PAOS HOLDINGS BERHAD

Incorporated in Malaysia (Company No.: 452536-W)

2016

LAPORAN TAHUNAN
ANNUAL REPORT

19th Annual General Meeting

Venue : **BEST WESTERN i-City Shah Alam,**
A-GF-01, No. 6,
Persiaran Multimedia,
CityPark, i-City,
40000 Shah Alam,
Selangor Darul Ehsan.
Date : Friday, 25 November 2016
Time : 10.00 a.m.

CONTENTS

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Nineteenth Annual General Meeting of the Company will be held at **BEST WESTERN i-City Shah Alam, A-GF-01, No. 6, Persiaran Multimedia, CityPark, i-City, 40000 Shah Alam, Selangor Darul Ehsan** on **25 November 2016, Friday** at **10.00 a.m.**

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 May 2016 together with the Directors' and Auditors' Reports thereon.

(Please refer to Explanatory Note (a))

2. To approve the payment of Directors' Fees of RM179,000.00 in respect of the financial year ended 31 May 2016.

(Resolution 1)

3. To re-elect the following Directors:-

3.1 Ms. Lim Chang Ching who retires pursuant to Article 103 of the Company's Articles of Association and being eligible, offers herself for re-election.

(Resolution 2)

3.2 Mr. Lim Poh Seong who retires pursuant to Article 103 of the Company's Articles of Association and being eligible, offers himself for re-election.

(Resolution 3)

4. To consider and if thought fit, to pass the following resolutions pursuant to Section 129 of the Companies Act, 1965 :-

4.1 "THAT Mr. Wang Hak Tham @ Wong Hak Tham, the Director retiring in compliance with Section 129 of the Companies Act, 1965, be and is hereby re-appointed as Director of the Company to hold office until the conclusion of the next Annual General Meeting."

(Resolution 4)

4.2 "THAT Mr. Yap Min Lee, the Director retiring in compliance with Section 129 of the Companies Act, 1965, be and is hereby re-appointed as Director of the Company to hold office until the conclusion of the next Annual General Meeting."

(Resolution 5)

5. To re-appoint Messrs KPMG as Auditors of the Company and authorise the Directors to fix their remuneration.

(Resolution 6)

6. As Special Business, to consider and if thought fit, to pass the following resolutions:-

(a) Ordinary Resolution – Authority To Directors To Issue Shares

"THAT pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby empowered to issue shares in the Company, at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution in any one financial year does not exceed 10% of the issued capital of the Company for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

(Resolution 7)

(b) Ordinary Resolution – Continuing In Office As Independent Non-Executive Director

"THAT subject to the passing of Resolution 4, authority be and is hereby given to Mr. Wang Hak Tham @ Wong Hak Tham, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, to continue to act as an Independent Non-Executive Director of the Company."

(Resolution 8)

Notice of Annual General Meeting

7. To transact any other business of which due notice shall have been given.

BY ORDER OF THE BOARD

HO MENG CHAN (MACS 00574)
WU SIEW HONG (MAICSA 7039647)
Secretaries

Petaling Jaya
Selangor Darul Ehsan.
28 September 2016

NOTES :-

1. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies to attend and vote in his/her stead. Where two or more proxies are appointed, the proportions of shareholdings to be represented by each proxy must be specified in order for the appointments to be valid. If there is no indication as to how you wish your vote(s) to be cast, the proxy may vote or abstain from voting at his/her discretion.
2. A proxy may but need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
3. The instrument appointing a proxy, in the case of an individual, shall be signed by the appointer or by his/her attorney duly authorised in writing, and in the case of a corporation, shall either be given under its common seal or under the hand of an officer or attorney of the corporation duly authorised.
4. The instrument appointing a proxy must be duly executed and deposited at the Registered Office of the Company at No. 308, Block A (3rd Floor), Kelana Business Centre, 97, Jalan SS7/2, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan not less than 24 hours before the time appointed for holding the meeting or any adjournment thereof.
5. A depositor whose name appears in the Record of Depositors as at 18 November 2016 shall be regarded as a member of the Company entitled to attend the Nineteenth Annual General Meeting or appoint a proxy or proxies to attend and vote on his/her behalf.

EXPLANATORY NOTES

a. This Agenda item is meant for discussion only, as the provision of Section 169(1) of the Companies Act, 1965 does not require a formal approval of the shareholders for the Audited Financial Statements. Hence, this Agenda item is not put forward for voting.

b. Ordinary Resolution -Authority To Directors To Issue Shares

   The effect of the resolution 7 under item 6 of the agenda, if passed, will give authority to the Directors of the Company, from the date of the above Annual General Meeting, to issue and allot shares in the Company up to and not exceeding 10% of the issued share capital of the Company for the time being, for such purposes as they consider would be in the interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the next Annual General Meeting of the Company.

   The proposed Resolution is to seek a renewal of the General Mandate for the issue of new ordinary shares pursuant to Section 132D of the Companies Act, 1965 which was approved by the shareholders at the Eighteenth Annual General Meeting.

   At the date of this notice, no new shares in the Company were issued pursuant to the general authority to the Directors for issuance of shares pursuant to Section 132D of the Companies Act, 1965 at the Eighteenth Annual General Meeting held on 26 November 2015 and which will lapse at the conclusion of the Nineteenth Annual General Meeting.

   With this renewed General Mandate, the Company will be able to raise funds for the purpose of funding future investment, working capital and/or acquisitions.

c. Ordinary Resolution -Continuing In Office As Independent Non-Executive Director

   Mr. Wang Hak Tham @ Wong Hak Tham was appointed as Independent Non-Executive Director of the Company on 2 June 2000, and has, therefore served for more than nine (9) years. He has met the independence guidelines as set out in Chapter 1 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. He does not have any conflict of interest with the Company and has not been entering/is not expected to enter into contract with the Company and/or its subsidiary companies. He has been providing invaluable contributions to the Board in his role as an Independent Non-Executive Director. As such, the Board believes that he should be retained as Independent Non-Executive Director.

Board of Directors

1.

Lim Chang Ching

2.

Lim Zhen Qi

3.

Alice Boo Miau Li

4.

Wang Hak Tham @ Wong Hak Tham

5.

Lim Poh Seong

6.

Yap Min Lee

7.

Cheah Yee Leng

Profile of Directors

LIM CHANG CHING
Executive Chairman,
Non-Independent Executive Director

Ms. Lim Chang Ching, aged 42, female, a Malaysian, was appointed to the Board of Paos Holdings Berhad ("PHB") on 31 January 2007 and redesignated as Executive Chairman of PHB on 25 January 2011. She holds a Bachelor Degree in Business Studies (Honors) from University of Sheffield (United Kingdom) in 1996.

Ms. Lim Chang Ching served as Commercial Manager of Asia Poly Industrial Sdn. Bhd. in May 1998 to March 2000. She then held position as a Business Development Manager in Paos Industries Sdn. Bhd. in April, 2000 to May, 2001. Subsequently, she was appointed as Business Development Director of Asia Poly Industrial Sdn. Bhd. in June 2001 to August 2005. She was the Chief Operating Officer of Hospital Pantai Indah Sdn. Bhd. from September 2005 to August 2006. She was Non-Executive Director of Esthetics International Group Berhad from July 2007 to December 2012. Currently, she is holding directorship in various private limited companies and subsidiaries of PHB.

LIM ZHEN QI
Non-Independent Executive Director

Mr. Lim Zhen Qi, aged 31, male, a Malaysian, was appointed to the Board of PHB on 27 January 2011. He holds a Bachelor of Business (Marketing) in Victoria University, Melbourne, Australia in year 2008. Before his appointment as the Executive Director of PHB, he was the Regional Manager at Loyal Oil Services Pte Ltd in Singapore. Currently, he is holding directorship in subsidiaries of PHB.

ALICE BOO MIAU LI
Non-Independent Executive Director

Ms. Alice Boo, female, aged 47, a Malaysian, was appointed to the Board of PHB on 17 April 2007. She is a Fellow of The Association of Chartered Certified Accountants (FCCA). She has over 10 years of experience in the fields of auditing, accounting and corporate finance. Her previous appointments include an auditor with a major public accounting firm in Kuala Lumpur, Finance Manager and Senior Corporate Finance Manager of several Malaysian public listed companies.

WANG HAK THAM @ WONG HAK THAM
Independent Non-Executive Director

Mr. Wang Hak Tham @ Wong Hak Tham, aged 75, male, a Malaysian, was appointed to the Board of PHB on 2 June 2000. He is an Associate of Chartered Institute of Secretaries and Administrators, London and an Associate of Chartered Institute of Bankers, London. He started his career as an Officer in Malayan Banking Berhad in 1962. He served the bank until 1985 before joining Perwira Affin Bank Berhad ("PABB") as Assistant General Manager in 1986. He left PABB in 1992 to join Long Huat Berhad as Group General Manager. Later, in 1993 he rejoined PABB as the General Manager of Banking & Operations Division before he retired in 1996. Thereafter, in 1997, he was appointed to the board of Kaohsiung Timber Company Sdn. Bhd., a company involved in timber logging and resigned in early 1999. Presently, he is also the Director of Woodlandor Holdings Berhad, a public listed company.

Profile of Directors

LIM POH SEONG
Independent Non-Executive Director

Mr. Lim Poh Seong, aged 49, male, a Malaysian, was appointed to the Board of PHB on 27 January 2011. He is a Fellow of The Association of Chartered Certified Accountants (FCCA). He has over 20 years of experience in the fields of auditing, accounting, corporate finance and overall administration of business operations. He began his career as an auditor with a major accounting firm in Kuala Lumpur in 1989. Subsequently, he joined the commercial sector where he held various positions in the finance and operations divisions of several Malaysian public listed companies. He was appointed as an Executive Director of a public listed company involved in healthcare and was put in charge of the group's overall operations and finance from April 2001 to September 2005. He left the group in February 2007 as the Group Chief Operating Officer. He was an Executive Director of PHB from April 2007 to April 2008 and Asia Poly Holdings Berhad from October 2007 to April 2008, respectively.

YAP MIN LEE
Independent Non-Executive Director

Mr. Yap Min Lee, aged 73, male, a Malaysian, was appointed to the Board of PHB on 22 February 2011. He holds a Bachelor of Art from Nanyang University, Singapore in 1968 and Master of Arts from University of Arkansas, USA in 1969.

He started his career as a lecturer in Nanyang University, Singapore in 1969. He served the University until 1976 before joining PT Cakung Utama Painting & Packaging, Jakarta, Indonesia as a Deputy General Manager in 1977 until 1980. Subsequently, he joined PT Nipsea Paint and Chemicals Medan, Medan, Indonesia as Deputy General Manager in 1980 until 1983. Later, he held position as General Manager in PT Nipsea Paint and Chemicals Surabaya, Surabaya, Indonesia from 1984 to 1996 and PT Nipsea Paint and Chemicals Medan, Medan, Indonesia from 1997 to 2006. He also held directorship in PT Nipsea Paint and Chemicals Indonesia from 1995 to 2006 and PT Jasa Lestari Mandiri, Bogor, Indonesia from 1995 to 2010.

