITIES ACCOUNT FOR LIEW YEW CHUNG (MARGIN)	1,350,000	1.30
12.	LIEW SWEE MIO @ LIEW HOI FOO	1,300,700	1.25
13.	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD BENEFICIARY : PLEDGED SECURITIES ACCOUNT FOR LIEW YEW CHUNG (100411)	1,280,000	1.23
14.	AFFIN HWANG NOMINEES (TEMPATAN) SDN BHD BENEFICIARY : PLEDGED SECURITIES ACCOUNT FOR LIEW YEW CHUNG (M02)	1,220,000	1.17
15.	THAM KIN FOONG (JOHN)	1,155,200	1.11
16.	MAYBANK NOMINEES (TEMPATAN) SDN BHD BENEFICIARY : PLEDGED SECURITIES ACCOUNT FOR LIEW YEW CHUNG	1,150,000	1.11
17.	TAN KUAN KAE	1,020,000	0.98
18.	CIMSEC NOMINEES (TEMPATAN) SDN BHD BENEFICIARY : CIMB BANK FOR LIM HENG MIN (M68067)	899,800	0.87
19.	LIM YING YING	883,600	0.85
20.	GAN THENG PUAT @ YEOW THENG PUAT	836,700	0.80
21.	CIMSEC NOMINEES (TEMPATAN) SDN BHD BENEFICIARY : CIMB BANK FOR WONG KIND LOOK (M68073)	750,000	0.72
22.	KOK PUH CHIN	712,500	0.69
23.	CIMSEC NOMINEES (TEMPATAN) SDN BHD BENEFICIARY : CIMB BANK FOR LOH CHAN KEOW (M68069)	700,000	0.67
24.	CIMSEC NOMINEES (TEMPATAN) SDN BHD BENEFICIARY : CIMB BANK FOR WONG SOO LEN (M68074)	700,000	0.67
25.	CIMSEC NOMINEES (TEMPATAN) SDN BHD BENEFICIARY : CIMB BANK FOR LIM KHENG TAT (M68112)	700,000	0.67
26.	AU YONG MUN YUE	670,000	0.64
27.	SIM YERN THENG	650,000	0.63
28.	TAN KWE HEE	640,000	0.62
29.	CIMSEC NOMINEES (TEMPATAN) SDN BHD BENEFICIARY : CIMB BANK FOR THYE CHEE LIN (M79023)	613,500	0.59
30.	TAN LEE HWA	610,000	0.59
	TOTAL	68,748,100	66.10

ANALYSIS OF SHAREHOLDINGS
AS AT 12th OCTOBER 2017 (CONTINUED)

ANALYSIS BY SIZE OF SHAREHOLDINGS

Size of Holdings	No. of Shareholders	%	No. of Shares Held	%
Less than 100	156	7.35	2,484	*
100 – 1,000	270	12.72	138,397	0.13
1,001 – 10,000	1,171	55.16	4,971,109	4.78
10,001 – 100,000	433	20.40	14,412,510	13.86
100,001 – 5,199,999 **	91	4.29	51,042,400	49.08
5,200,000 and above ***	2	0.09	33,433,100	32.15
Total	2,123	100.00	104,000,000	100.00

Remark:
** Negligible*
** less than 5% of issued holdings
*** 5% and above of issued holdings

LIST OF SUBSTANTIAL SHAREHOLDERS

	DIRECT		INDIRECT	
Name of Substantial Shareholders	No. of Shares Held	%	No. of Shares Held	%
LONDON BISCUITS BERHAD	20,800,000	20.00	-	-
LIM PEI TIAM @ LIAM AHAT KIAT	12,633,100	12.15	-	-
DATO' SRI LIEW YEW CHUNG, SSAP, DIMP	11,000,000	10.58	20,830,000 (1)	20.03
DATO' SRI LIEW KUEK HIN, SSAP, DIMP, PJK, JP	30,000	0.03	31,800,000 (1)	30.58
DATIN SRI LIM YOOK LAN	-	-	31,830,000 (1)	30.61
DATO' LIEW YEW CHENG, DIMP	-	-	31,830,000 (1)	30.61
LIEW YET MEI	-	-	31,830,000 (1)	30.61
DATO' LIEW YET LEE, DIMP	-	-	31,830,000 (1)	30.61
MEILEELANUSA SDN BHD	-	-	20,800,000 (2)	20.00

Note:
(1) Deemed interested by virtue of his/her shareholdings in London Biscuits Berhad and his/her family members' shareholdings in Khee San Berhad.
(2) Deemed interested through its substantial shareholdings in London Biscuits Berhad.

LIST OF DIRECTORS' SHAREHOLDINGS

a) *Interest in shares of the Company*

	DIRECT		INDIRECT	
Name of Directors	No. of Shares Held	%	No. of Shares Held	%
DATO' SRI LIEW YEW CHUNG, SSAP, DIMP	11,000,000	10.58	20,830,000 (1)	20.03
EDWARD TAN JUAN PENG	-	-	-	-
LIEW YET MEI	-	-	31,830,000 (1)	30.61
HUANG YAN TEO, PIS, PPN	-	-	-	-
LESLIE LOOI MENG	-	-	-	-
WONG HOCK FOONG	-	-	-	-

Note:
(1) Deemed interested by virtue of his/her shareholdings in London Biscuits Berhad and his/her family members' shareholdings in Khee San Berhad.

b) *Interest in Subsidiaries*

By virtue of Dato' Sri Liew Yew Chung's and Ms. Liew Yet Mei's interests in the Company, they are also deemed to be interested in the shares of all the subsidiaries of the Company to the extent of their interest in the Company.

Save as disclosed above, none of the other directors have any interest in the shares of subsidiaries as at 12th October 2017.

(304376-A)
KHEE SAN BERHAD
Lot 1819-1824,Jalan Kolej, 43300
Seri Kembangan,Selangor,Malaysia.
(603) 8943 1390
(603) 8943 1351
Email : info@kheesanbhd.com
Website : www.kheesan.com.my