CHEAH YEE LENG
Non-Independent Non-Executive Director

Ms. Cheah Yee Leng, aged 47, female, a Malaysian, was appointed to the Board of PHB on 14 June 2012. She holds a Bachelor of Economics Degree and Bachelor of Laws Degree from Monash University, Australia.

She commenced her career with Hap Seng Consolidated Berhad ("HSCB") group of companies in 1997 and was appointed as Executive Director of HSCB on 1 June 2014 and Hap Seng Plantations Holdings Berhad ("HSP"), a listed subsidiary of HSCB on 1 March 2016. In addition, she is a Non-Independent Non-Executive Director of Hafary Holdings Limited, a company listed on the Mainboard of the Singapore Exchange Securities Trading Limited. She is presently the Director of Corporate Affairs and the Legal Counsel of HSCB Group and also the Group Company Secretary of HSP.

Notes :

1. **Family Relationship with Director and/or Major Shareholder**
   Ms. Lim Chang Ching and Mr. Lim Zhen Qi are sister and brother. Tan Sri Dato' Lim Tong Yong @ Lim Tong Yaim, a major shareholder of PHB is the father of Ms. Lim Chang Ching and Mr. Lim Zhen Qi. Save as disclosed herein, none of the Directors has any family relationship with any other director and/or major shareholder of PHB.

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

3. **Conviction of Offences**
   None of the directors has any conviction for offences, public sanction or penalty imposed by the relevant regulatory bodies within the past 5 years, other than traffic offences.

4. **Attendance of Directors**
   Details of Board meeting attendance of each Director are disclosed in the Statement of Corporate Governance in the Annual Report.

Profile of Key Senior Management

LIM MAY KUIN
Personnel and Administration Director

Lim May Kuin, aged 47, female, a Malaysian, was appointed as Personnel and Administration Director of the Group on 31 December 1995. She is responsible for overseeing the HR and Admin functions of our Group.

She obtained her Diploma in Private Secretarial; following her graduation in 1991, she joined Lion Property Sdn. Bhd. as Credit Control Assistant. She was recruited into The Management of Paos Industries Sdn. Bhd. ("PISB") in 1992 as an Executive Secretary to oversee the Sales, Purchase and the Human Resource Management. She was appointed to the Board of PISB in 1995. She is also a Director of Alpine Legacy (M) Sdn. Bhd. ("ALSB") and Premier Oil Industries Sdn. Bhd. ("POISB") (Subsidiaries of PHB).

LOW HOCK SENG
Technical Director of POISB

Low Hock Seng, aged 66, male, a Malaysian, was appointed as Technical Director of POISB on 1 August 2011. He entrusted with the responsibility of ensuring the smooth running of the production process at POISB's plant in Banting.

He obtained his Senior Middle Three from Tsun Jin High School, Kuala Lumpur in 1969. Prior to joining POISB in 1998, he has a total of 28 years of experience in engineering and technical aspect of the production process of various palm oil (Non Lauric), palm kernel oil (Lauric), exotic fat and blended vegetable oil and fats, after having served Lam Soon (Malaysia) Berhad as Supervisor, Production Executive and Unit Manager, since the start of his career in 1970.

NG WENG YUEN
General Manager of ALSB

Ng Weng Yuen, aged 53, male, a Malaysian, was appointed as General Manager of ALSB on 14 February 2008. He is responsible for overseeing the day to day running of the Property Investment Division.

He obtained his membership with the Chartered Institute of Management Accountants (CIMA) in 1995 and he is also a Chartered Accountant of Malaysian Institute of Accountants (MIA) since 1996. He has over 20 years experience in the field of auditing, accounting and administration of business operation. Before joining the Paos Group, he held various positions with a public listed healthcare group and was Chief Executive Officer of one of the hospital unit.

WONG MEI YOONG
Finance Manager

Wong Mei Yoong, aged 52, female, a Malaysian, was appointed as Finance Manager of the Group on 1 June 2001. She is responsible for overseeing the banking and finance aspects of the Group.

She obtained her Diploma in Accounting in 1983. She possesses more than 13 years of accounting and financing experiences in manufacturing company. She joined PISB in 1995 as an account executive and subsequently promoted to Finance Manager in 2001.

1. **Directorship in public companies and listed issuers**
   None of the Key Senior Management has any directorship in public companies and listed issuers.
2. **Family Relationship with Director and/or Major Shareholder**
   None of the Key Senior Management has any family relationship with any director and/or major shareholder of PHB.
3. **Conflict of Interest**
   None of the Key Senior Management has any conflict of interest with PHB.
4. **Conviction of Offences**
   None of the Key Senior Management has any conviction for offences, public sanction or penalty imposed by the relevant regulatory bodies within the past 5 years, other than traffic offences.

Corporate Information

BOARD OF DIRECTORS

Lim Chang Ching
Executive Chairman,
Non-Independent Executive Director

Lim Zhen Qi
Non-Independent Executive Director

Alice Boo Miau Li
Non-Independent Executive Director

Wang Hak Tham @ Wong Hak Tham
Independent Non-Executive Director

Lim Poh Seong
Independent Non-Executive Director

Yap Min Lee
Independent Non-Executive Director

Cheah Yee Leng
Non-Independent Non-Executive Director

COMPANY SECRETARIES
Ho Meng Chan (MACS 00574)
Wu Siew Hong (MAICSA 7039647)

REGISTERED OFFICE
No. 308, Block A (3rd Floor),
Kelana Business Centre,
97, Jalan SS7/2, Kelana Jaya,
47301 Petaling Jaya,
Selangor Darul Ehsan.
Phone No. : 03-74921818
Fax No. : 03-74921933

HEAD OFFICE
No. 65, Persiaran Selangor,
Section 15, 40200 Shah Alam,
Selangor Darul Ehsan.
Phone No. : 03-55104219
Fax No. : 03-55104230
E-mail : info@paos.com.my
Website : www.paos.com.my

REGISTRARS
Symphony Share Registrars Sdn. Bhd.
Level 6, Symphony House,
Pusat Dagangan Dana 1,
Jalan PJU 1A/46,
47301 Petaling Jaya,
Selangor Darul Ehsan.
Phone No. : 03-78490777
Fax No. : 03-78418151

AUDITORS
KPMG (Firm No. AF 0758)
Chartered Accountants
Level 10, KPMG Tower,
8, First Avenue, Bandar Utama,
47800 Petaling Jaya,
Selangor Darul Ehsan.

PRINCIPAL BANKERS
Citibank Berhad
CIMB Bank Berhad
United Overseas Bank (M) Berhad
Standard Chartered Bank Malaysia Berhad
Public Bank Berhad

STOCK EXCHANGE LISTING
Main Market of Bursa Malaysia Securities Berhad

Executive Chairman's Statement

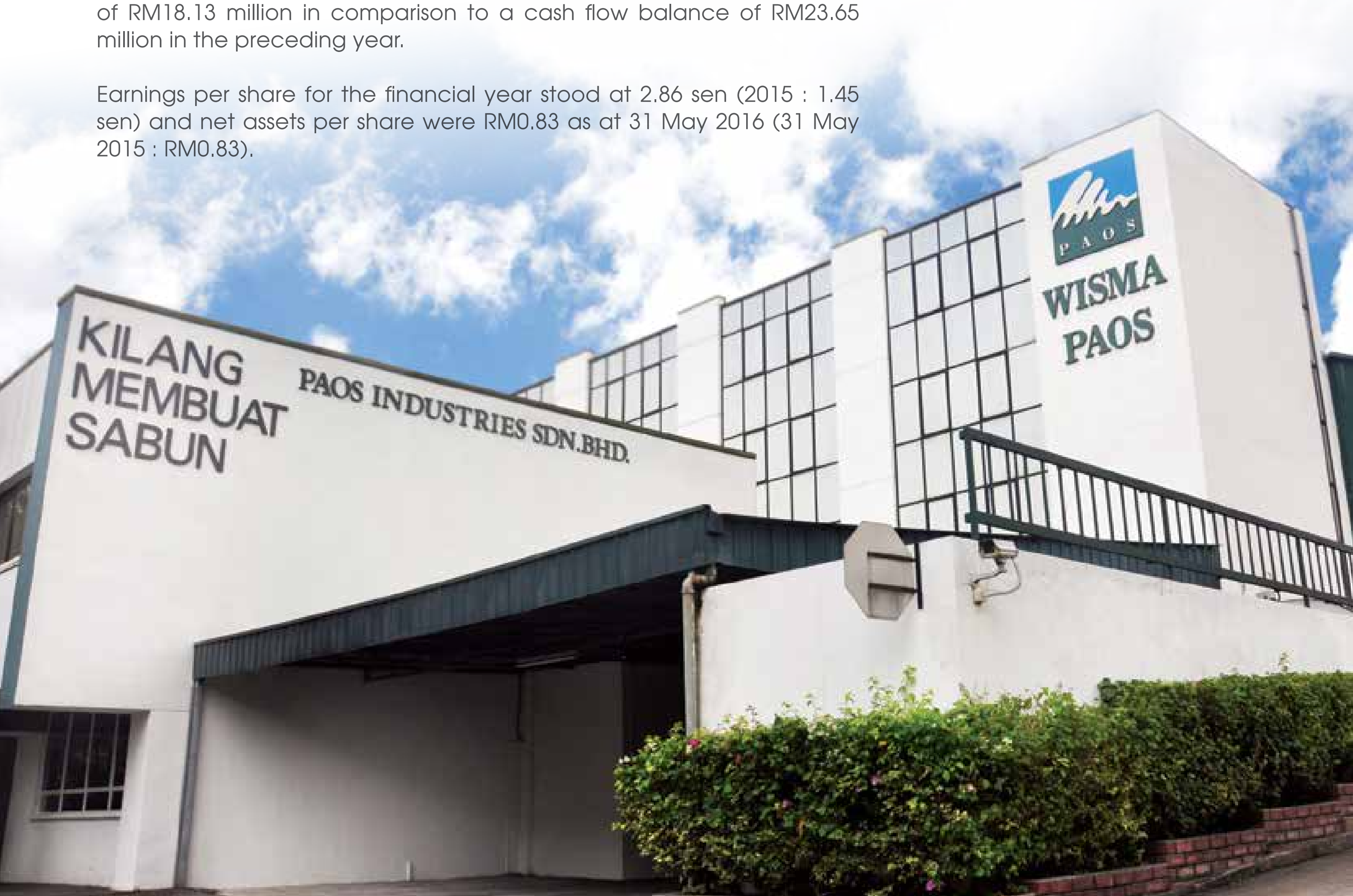
"On behalf of the Board of Directors of Paos Holdings Berhad, it gives me great pleasure to present to you the Nineteenth Annual Report and Audited Financial Statements of the Group and the Company for the financial year ended 31 May 2016."

FINANCIAL HIGHLIGHTS

The Group's performance for the current financial year ended 31 May 2016 has improved in comparison to the preceding financial year ended 31 May 2015. Revenue of the Group increased by 29.4% during the year to RM74.10 million from RM57.28 million recorded in the last financial year. Profit before taxation increased to RM5.40 million from RM3.00 million achieved in the preceding financial year. Correspondingly, profit for the year also increased to RM3.46 million from RM1.75 million in the previous year.

The Group's cash flow position remains strong with a cash flow balance of RM18.13 million in comparison to a cash flow balance of RM23.65 million in the preceding year.

Earnings per share for the financial year stood at 2.86 sen (2015 : 1.45 sen) and net assets per share were RM0.83 as at 31 May 2016 (31 May 2015 : RM0.83).



Executive Chairman's Statement

OPERATIONAL REVIEW

The Group's operations are divided into three business segments namely manufacturing, trading and integrated hotel operation and property investment.

The Group's main manufacturing activities are that of contract manufacturing of bar soap and contract manufacturing of products from palm oil and specialty fats. The manufacturing segment recorded higher revenue for the current financial year ended 31 May 2016 of RM45.75 million as compared with revenue of RM41.24 million in the preceding financial year ended 31 May 2015. Correspondingly, segment profit for the financial year also increased to RM4.78 million from RM2.46 million registered in the preceding financial year.

The Group continues to trade in specialty fats produce from palm oil. The trading segment recorded a segment profit of RM0.39 million against revenue of RM22.18 million during the financial year in comparison to a segment profit of RM0.09 million against revenue of RM9.95 million in the preceding financial year. Revenue for the trading segment increased mainly due to the trading of gas oil which commenced in the fourth quarter of the current financial year ended 31 May 2016.

The Group owns the retail podium and office space located at Kompleks Selangor, Jalan Sultan, Kuala Lumpur along with The 5 Elements Hotel which is located at the adjoining property. There is a slight improvement in the performance of the integrated hotel operation and property investment segment during the financial year. This segment recorded revenue of RM6.17 million and a segment profit of RM0.31 million during the financial year ended 31 May 2016 as compared to a revenue of RM6.09 million and a segment profit of RM0.28 million in the preceding financial year.

DIVIDENDS

The Board of Directors continues to maintain a reasonable balance between dividend payments, funding requirements and the future business growth of the Group as well as the objective of maximising stakeholders returns.

During the financial year ended 31 May 2016, Paos Holdings Berhad paid two interim ordinary dividends totalling 2.5 sen per ordinary share (2015 : 2.5 sen per ordinary share).

Executive Chairman's Statement

PROSPECTS

The Group anticipates the coming year to be challenging with the current economic situation which presents challenging business conditions. However, the Group will keep pursuing its initiatives to further optimise its operations.

The Group will continue to focus and consolidate the existing business operations and resources to overcome the current economic challenges and also strive to improve returns on existing assets. Efforts will continuously be made in improving productivity and efficiency of the operations

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to thank the management team and all our employees for their dedication, commitment and loyalty to the Group.

We would also like to thank all our customers, suppliers, business associates and bankers for their continued support and cooperation.

To all our valued shareholders, we wish to express our appreciation and gratitude for their ongoing confidence and support to the Group.

To my fellow Board members, I thank them for their guidance and contribution in the Board.

We look forward to your continued support.

Lim Chang Ching
Executive Chairman

Statement on Corporate Social Responsibility

The Group acknowledges corporate social responsibility as an integrated part of the Group's plans to deliver sustainable growth in its' stakeholders values. In line with this, management will continually strive to improve the Group's corporate values by engaging in conscientious activities towards the environment, workplace, marketplace and community.

Environment

Initiatives to promote greater environmental responsibility through quality management systems and work processes conforming to ISO 9001 : 2008 standards and Good Manufacturing Practices are constantly evaluated to minimise any possible negative impact on the environment throughout the entire production chain.

Workplace

The wellbeing of employees is critical to the Group to ensure a healthy and safe working environment for its people. Regular audits are conducted to ensure high standards of quality occupational health and safety in our business activities.

We have also raised the awareness of employees by providing relevant training to equip them with the right skills and knowledge in order for them to perform their duties professionally. This we believe is fundamental to the success and growth of the Group.

Marketplace

The ability to command the confidence of our customers, suppliers, business partners, investors, bankers and regulatory authorities are of paramount importance to the Group's continued success and growth.

Community

We strive to make a positive difference in the community with our skills and resources. We stress on community growth and fostering a caring culture among our employees.

Statement on Corporate Governance

The Board of Paos Holdings Berhad recognises the importance of practicing the highest standards of Corporate Governance throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and the financial performance of the Group.

The Board has taken and is continuously reviewing, where appropriate, the necessary steps to adopt the principles and recommendations of corporate governance as set out in the Malaysian Code on Corporate Governance 2012 ("the Code").

The following statement sets out how the Board has applied the Principles of the Code and how the Board of Directors has observed the recommendations of the Code during the financial year ended 31 May 2016.

PRINCIPLE 1 ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

Functions of the Board

The Board has overall responsibilities for the performance and affairs of the Group. The Board members with a wide range of skills and experience from financial and business background leads and controls the Group. To ensure the effective discharge of its functions and responsibilities, the Board established an internal governance model for the delegation of specific powers of the Board to the Executive Directors and the properly constituted Board Committees, namely the Audit, Nomination, Remuneration and Investment Committees. The Board Committees are entrusted with specific responsibilities to oversee the Group's affairs in accordance with their respective terms of references. All matters deliberated in the Board Committees are required to be reported to the Board for endorsement and/or approval. As such, the direction and control of the Group is firmly within the Board.

The Executive Directors, representing the Management, are primarily responsible for the Group's day-to-day management and operations. The Executive Directors formulate operation plans and oversee the execution of these plans. The Independent Non-Executive Directors are actively involved in various Board Committees and contribute significantly to areas such as performance monitoring and enhancement of corporate governance and controls. They provide broader views, independent assessments and opinions on management proposals.

Key matters reserved for the Board's approval includes financial results, dividend policy, related party transactions, new ventures and investment, material acquisitions and disposal of assets not in the ordinary course of business, authority levels and treasury policies. All Board decisions are duly minuted. The Board has the power to alter any matter reserved for its decision, subject to the limitations imposed by the Articles of Association.

Roles and responsibilities of the Board

The Board in discharging its stewardship, is constantly mindful of safeguarding the interest of the Group's stakeholders and ultimately responsible for the performance of the Group. The Board assumes the following core responsibilities :-

1. Review and adopt the overall strategic plans for the Group

   The Board plays an important role in the development of the Group's strategy. The Board is highlighted on the strategic plans and proposed business plans for the ensuing year at the board meeting. The Board conducts quarterly reviews of the performance of the business and is furnished with the analysis of the segment performance and detailed information relating to the running of the Group's operations.

2. Oversee and evaluate the conduct of business of the Group

   The Board oversees the performance of Management to determine whether the business is being properly managed. In this regard, the Executive Chairman is critical of the performance of the Group and provides the leadership and strategic vision of the Group. The Executive Chairman is responsible to ensure due execution of strategic goals, effective operation within the Group, and to explain, clarify and inform the Board on matters pertaining to the Group.

   The Executive Chairman is supported by the Executive Directors. To ensure independence, the Board has established a Risk Management Committee, which is made up of key management staffs and Executive Directors to identify, review and assess the risks that affect the Group's strategic and business plans. Any significant risks affecting the Group's strategic and business plans will be directed to the Board. The Group's outsourced Internal Auditors also provide the Audit Committee with the internal audit reports as and when the audit assignments are completed.

Statement on Corporate Governance

PRINCIPLE 1 ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

3. Identify principal risks and ensuring implementation of a proper risk management system to manage such risks

   In managing risks, the Board has adopted a Corporate Risk Management Framework to serve as a guide for the effective management of risk and to inculcate and embed risk management culture throughout the Group.

4. Succession planning

   The Board has entrusted the Nomination Committee with the responsibility on the matter in relation to the succession planning of Directors and Senior Management in order to maintain an appropriate balance of skills on the Board.

5. Oversee the development and implementation of shareholder communication policy

   The Board values the dialogue with shareholders and appreciates the keen interest shown by shareholders on the Group's performance. The Board adopted a shareholder communication policy, which sets out the standards and the requirements of the Company in relation to communicating with its shareholders, both individual and institutional. The said policy can be accessed on the Group's website.

6. Review the adequacy and the integrity of the internal control systems and management information systems of the Company and Group, including systems for compliance with applicable laws, rules, directives and guidelines

   The Board acknowledges its overall responsibilities for maintaining a sound system of internal controls and management information. The Board's responsibilities for the Group's system of internal controls cover not only financial aspects of the business but also operational, regulatory compliance as well as risk management matters. Details pertaining to the Company's internal control system and the review of its effectiveness are set out in the Statement on Risk Management and Internal Control in the Annual Report.

Code of Ethics and Conduct

The Company is committed to the highest standards of ethical business conduct. Ethical Standards are formalised through the Company's Code of Ethics and Conduct ("CEC"). The Group's CEC sets forth the standard of conduct required for all Directors and employees of the Group. It covers among others, all aspects affecting the Group's business operations, such as compliance to the law, conflict of interest, competition and fair dealing, confidential information, inside information and securities trading, business records and control, personal gifting, health and safety and sexual harassment.

The Group's CEC is available on the Group's website and the Board will review the CEC regularly to ensure that it continues to remain relevant and appropriate.

As part of best practices in good corporate governance, the Whistle Blowing Policy facilitates all employees of the Group to raise concerns about unethical behavior, malpractices, illegal acts or failure to comply with regulatory requirements that is taking place/ has taken place/ may take place in the future. In this respect, the policy makes it clear that any such concern can be raised without fear of victimisation to the reporting employee. It provides a formal channel to encourage and enable employees to report serious concerns so that such concerns can be properly addressed.

Any employee who has concerns about unethical behavior, malpractices, illegal acts or failure to comply with regulatory requirements that is taking place/ has taken place/ may take place in the future, is encouraged to make disclosure through the following channels:-

a. Any concern should be raised with the immediate superior. If for any reason, it is believed that this is not possible or appropriate, then the concern should be reported to the Executive Chairman.

b. In the case where reporting to management is a concern, then the report should be made to the Chairman of Audit Committee.

Statement on Corporate Governance

PRINCIPLE 1 ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

Code of Ethics and Conduct (Cont'd)

All reports will be investigated promptly by the person receiving the report. If required, he/she can obtain assistance from other resources within the Group. The progress of investigation will be reported to the Audit Committee no later than at the next scheduled meeting. Upon completion of investigation, appropriate course of action will be recommended to the Audit Committee for their deliberation. Decision taken by the Audit Committee will be implemented immediately.

If for any reason, the person making the report is not satisfied with the way his/her report had been dealt with, he/she can escalate his/her report to the Chairman of Audit Committee.

Strategies promoting sustainability

The Board promotes good corporate governance in the application of sustainability practices throughout the Group, the benefits of which will translate into better corporate performance. A report on sustainability activities, demonstrating the Group's commitment to the environment, workplace, marketplace and community, is detailed in the Statement on Corporate Social Responsibility.

Access to information and advice

The Directors have the right to access all information pertaining to the Group for the purpose of discharging their duties. The Directors may interact directly with the Management, or request further explanation, information or updates on any aspect of the Company's operation or business concerns.

Every Director has unhindered access to the advice and dedicated support services of the Company Secretaries in ensuring the effective functioning of the Board. In addition, the Directors may seek independent professional advice at the Company's expense, as they individually or collectively consider necessary, to fulfill their responsibilities and permit independent judgment in decision making.

All Directors receive appropriate and timely information to facilitate decision-making and thus enable them to discharge their duties and responsibilities effectively. Prior to each board meeting, the Directors are provided with an agenda together with board materials on matters to be deliberated. Senior Management of the Group and external advisers are invited to attend Board or Board Committee Meetings to provide additional insights and professional opinion and clarification on specific agenda items. A minimum of four board meetings are held during the year and the board meetings are scheduled one year ahead in order to enable full attendance. Additional meetings are held as and when required.

Qualified and competent Company Secretaries

The appointment and removal of the Company Secretary or Secretaries shall be the prerogative of the Board. The Board is assisted by two qualified and competent company secretaries, who are members of the professional bodies prescribed by the Minister, to ensure that Board procedures are followed and the applicable rules and regulations for the conduct of the affairs of the Board are complied with.

The Directors are regularly updated by the Company Secretaries on new statutory as well as regulatory requirements relating to Directors' duties and responsibilities or the discharge of their duties as Directors of the Company.

The Company Secretaries attend all Board and Board Committee meetings and ensure that the meetings are properly convened and that accurate and adequate records of the proceedings of meetings and decisions made are properly kept. The Company Secretaries highlight or bring attention to the Board on the matters that require follow-up and update from the management. The Company Secretaries also work closely with the management to ensure timely flow of information to the Board.

Board Charter

The Board Charter which clearly sets out the composition, roles, responsibilities, operations and processes of the Board. The Board Charter is to ensure that all Board members are acting on behalf of the Company and are aware that their duties and responsibilities are towards the best interest of the Group. It serves as a reference and primary induction literature providing insights to prospective Board members and senior management. In addition, it would assist the Board in the assessment of its own performance and that of its individual Directors. The Board Charter is available on the Group's website.

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

Statement on Corporate Governance

PRINCIPLE 2 STRENGTHEN COMPOSITION

Nomination Committee

The Nomination Committee was established on 26 July, 2001. It comprises entirely of Independent Non-Executive Directors. The objective of this Nomination Committee is to assist the Board in recommending new Directors and assessing the effectiveness of the Board.

The present members of Nomination Committee are :-

1. Wang Hak Tham @ Wong Hak Tham (Chairman of Committee, Independent Non-Executive Director)
2. Yap Min Lee (Independent Non-Executive Director)

The Terms of Reference of the Nomination Committee is available on the Group's website.

Develop, maintain and review criteria for recruitment and annual assessment of Directors

The Company has in place its procedures and criteria for appointment of new Directors. Selection of candidates to be considered for appointment as Directors is facilitated through recommendations from the Directors, management or external parties including the Company's contacts in related industries. All the candidates for appointment are first considered by the Nomination Committee. The final decision of the appointment of new Directors remains the responsibility of the full Board after considering the recommendations of the Nomination Committee.

In reviewing and recommending to the Board any new Director appointments, the Nomination Committee considers the following :-

i. Size, composition (including gender diversity), mix of skills, experience, competencies and other qualities of the existing Board, level of commitment, resources and time that the recommended candidate can contribute to the existing Board and Group;
ii. The appropriate number of Independent Directors to fairly reflect the interest of minority shareholders and the Independent Directors should make up at least one-third of the membership of the Board; and
iii. Best Practices of the Code which stipulates that Non-Executive Directors should be persons of caliber, credibility and have the necessary skill and experience to bring an independent judgment on issues considered by the Board.

The ultimate goal is to ensure that the Board as a whole has the appropriate balance of skills, experience, independence and knowledge of the Group to enable them to discharge their respective duties and responsibilities effectively.

The Nomination Committee meets at least once a year with additional meetings to be convened, where necessary.

During the financial year ended 31 May 2016, the Nomination Committee convened a meeting to evaluate the performance and effectiveness of the Board based on specific criteria, covering areas such as size, composition, mix of skills, principal responsibilities of the Board, the Board process and Board governance. The performance of each Director was evaluated based on criteria such as contribution to interaction, role and duties, knowledge and integrity. The Nomination Committee also reviewed the composition of respective Board Committees of the Company to ensure its effectiveness. Besides, the Nomination Committee also assessed independence of each Independent Director by taking into their disclosed interests and based on the guidelines as set out in the MMLR and other criteria such as, tenure, relationship between the Independent Directors and the Company and their involvement in any significant transaction with the Company. Nomination Committee deliberated on the re-election of the affected Directors retiring pursuant to the Company's Articles of Association before making recommendations to the Directors for its consideration.

Statement on Corporate Governance

PRINCIPLE 2 STRENGTHEN COMPOSITION (CONT'D)

Develop, maintain and review criteria for recruitment and annual assessment of Directors (Cont'd)

All the Directors shall retire from office at least once in every three (3) consecutive years from the date of their respective appointments in accordance with Article 103 of the Company's Articles of Association and being eligible to offer themselves for re-election at the Annual General Meeting ("AGM"). The Directors to retire in each year are the Directors who have been longest in office since their appointment or re-appointment. This provides an opportunity for shareholders to renew their mandate. In addition, Article 109 of the Company's Articles of Association also provides that any Director who is appointed to fill a casual vacancy or as an additional Director shall hold office until the next AGM shall then be eligible for re-election but shall not be taken into account in determining the number of Director who retires by rotation at the meeting.

Pursuant to Section 129 of the Companies Act, 1965, Directors who are over the age of seventy (70) years shall retire at every AGM and may offer themselves for re-appointment to hold office until the next AGM.

The Directors who are due for retirement by rotation pursuant to Article 103 of the Company's Articles of Association at the forthcoming Nineteenth AGM are Ms. Lim Chang Ching and Mr. Lim Poh Seong. The Directors who are due for retirement and re-appointment in accordance to Section 129 of the Companies Act, 1965 at the forthcoming Nineteenth AGM are Mr. Wang Hak Tham @ Wong Hak Tham and Mr. Yap Min Lee. Their profiles are set out on pages 5 and 6.

The Company has in place a Succession Planning Programme which inter alia includes guidelines on appointing, training, fixing of compensation and replacement of Directors and Senior Management of the Company.

Gender, Ethnicity and Age Group Diversity Policy

The Group does not have a formal diversity policy in terms of gender, ethnicity and age group as the Group adheres to the practice of non-discrimination of any form throughout the Group. The Group provides equal opportunity to candidates with merit and believes it is vital to recruit and retain the best available talent regardless gender, ethnicity or age.

Notwithstanding the recommendation of the Code, the Board is presently of the view that there is no necessity to fix a specific gender diversity policy in view of the Company's commitment to ensuring that all Directors are appointed on merit and is in line with the standards as set out in Para 2.20A of the MMLR.

The Board comprises seven (7) members, out of which three (3) are women Directors, representing 42.86% of the composition.

Remuneration Policies

The Remuneration Committee was established on 26 July, 2001. It comprises a majority of Non-Executive Directors. The objective of Remuneration Committee is to recommend to the Board the remuneration of Executive Directors.

The present members of Remuneration Committee are :-

1. Wang Hak Tham @ Wong Hak Tham (Chairman of Committee, Independent Non-Executive Director)
2. Lim Chang Ching (Executive Chairman, Non-Independent Executive Director)
3. Cheah Yee Leng (Non-Independent Non-Executive Director)

The Remuneration Committee is generally responsible to :

a. establish and recommend the remuneration structure and policy for Executive Directors.
b. review and recommend the remuneration packages for each of the Executive Directors.
c. review with the Executive Directors, their goals and objectives and to assess their performance against these objectives as well as their contribution to the corporate strategy.

Statement on Corporate Governance

PRINCIPLE 2 STRENGTHEN COMPOSITION (CONT'D)

Remuneration Policies (Cont'd)

The policy practiced on Executive Directors' remuneration by the Remuneration Committee is to provide the remuneration packages sufficiently to attract, retain and motivate Directors to manage the business of the Group. In the case of the Non-Executive Directors, a basic fee as ordinary remuneration will be paid. The Directors who sit in the Board Committees are entitled to a Board Committee Fee on which they sit on. These fees are subject to the approval of the shareholders at the AGM. All Directors are paid meeting allowances for their attendance.

From time to time, the Remuneration Committee will review the existing level of remuneration of Executive Directors and to recommend their remuneration to the Board based on the Goup's and their individual performance to ensure they commensurate with the scope of responsibilities held. The remuneration package for Executive Directors is linked to performance, seniority, experience and scope of responsibility and is benchmarked to market/industry practices.

The Remuneration Committee met once during the financial year ended 31 May 2016. All the members were present at the said meeting.

The details of the remuneration of Directors of the Company comprising remuneration received/receivable from the Company and subsidiaries during the financial year ended 31 May 2016 are as follows :

Company

	Executive (RM)	Non-Executive (RM)
Salaries and other emoluments	7,500	14,500
Bonuses	-	-
Fees	3,000	176,000

Group

	Executive (RM)	Non-Executive (RM)
Salaries and other emoluments	1,334,280	14,500
Bonuses	163,500	-
Fees	3,000	176,000

The number of Directors whose total remuneration falls within the following bands is as follows:

Range of remuneration (RM)	Executive	Non-Executive
0 - 50,000	-	3
50,001 - 100,000	-	1
250,001 - 300,000	1	-
400,001 - 450,000	1	
750,001 - 800,000	1	

PRINCIPLE 3 REINFORCE INDEPENDENCE

Annual Assessment of Independence

Independent Directors provide independent judgment, experience and objectivity without being subordinated to operational considerations. They help to ensure that the interests of all shareholders are indeed taken into account by the Board and that the relevant issues are subject to objective and impartial consideration by the Board.

In ensuring that independent judgments are not compromised, the Board has adopted a policy on assessment of independence on its independent directors which is conducted on an annual basis or as and when a disclosure is made by any Director in respect of any new interest or relationship. The policy makes reference to the guidelines set out in the MMLR.

Statement on Corporate Governance

PRINCIPLE 3 REINFORCE INDEPENDENCE (CONT'D)

Annual Assessment of Independence (Cont'd)

The Board, through the Nomination Committee, assesses the independence of the Independent Directors on the Board, including new appointments. The Nomination Committee assesses the independence of the Independent Directors annually by taking into consideration of their disclosed interests and based on the guidelines as set out in the MMLR and other criteria such as, tenure, relationship between the Independent Director and the Company and his involvement in any significant transaction with the Company.

Based on the assessment conducted, the Board is satisfied with the level of independence demonstrated by the Independent Directors and their ability to act in the best interest of the Company.

Tenure of Independent Directors

The Board notes the recommendations of the Code with respect to the tenure of an Independent Director which should not exceed a cumulative term of nine (9) years. The recommendation is based on the view that the independence of an Independent Director may be affected if his tenure exceeds a cumulative term of nine (9) years either in a consecutive service of nine (9) years or cumulative of nine (9) years interval. However, the Board is presently of the view that there is no necessity to fix a maximum tenure limit for Independent Directors to serve on the Board as the ability of a Director to serve effectively as an Independent Director is very much dependent on his caliber, qualification, experience and personal qualities, particularly his/her integrity and objectivity.

Shareholders' approval to retain an Independent Director who has served for more than 9 years

Currently, all Independent Directors of the Company served less than tenure of nine (9) years in the Company with the exception of Mr. Wang Hak Tham @ Wong Hak Tham. The Nomination Committee and Board have determined at the annual assessment carried out on Mr. Wang Hak Tham @ Wong Hak Tham and that he is objective and independent in expressing his views and in participating in deliberations and decision making of the Board and Board Committees. The Board proposed to seek shareholders' approval at the forthcoming Nineteenth AGM to retain Mr. Wang Hak Tham @ Wong Hak Tham as the Independent Director of the Company in view of his professionalism, knowledge and vast experiences both in the field of business and finance will continue to benefit the Group.

Separation of roles of Chairman and Chief Executive Officer ("CEO")

Notwithstanding the recommendation of the Code, the Board is presently of the view that the intimate knowledge and extensive involvement of the Chairman in the business, her reputation and goodwill in the industry will benefit the Group directly. The vast experiences of the Chairman would enable her to be well equipped to interact with the global leaders of the industry and build relationships with stakeholders. As such, the role of CEO remains vested with the Chairman. The Board is mindful of the combined roles but is comfortable that there is no undue risk involved as the functions of the CEO are executed by delegation of authority to the Executive Directors to ensure that division and accountability in essence are separated. All major matters and issues are referred to the Board for consideration and approval. The Board is always mindful of the potential conflict of interest that may arise in each transaction, in which case, interested Directors are abstained from decision making. All related party transactions are disclosed and strictly dealt with in accordance with the MMLR. The roles and contributions of Independent Directors also provide an element of objectivity, independent judgement and check and balance on the Board.

The Chairman leads the Executive Directors in making and implementing the day-to-day decisions on the business operations, managing resources and risks in pursuing the corporate objective of the Group. She is responsible to ensure due execution of strategic goals, effective operation within the Company, and to explain, clarify and inform the Board on matters pertaining to the Group. Apart from the above, the Company practices a clear demarcation of responsibilities and a balance of power and authority.

Besides the above role, the Chairman is responsible for the leadership, effectiveness, conduct and governance of the Board. She promotes an open environment for debate and ensures effective contribution from Non-Executive Directors. The Chairman also facilitates the flow of information between the Management and the Board and in consultation with Management, sets the agenda for each board meeting. At a general meeting, the Chairman plays a role in fostering constructive dialogue between shareholders, Board and Management.

Statement on Corporate Governance

PRINCIPLE 3 REINFORCE INDEPENDENCE (CONT'D)

Composition of the Board

The Board comprises the Executive Chairman, two (2) Executive Directors and four (4) Non-Executive Directors, three (3) of whom are independent. The composition of the Board reflects that one-third (1/3) of its members are independent and this is to ensure that minority shareholders' interests are represented.

The Board is mindful to the recommendation that the Board composition must comprise a majority of Independent Directors where the Chairman of the Company is not an Independent Director. However, the Board is of the opinion that the presence of the Independent Directors, though not forming a majority of the Board members, is sufficient to provide the necessary checks and balance on the decision making process of the Board. They possess integrity and extensive experience to provide unbiased, fully balanced and independent views to the Board. The significant contributions of the Independent Directors in the decision making process is evidenced in their participation as members of the various committees of the Board.

The Chairman has also exercised her due diligence in the interest of the Group and shareholders during her tenure as an Executive Chairman. She provided objectivity in decision-making and ensured effective conduct of the board meetings. If the need arises, the Company may increase the number of Independent Directors to ensure the balance of power and authority on the Board.

The Board is also of the view that it is not necessary to identify a Senior Independent Non-Executive Director to whom other Directors may bring their concerns to, as all Directors believes that they can freely express their views at board meeting and always within the reach of the shareholders.

PRINCIPLE 4 FOSTER COMMITMENT

Time Commitment

The Board is satisfied with the level of time commitment given by the Directors towards fulfilling their roles and responsibilities as Directors of the Company. This is evidenced by the attendance record of the Directors at board meetings held during the financial year ended 31 May 2016 :

Directors	Total meetings attended
Lim Chang Ching	4 out of 4
Lim Zhen Qi	4 out of 4
Alice Boo Miau Li	4 out of 4
Cheah Yee Leng	3 out of 4
Wang Hak Tham @ Wong Hak Tham	4 out of 4
Lim Poh Seong	4 out of 4
Yap Min Lee	3 out of 4

To ensure that the Directors devote sufficient time to carry out their roles and responsibilities and in line with the MMLR, a Director of the Company must not hold directorships of more than five (5) Public Listed Companies.

The Directors are required to submit an update on their other directorships from time to time for monitoring of the number of directorships held by the Directors of the Company and for notification to Companies Commission of Malaysia accordingly.

Statement on Corporate Governance

PRINCIPLE 4 FOSTER COMMITMENT (CONT'D)

Directors' Training

The Board views continuous learning and training as an integral part of the Directors' development. The Nomination Committee is entrusted the responsibilities to facilitate the Board induction and training programmes. The Nomination Committee assesses the training needs of each Director on annual basis to ensure the Directors carry out their roles effectively in discharging their responsibilities towards corporate governance, operational and regulatory issues. The Directors are also encouraged on their own initiative to attend seminars, courses, workshops and conferences to update and enhance their skills and knowledge in specific areas.

All Directors have attended and successfully completed the Mandatory Accreditation Training Programme ("MAP") prescribed by MMLR. During financial year ended 31 May 2016, the seminars, courses, workshops, programmes and talks attended by the Directors included the following :-

- EO Taipan Masterclass - Hyper Sales Growth Workshop
- EO Taipan Masterclass - Scaling Up Workshop
- ACCA Malaysia Annual Conference 2016
- PWC - Goods and Services Tax (GST) Workshop
- SSM Seminar - Crisis Management & Corporate Governance - Governance Tools to Help Companies Prevent & Manage Crisis

There were also briefings by the Internal Auditors, External Auditors and the Company Secretaries on the relevant updates on statutory and regulatory requirements from time to time during the audit committee and board meetings.

PRINCIPLE 5 UPHOLD INTEGRITY IN FINANCIAL REPORTING

Compliance with applicable Malaysian Financial Reporting Standards

The Board aims to provide and present a balanced and meaningful assessment of the Group's financial position and prospects in the public release of financial results. These results are contained in the quarterly financial results, audited financial statements and Annual Reports.

The Audit Committee assists the Board to oversee the financial reporting and the quality of its financial reporting by reviewing the information to be disclosed, to ensure completeness, accuracy and adequacy prior to endorsing the same to the Board for release to the public. The Audit Committee meets on a quarterly basis to review the integrity and reliability of the quarterly results in the presence of the Finance Manager. The Audit Committee also reviews the appropriateness of the Company's accounting policies and the changes to these policies with the advice of the External Auditors and to ensure the adherence to the appropriate accounting standards.

The Directors are responsible for the preparation and fair presentation of the financial statements for each financial year in accordance with applicable Malaysian Financial Reporting Standards and the requirements of the Companies Act, 1965. The Statement of Directors' Responsibility in relation to the financial statements is presented in this Annual Report.

Assessment of suitability and independence of External Auditors

To maintain a transparent and formal relationship with the Company's External Auditors, the Audit Committee reviews the appointment, performance, independence and remuneration of the External Auditors based on the Company's established policies and procedures. The Company's policies and procedures to assess the suitability and independence of external auditors will be reviewed from time to time to ensure that it continues to remain relevant and appropriate.

Statement on Corporate Governance

PRINCIPLE 5 UPHOLD INTEGRITY IN FINANCIAL REPORTING (CONT'D)

Assessment of suitability and independence of External Auditors (Cont'd)

The Audit Committee will review the performance of the External Auditors on an annual basis after completion of the year-end audit on the suitability and independence of the External Auditors. In evaluation on the suitability and effectiveness of external auditors, the Audit Committee will review the overall comprehensive external audit plan, the timelines and quality of deliverables and the competency/adequacy of the resources to achieve the scope outlined in the audit plan.

The Audit Committee reviews and assesses the independence of the External Auditors annually at the time the External Auditors present its annual audit plan. The Audit Committee will review and assess the independence of the External Auditors, including but not limited to any relationships with the Group or any other person or entity that may impair or compromise, or appear to impair or compromise, the External Auditors' independence. It is expected that the External Auditors will rigorously comply with its own internal policies on independence and all relevant professional guidance on independence. The Audit Committee will request the External Auditors to provide an assurance confirming that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements. At least twice a year, the Audit Committee meets with the External Auditors without Executive Directors present.

The Audit Committee will also ensure that the policies governing the provision of non-audit fees are observed. All engagements of the external auditors to provide non-audit services in which the amount involved is higher than the prior year's audit fee shall be approved by the Audit Committee.

After having satisfied with the performance and independence of Messrs KPMG, the Audit Committee recommended the re-appointment of Messrs KPMG to the Board for approval by its shareholders at the forthcoming Nineteenth AGM.

PRINCIPLE 6 RECOGNISE AND MANAGE RISK

Sound framework to manage risk

The Board is fully aware of its responsibility to maintain a sound system of risk management and internal control to safeguard and enhance the value of the shareholders in the Group. The risk management and internal control system is designed to manage rather than eliminate the risks that may impede the achievement of the Group's business objectives.

The Board has established a framework to formulate and review risk management policies and risk strategies. The Board embedding risk management in all aspect of the Group's activities and the Board with the assistance of the Risk Management Committee which is made up of key management staff and Executive Directors has established processes for identifying, evaluating and managing the significant risks faced by the core business of the Group.

Risk Management Committee with the assistance of an independent professional firm had developed the Key Risk Profiles for the following divisions :-

i. Manufacturing and Trading, and
ii. Integrated Hotel Operations and Property Investment

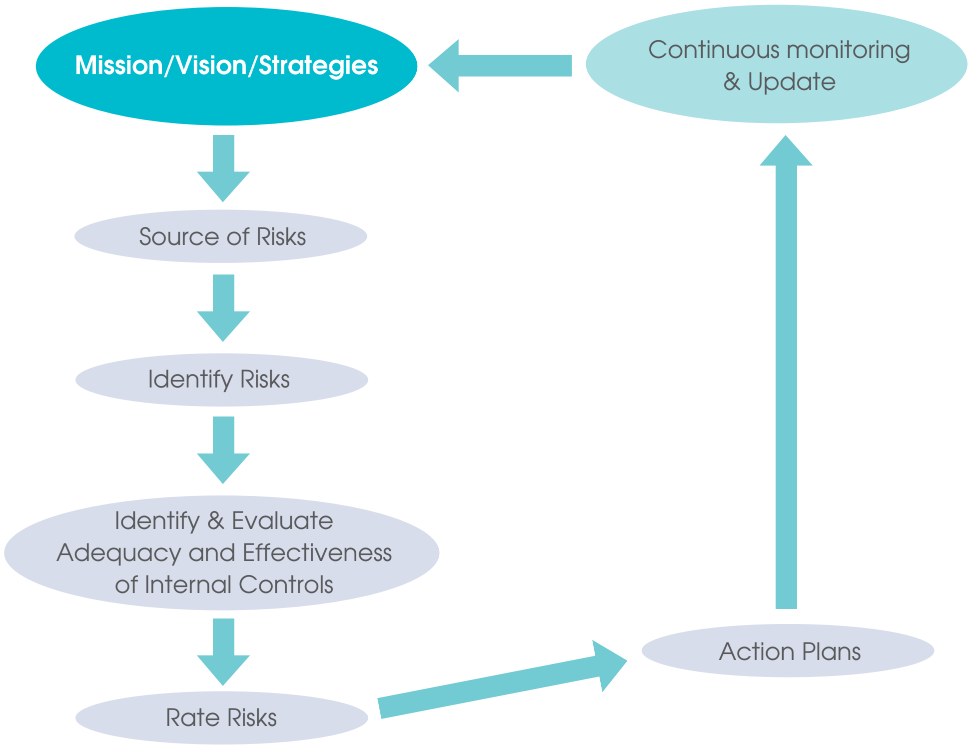
The Key Risk Profiles was developed in terms of the relevance of risks, details of controls and rating of risks.

Statement on Corporate Governance

PRINCIPLE 6 RECOGNISE AND MANAGE RISK (CONT'D)

Sound framework to manage risk (Cont'd)

The Risk Management Process is as follows :-



- Identify Key Risks associated with the organisation's Mission, Vision and Strategies, based on a list of sources of risks.
- Identify the existing controls that manage the risks.
- Confirm ownership and timelines for managing and monitoring controls.
- Rate the identified risks in terms of ***Likelihood*** of occurrence and the resulting ***Impact*** on the organization. The rating takes into account the effectiveness of existing controls put in place to manage risks. The identified risks ranked as either significant, high, medium or low based on its magnitude of impact and likelihood of occurrence with the Group.
- Decide on the Risks Treatment and Develop Risk Response to manage the residual risk (if any).
- Continuous monitoring to ensure compliance and the maintenance of an updated risk profile.

The implementation of the risk management practices and internal controls within the established framework have been delegated to the executive management. The Risk Management Team, which comprises all head of departments, is responsible for managing risks at each business division.

Risk Management Committee meetings are held to discuss key risks and appropriate mitigating controls. Significant risks affecting the Group's strategic and business plan are escalated to the Board.

During financial year ended 31 May 2016, the Risk Management Committee met two (2) times.

Statement on Corporate Governance

PRINCIPLE 6 RECOGNISE AND MANAGE RISK (CONT'D)

Internal Audit Function

The Group has engaged the services of an independent professional firm, namely, Audex Governance Sdn. Bhd. to provide much of the assurance regarding the effectiveness as well as adequacy and integrity of the Group's system of internal controls. The outsourced Internal Auditors report directly to the Audit Committee on its activities based on the approved Internal Audit Plans. Their principal role is to provide independent assurance on the adequacy and effectiveness of governance and internal control processes.

The report of the internal audit is tabled for the Audit Committee's review and comments, and the audit findings will then be communicated to the Board.

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

PRINCIPLE 7 ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

Corporate Disclosure Policy

The Board acknowledges that accurate, timely, factual, complete disclosure is important to an orderly and fair market for the trading of securities. The Board has put in place a Corporate Disclosure Policy for the purpose to raise awareness and provide guidance on the Company's disclosure requirement and practices and to provide guidance and structure in disseminating corporate information to the market in accordance with all applicable legal and regulatory requirements.

This policy applies to the conduct of Directors, Management, officers, managers and employees of the Group and to all methods that the Group uses to communicate with the public.

The Board ensures that confidential information is handled properly to avoid leakage and improper use. In line with the best practices, the Board strives to disclose price sensitive information to the public as soon as practicable through Bursa Securities.

Leverage on information technology for effective dissemination of information

The Board endeavors to provide timely and accurate disclosure of all material information of the Group to shareholders and investors. Information is disseminated through various disclosures and announcements made to the Bursa Securities. These information are also electronically published at the Bursa Securities website at www.bursamalaysia.com and the Group website at www.paos.com.my.

These information includes:-

- Quarterly Announcement
- Annual Reports
- Circular to Shareholders
- Other Important Announcement

Statement on Corporate Governance

PRINCIPLE 8 STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

Encourage shareholders' participation at general meeting

The Board regards that AGMs and Extraordinary General Meetings ("EGMs") are the primary forum for communication by the Company with its shareholders and for shareholders participation.

Prior to the AGM and EGM, shareholders will be provided with the notices of meetings and accompanying explanatory material such as notes, Annual Report and/or Circular to enable shareholders to exercise their rights. Notices of AGM and EGM will be issued in accordance with the provisions of the Companies Act, 1965 and the MMLR. The Board endeavors to serve earlier notice than the minimum notice period where practicable. The adequate time given to shareholders allows them to make necessary arrangements to attend and participate in the general meeting. Shareholders, who are unable to attend an AGM or EGM, are encouraged to appoint proxy or proxies to attend and vote at meetings for and on their behalf.

Separate issues are tabled in separate resolutions at general meetings, voting is carried out systematically and resolutions are properly recorded.

Poll Voting

The Board noted that with the recent amendments of MMLR, all resolution set out in the notice of any general meeting shall be voted by poll. In line with requirements, the Board will ensure all resolutions set out in the notice of Nineteenth AGM will be voted by way of poll. In addition, at least one (1) scrutineer will be appointed to validate the votes cast at the Nineteenth AGM.

In previous general meetings held, the Chairman had informed the shareholders on their rights to demand a poll for any resolutions in accordance with the Company's Articles of Association before the commencement of any general meetings.

Consideration is being given to adopt an electronic voting system to facilitate greater shareholders participation whenever deemed necessary and where circumstances permit.

Effective Communication and Proactive Engagement

During general meetings, the Chairman of Meeting will invite shareholders to raise questions pertaining to the Company's Financial Statements and other items for adoption before putting the resolutions to vote. The Directors, Management and External Auditors were in attendance to respond to the shareholders' queries.

In addition to the above, the Company will look into allocation of time during AGM for dialogue with shareholders to address the issue concerning the Group and to make arrangement for Officers of the Company to present and handle other face-to-face enquiries from shareholders.

This Statement on Corporate Governance is made in accordance with the resolution of the Board of Directors on 8 September 2016.

Other Compliance Information

1. Utilisation of Proceeds

During the financial year ended 31 May 2016, the Company did not raise any proceed from any corporate proposal.

2. Non-Audit Fees

The amount of non-audit fees paid or payable to the External Auditors or a firm or corporation affiliated to the auditors firm for the financial year ended 31 May 2016 are as follows:-

Particular	Company	Group
Non-Audit Fees paid or payable to External Auditors		
- review of the Statement on Risk Management and Internal Control	RM13,000	RM13,000
- review of the supplementary financial information on the breakdown of realised and unrealised profit or losses	RM7,000	RM7,000
Total	RM20,000	RM20,000
Non-Audit Fees paid or payable to a firm or corporation affiliated to the auditors firm		
- taxation services	RM4,600	RM32,600

3. Material Contracts

The Company and its subsidiaries do not have any material contracts involving the interest of its Directors and/or major shareholders.

Audit Committee Report

COMPOSITION OF MEMBERS

The Audit Committee appointed by the Board of Directors comprises of:-

Wang Hak Tham @ Wong Hak Tham	(Chairman of the Committee, Independent Non-Executive Director)
Lim Poh Seong	(Independent Non-Executive Director)
Yap Min Lee	(Independent Non-Executive Director)

The composition of the Audit Committee meets the requirement of paragraph 15.09 (1)(a) and (b) and 15.10 of Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR").

Mr. Lim Poh Seong is a fellow member of the Association of Chartered Certified Accountants and fulfill the requirement of paragraph 15.09 (1)(c)(ii) of the MMLR.

The Terms of Reference of the Audit Committee is available on the Group's website.

ATTENDANCE

During the financial year ended 31 May 2016, the Committee met four (4) times. The number of meetings attended by each member is as follows :-

Directors	Total Meetings Attended
Wang Hak Tham @ Wong Hak Tham	4 out of 4
Lim Poh Seong	4 out of 4
Yap Min Lee	3 out of 4

SUMMARY OF WORK

The work carried out by the Audit Committee during the financial year ended 31 May 2016 include the following :-

a. Financial Reporting

The Committee reviewed the unaudited quarterly reports and audited financial statement of the Company and the Group and recommended the same to the Board for approval prior to the announcement to Bursa Malaysia Securities Berhad by focusing on :

- Changes in or implementation of major accounting policies
- Significant adjustment arising from the audit
- Significant and unusual events
- Compliance with accounting standards and other legal requirements

In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with the management and External Auditors on the salient accounting and audit issues, significant risk areas, strengthening internal control where there are deficiencies, reasonableness of significant judgements, amendments to the reporting standards and other legal requirements.

The Auditors concurred with the accounting policies adopted by the management and that they were in conformity with the relevant accounting standards in particular sufficiency of impairment of other investments, reasonableness of no impairment is required on trade receivables, fair statement in revenue, inventories and cost of investment in subsidiaries and reasonableness of journal entries.

Audit Committee Report

SUMMARY OF WORK (CONT'D)

b. External Audit

On 28 July 2015, the Audit Committee reviewed the External Auditors' presentation for financial year ended 31 May 2015. A summary of External Auditors' key findings were presented to the Audit Committee.

On 28 April 2016, the Audit Committee reviewed the External Audit Plan for financial year ended 31 May 2016. Audit scope, audit methodology and audit timetable, preliminary audit risk assessment, audit fee amongst others were discussed and brought to the attention of the Audit Committee. The Audit Committee was also updated on the significant changes to the reporting contents of the audit report in line with the new (ISA701) and revised Auditor Reporting standards (ISA 700) issued by the Malaysian Institute of Accountants which would be applicable for the audits for financial statements for periods ending on or after 15 December 2016. The Audit Committee also noted of the requirement for disclosure of key audit matters and additional auditor responsibilities on other information under the amendments to the Main Market Listing Requirement of Bursa Malaysia Securities Berhad.

Audit Committee had two private sessions with the External Auditors without the presence of the Executive Directors and Management on 28 July 2015 and 28 April 2016 respectively to enquire if the External Auditors had encountered issues during their audit that needed to be brought to the attention of the Audit Committee.

The Audit Committee reviewed the Independence of the External Auditors and their performance during the Audit Committee Meetings. The External Auditors had provided confirmation that the engagement partner, engagement quality control reviewer and members of the engagement team in the audit were independent for the purpose of the audit in accordance with the terms of all relevant professional and regulatory requirements. The Audit Committee also reviewed the nature and fee of non-audit services provided by the External Auditors to ensure the said non-audit services have not compromised their objectivity and independence. The Audit Committee was satisfied with the Group's policies on provision of non-audit services.

The Audit Committee reviewed the performance of the External Auditors and was satisfied with their performance, quality of communication, sufficiency and allocation of resources, competency as well as timelines in completing the audit. Upon assessment of the performance of the External Auditors and its audit independence, the Audit Committee recommended their re-appointment as External Auditors for the ensuing year.

c. Internal Control and Risk Management

During the year, the Audit Committee met four (4) times with the Internal Auditors at the Audit Committee meetings to carry out its responsibility in reviewing the internal audit function and to assure itself on the soundness of internal control system.

On 28 July 2015, the Audit Committee reviewed with internal auditors their audit plan for financial year ended 31 May 2016 which outlines the audit timetable for auditable business processes and follow up visit. Audit Committee also reviewed the cost of internal audit function and the Statement of Risk Management and Internal Control for inclusion in the Annual Report.

On 27 October 2015, 26 January 2016 and 28 April 2016, the Audit Committee reviewed and deliberated the Internal Audit Reports containing internal audit findings, management's response and recommendations presented by the Internal Auditors.Follow up reviews from previous audit were also updated to the Committee to track on whether the findings had been resolved.

d. Other activities

The Audit Committee reviewed related party transactions and conflict of interest situation that may arise within the Company or Group. The Audit Committee also reported to the Board on significant issues and concerns discussed during the Audit Committee meetings together with applicable recommendations.

Audit Committee Report

SUMMARY OF WORK (CONT'D)

Internal Audit Function and Summary of Works

The Group's Internal Audit function outsourced to Audex Governance Sdn. Bhd. ("Audex"), a professional service firm, is an integral part of the assurance mechanism in ensuring that the Group's systems of internal controls are adequate and effective. The Internal Audit function reports directly to the Audit Committee.

Audex conducted their work in accordance to their review procedures which were designed to understand, document, evaluate risks and related controls and to identify areas for improvement in process efficiency and formulate recommendations for improvement thereon. Their audit procedures applied principally consisted of process evaluations through interviews with various personnel, observations and testing of controls and relevant processes. The samples of the testing were selected based on a judgmental basis to provide them with due perspective of the business processes.

The Audit Committee has full and direct access to the outsourced Internal Auditors, reviews its internal audit plan and reports on audit performed, and monitors its performance. The Audit Committee also reviews the adequacy of the scope, functions, competency and resources of outsourced internal audit functions from time to time.

In respect of the financial year ended 31 May 2016, the Internal Auditors had carried out internal audit reviews on the following subsidiaries:

a. Paos Industries Sdn. Bhd. covering the following business process/areas:
   - Sales and Marketing
   - Human Resource Management
   - Inventory Management
   - Production

b. Premier Oil Industries Sdn. Bhd. covering the following business process/areas:
   - Credit Control and Collection
   - Human Resources Management

The reviews were conducted to assess:

- the adequacy and effectiveness of the Group's system of internal control
- its compliance with the group policies and procedures over its business processes

They also had carried out follow-up audit visits to review the implementation status of management's action plans that were reported in the previous Internal Audit Reports.

The audit findings and recommendations for improvement and the status of implementation status of management's action plans were presented at the Audit Committee Meetings.

The costs incurred in maintaining the outsourced internal audit function for the financial year ended 31 May 2016 amounted to RM48,000.00.

This report is made in accordance with a resolution of the Board of Directors on 8 September 2016.

Statement on Risk Management and Internal Control

INTRODUCTION

The Board of Directors ("Board") of Paos Holdings Berhad ("PHB" or "the Group") is pleased to present its Statement on Risk Management and Internal Control for the financial year ended 31 May 2016, which has been prepared pursuant to paragraph 15.26 (b) of Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements and as guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers ("the Guidelines"), in this annual report. This statement outlines the nature and state of the internal controls of the Group.

BOARD'S RESPONSIBILITIES

The Board recognises the importance of good risk management practices and sound internal controls as a platform to good corporate governance. The Board acknowledges its overall responsibility for maintaining a sound system of risk management and internal control, and for reviewing its adequacy and effectiveness. In addition, the Board has also received assurance from the Executive Directors, who are also primarily responsible for the management of the Group's financial affairs, that the Group's risk management and internal control system, in all material aspects, is operating adequately and effectively.

Due to inherent limitations in the risk management and internal control system, such a system put into effect by the Management is designed to manage rather than eliminate risks that may impede the achievement of the Group's business strategies and objectives. Therefore, such a system can only provide reasonable but not absolute assurance against any material misstatement or loss.

KEY ELEMENTS OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Key elements of the Group's risk management and internal control system that facilitate the proper conduct of the Group's businesses are described below:

1. **RISK MANAGEMENT SYSTEM**

   The Board is dedicated to strengthen the Group's risk management system and to implement appropriate controls to manage its key business risks within the Group. The Risk Management Committee which is made up of key management staff and Executive Directors, meets up to review the risk profiles of the Group on a half-yearly basis. During the year, the Risk Management Committee reviews and assesses the relevance of the Group's existing risk profile. Significant risks that may affect the Group's business objectives are assessed half-yearly and any new significant risk identified are subsequently evaluated and managed.

   Whilst the Board maintains ultimate control over risk management issues, the implementation of the risk management practices and internal controls within an established framework has been delegated to the executive management. The responsibility for managing risks at each business division lies with the Risk Management Team, which comprises all Heads of Departments. During the Risk Management Committee meetings, the Risk Management Team communicates to the Executive Directors and key management staff the risk management activities that manage the significant risks identified.

   Risk Management Committee meetings are held half-yearly to discuss key risks and the mitigating controls taken. Significant risks affecting the Group's strategies and business plans are escalated to the Board at their scheduled meetings. The abovementioned risk management practices of the Group serve as an on-going process used to identify, evaluate and manage significant risks for the financial year under review and up to the date of approval of this Statement.

2. **INTERNAL CONTROL SYSTEM**

   - **Organisation Structure and Authorisation Procedures**

     The Board has established a formal organisational structure with well-defined lines of reporting as well as clear delegation of responsibility and accountability within the Group. The Group also sets out roles and responsibilities, appropriate authority limits as well as structured review and approval procedures in order to enhance the decision making process and the internal control system of the Group.

Statement on Risk Management and Internal Control

KEY ELEMENTS OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM (CONT'D)

2. INTERNAL CONTROL SYSTEM (CONT'D)

- **Operational Policies and Procedures**

  Documented operational policies and procedures are in place and are updated when necessary to ensure that they maintain their effectiveness and continue to support the Group's business activities as the Group continues to grow.

- **ISO Procedures**

  One of the Group's subsidiaries, i.e. Paos Industries Sdn. Bhd., is ISO 9001:2008 certified. With this certification, annual surveillance audits are conducted by independent external ISO auditors particularly to ensure compliance with ISO procedures or manual.

- **Human Resource Policy**

  Guidelines on employment, performance appraisal, training and retention of employees are in place to ensure that the Group has a team of employees who are well trained and equipped with all the necessary knowledge, skills and abilities to carry out their roles and responsibilities effectively.

- **Information and Communication**

  Information requiring the Board and key management staff's attention are highlighted for review, deliberation and decision on a timely basis.

- **Monitoring and Review**

  The Executive Directors are closely involved in the daily operations and are responsible for the business performance of the respective businesses. The daily operations are monitored through management meetings and informal discussions held. Significant issues are brought to the attention of the Board.

  The quarterly financial statements are presented to the Board for their review, consideration and approval. The Board plays an active role in discussing and reviewing the business plans, strategies, performance and risks faced by the Group.

3. INTERNAL AUDIT FUNCTION

The Group's internal audit function is outsourced to a professional services firm, to assist the Board and Audit Committee in providing an independent assessment on the adequacy and effectiveness of the Group's internal control system.

During the financial year ended 31 May 2016, three (3) internal audits visits were carried out on the key subsidiaries of the Group according to the risk based internal audit plan approved by the Audit Committee. The findings of the internal audit reviews, including the recommended corrective actions, were discussed with key management staff and subsequently presented directly to the Audit Committee.

In addition, three (3) follow up reviews were conducted to ensure that corrective actions have been implemented on a timely manner. Based on the internal audit follow-up reviews conducted, majority of the corrective actions have been implemented and none of the weaknesses noted have resulted in any material losses, contingencies or uncertainties that would require separate disclosure in this annual report. The total costs incurred for the internal audit function for the financial year ended 31 May 2016 was RM48,000.

CONCLUSION

The Board is of the view that the Group's system of risk management and internal control is adequate and effective to safeguard shareholders' investments and the Group's assets. However, the Board is also cognisant of the fact that the Group's system of risk management and internal control practices must continuously evolve to meet the changing and challenging business environment. Therefore, the Board will, when necessary, put in place appropriate action plans to further enhance the Group's system of risk management and internal control framework.

This statement is made in accordance with a resolution of the Board of Directors on 8 September 2016.

Statement of Directors' Responsibility

STATEMENT OF DIRECTORS' RESPONSIBILITY IN RESPECT OF AUDITED FINANCIAL STATEMENTS PURSUANT TO PARAGRAPH 15.26(a) OF THE LISTING REQUIREMENTS

The Directors are responsible 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, 1965 in Malaysia and so as to give a true and fair view of the financial position of the Group and of the Company as at 31 May 2016 and of their financial performance and cash flows for the financial year then ended.

In preparing these financial statements for the year ended 31 May 2016, the Directors have:

- adopted suitable accounting policies and then applied them consistently;
- made estimates and judgements that are reasonable and prudent;
- ensure that applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepared the financial statements on the going concern basis.

This Statement is made in accordance with a resolution of the Board of Directors on 8 September 2016.

FINANCIAL STATEMENTS

Directors' Report

for the year ended 31 May 2016

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 May 2016.

Principal activities

The Company is principally engaged in investment holding activities, whilst the principal activities of the subsidiaries are as stated in Note 5 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

Results

	Group RM	Company RM
Profit for the year	3,457,126	3,295,801

Reserves and provisions

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

Dividends

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

i) a first interim single tier dividend of 1.25 sen per ordinary share totalling RM1,509,701 in respect of year ended 31 May 2016 on 27 November 2015; and

ii) a second interim single tier dividend of 1.25 sen per ordinary share totalling RM1,509,700 in respect of year ended 31 May 2016 on 27 May 2016.

The Directors do not recommend any final dividend to be paid for the financial year under review.

Directors of the Company

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

Lim Chang Ching (Executive Chairman)
Wang Hak Tham @ Wong Hak Tham
Alice Boo Miau Li
Lim Poh Seong
Lim Zhen Qi
Yap Min Lee
Cheah Yee Leng

Directors' Report
for the year ended 31 May 2016

Directors' interests in shares

The interests and deemed interests in the ordinary shares of the Company of those who were Directors at financial year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM0.50 each			
	At 1.6.2015	**Bought**	**Sold**	**At 31.5.2016**
Shareholdings in which Directors have direct interests in the Company				
Lim Chang Ching	20,000	-	-	20,000
Wang Hak Tham @ Wong Hak Tham	20,000	-	-	20,000
Cheah Yee Leng	20,000	-	-	20,000

None of the other Directors holding office at 31 May 2016 had any interest in the ordinary shares of the Company and of its subsidiaries during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than certain Directors who have significant financial interests in companies which traded with certain companies in the Group in the ordinary course of business as disclosed in Note 26 to the financial statements.

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

Issue of shares and debentures

There were no changes in the authorised, issued and paid-up capital of the Company during the financial year.

There were no debentures issued during the financial year.

Options granted over unissued shares

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

Other statutory information

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

i) there are no bad debts to be written off and no provision need to be made for doubtful debts, and

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

Directors' Report
for the year ended 31 May 2016

Other statutory information (continued)

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

i) that would render it necessary to write off any bad debts or provide for any doubtful debts, or

ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

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

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

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

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

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

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 May 2016 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Auditors

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

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

Lim Chang Ching

Alice Boo Miau Li

Shah Alam, Malaysia

Date: 30 August 2016

Statements of Financial Position

as at 31 May 2016

	Note	Group 2016 RM	Group 2015 RM	Company 2016 RM	Company 2015 RM
Assets					
Property, plant and equipment	3	43,230,598	45,068,957	-	-
Investment properties	4	23,617,739	24,206,937	-	-
Investments in subsidiaries	5	-	-	90,788,173	90,788,173
Total non-current assets		66,848,337	69,275,894	90,788,173	90,788,173
Inventories	6	5,525,976	5,148,116	-	-
Other investments	7	942,000	1,012,400	-	-
Current tax assets		580,248	1,184,359	22,913	22,913
Trade and other receivables	8	17,238,601	8,604,442	-	-
Deposits and prepayments	9	233,131	335,650	2,000	2,000
Cash and cash equivalents	10	18,286,242	24,267,324	9,519	6,559
Total current assets		42,806,198	40,552,291	34,432	31,472
Total assets		109,654,535	109,828,185	90,822,605	90,819,645
Equity					
Share capital	11	60,388,000	60,388,000	60,388,000	60,388,000
Reserves		40,264,083	39,826,358	17,422,853	17,146,453
Total equity attributable to owners of the Company		100,652,083	100,214,358	77,810,853	77,534,453
Liabilities					
Deferred tax liabilities	12	1,361,898	2,011,413	-	-
Total non-current liabilities		1,361,898	2,011,413	-	-
Loans and borrowings	13	151,312	614,600	-	-
Current tax liabilities		133,854	-	-	-
Trade and other payables	14	7,355,388	6,987,814	13,011,752	13,285,192
Total current liabilities		7,640,554	7,602,414	13,011,752	13,285,192
Total liabilities		9,002,452	9,613,827	13,011,752	13,285,192
Total equity and liabilities		109,654,535	109,828,185	90,822,605	90,819,645

The notes set out on pages 42 to 74 are an integral part of these financial statements.

Statements of Profit or Loss and Other Comprehensive Income

for the year ended 31 May 2016

	Note	Group 2016 RM	Group 2015 RM	Company 2016 RM	Company 2015 RM
Revenue	15	74,102,282	57,277,252	3,999,000	4,000,000
Cost of sales		(65,893,296)	(51,357,683)	-	-
Gross profit		8,208,986	5,919,569	3,999,000	4,000,000
Administrative expenses		(6,339,528)	(6,139,498)	(345,176)	(405,217)
Distribution expenses		(515,712)	(456,433)	-	-
Other expenses		(385,496)	(153,886)	-	-
Other income		4,028,512	3,688,093	-	-
Results from operating activities		4,996,762	2,857,845	3,653,824	3,594,783
Finance costs		(42,403)	(34,098)	(358,023)	(403,082)
Interest income		448,534	173,574	-	-
Profit before tax		5,402,893	2,997,321	3,295,801	3,191,701
Tax expense	18	(1,945,767)	(1,248,470)	-	-
Profit and total comprehensive income for the year	16	3,457,126	1,748,851	3,295,801	3,191,701
Basic earnings per ordinary share (sen)	19	2.86	1.45		

The notes set out on pages 42 to 74 are an integral part of these financial statements.

Statements of Changes in Equity

for the year ended 31 May 2016

Group	Note	Share capital RM	*Non-distributable* Share premium RM	*Distributable* Retained earnings RM	Total equity RM
At 1 June 2014		60,388,000	14,871,806	26,225,102	101,484,908
Profit and total comprehensive income for the year		-	-	1,748,851	1,748,851
Dividends	20	-	-	(3,019,401)	(3,019,401)
At 31 May 2015/1 June 2015		60,388,000	14,871,806	24,954,552	100,214,358
Profit and total comprehensive income for the year		-	-	3,457,126	3,457,126
Dividends	20	-	-	(3,019,401)	(3,019,401)
At 31 May 2016		60,388,000	14,871,806	25,392,277	100,652,083
		Note 11.1	Note 11.2		

Company	Note	Share capital RM	*Non-distributable* Share premium RM	*Distributable* Retained earnings RM	Total equity RM
At 1 June 2014		60,388,000	14,871,806	2,102,347	77,362,153
Profit and total comprehensive income for the year		-	-	3,191,701	3,191,701
Dividends	20	-	-	(3,019,401)	(3,019,401)
At 31 May 2015/1 June 2015		60,388,000	14,871,806	2,274,647	77,534,453
Profit and total comprehensive income for the year		-	-	3,295,801	3,295,801
Dividends	20	-	-	(3,019,401)	(3,019,401)
At 31 May 2016		60,388,000	14,871,806	2,551,047	77,810,853
		Note 11.1	Note 11.2		

The notes set out on pages 42 to 74 are an integral part of these financial statements.

Statements of Cash Flows

for the year ended 31 May 2016

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Cash flows from operating activities				
Profit before tax	5,402,893	2,997,321	3,295,801	3,191,701
Adjustments for:				
Depreciation of investment properties	589,198	589,197	-	-
Depreciation of property, plant and equipment	2,635,274	2,575,881	-	-
Dividend income	(28,540)	(52,580)	(3,999,000)	(4,000,000)
Fair value loss on other investments	283,300	83,565	-	-
Finance costs	42,403	34,098	358,023	403,082
Interest income	(448,534)	(173,574)	-	-
Gain on disposal of other investments	-	(66,904)	-	-
Gain on disposal of property, plant and equipment	(8,500)	(125,236)	-	-
Net unrealised foreign exchange gain	(298,856)	(1,550,898)	-	-
Operating profit/(loss) before changes in working capital	8,168,638	4,310,870	(345,176)	(405,217)
Changes in working capital:				
Inventories	(377,860)	(1,934,155)	-	-
Trade and other receivables	(8,462,002)	(3,679,511)	-	-
Deposits and prepayments	102,519	(53,975)	-	-
Trade and other payables	349,293	1,937,343	(273,440)	(239,624)
Cash (used in)/generated from operations	(219,412)	580,572	(618,616)	(644,841)
Tax paid	(1,955,844)	(2,433,751)	(25,000)	(25,000)
Tax refund	98,527	1,009,708	25,000	50,500
Net cash used in operating activities	(2,076,729)	(843,471)	(618,616)	(619,341)
Cash flows from investing activities				
Acquisition of other investments	(212,900)	(2,684,753)	-	-
Acquisition of property, plant and equipment	(796,915)	(1,921,334)	-	-
Interest received	448,534	173,574	-	-
Proceeds from disposal of other investments	-	1,655,692	-	-
Proceeds from disposal of property, plant and equipment	8,500	195,500	-	-
Dividends received	28,540	52,580	3,999,000	4,000,000
Net cash (used in)/generated from investing activities	(524,241)	(2,528,741)	3,999,000	4,000,000
Cash flows from financing activities				
Dividends paid	(3,019,401)	(3,019,401)	(3,019,401)	(3,019,401)
Interest paid	(42,403)	(34,098)	(358,023)	(403,082)
Net cash used in financing activities	(3,061,804)	(3,053,499)	(3,377,424)	(3,422,483)
Net (decrease)/increase in cash and cash equivalents	(5,662,774)	(6,425,711)	2,960	(41,824)
Cash and cash equivalents at 1 June	23,652,724	28,915,998	6,559	48,383
Effect of exchange rate fluctuations on cash held	144,980	1,162,437	-	-
Cash and cash equivalents at 31 May (Note (i))	18,134,930	23,652,724	9,519	6,559

Statements of Cash Flows
for the year ended 31 May 2016

(i) Cash and cash equivalents

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

	Note	Group 2016 RM	Group 2015 RM	Company 2016 RM	Company 2015 RM
Deposits placed with licensed bank	10	12,000,000	11,500,000	-	-
Cash and bank balances	10	6,286,242	12,767,324	9,519	6,559
Bank overdrafts	13	(151,312)	(614,600)	-	-
		18,134,930	23,652,724	9,519	6,559

Notes to the Financial Statements

Paos Holdings Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The addresses of the registered office and principal place of business of the Company are as follows:

Registered office
No. 308, Block A (3rd Floor)
Kelana Business Centre
97, Jalan SS7/2, Kelana Jaya
47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia

Principal place of business
No. 65, Persiaran Selangor
Section 15
40200 Shah Alam
Selangor Darul Ehsan
Malaysia

The consolidated financial statements as at and for the financial year ended 31 May 2016 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities"). The financial statements of the Company as at and for the financial year ended 31 May 2016 do not include other entities.

The Company is principally engaged in investment holding activities whilst the principal activities of the subsidiaries are as stated in Note 5 to the financial statements.

These financial statements were authorised for issue by the Board of Directors on 30 August 2016.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

- MFRS 14, *Regulatory Deferral Accounts**
- Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle) **
- Amendments to MFRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements, MFRS 12, Disclosure of Interests in Other Entities and MFRS 128, Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*
- Amendments to MFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations**
- Amendments to MFRS 101, *Presentation of Financial Statements – Disclosure Initiative*
- Amendments to MFRS 116, *Property, Plant and Equipment and MFRS 138, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 116, *Property, Plant and Equipment and MFRS 141, Agriculture – Agriculture: Bearer Plants**
- Amendments to MFRS 119, *Employee Benefits (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 127, *Separate Financial Statements – Equity Method in Separate Financial Statements*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)*

Notes to the Financial Statements

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018
- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019
- MFRS 16, *Leases*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed
- Amendments to MFRS 10, *Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

- from the annual period beginning on 1 June 2016 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2016, except for those marked "*" which are not applicable to the Group and the Company.

- from the annual period beginning on 1 June 2017 for those amendments that are effective for annual periods beginning on or after 1 January 2017.

- from the annual period beginning on 1 June 2018 for those accounting standards that are effective for annual periods beginning on or after 1 January 2018.

- from the annual period beginning on 1 June 2019 for the accounting standard that is effective for annual periods beginning on or after 1 January 2019.

The initial application of the applicable accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Group and the Company except as mentioned below:

(i) MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts,* MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate,* IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services.*

The Group will assess the financial impact that may arise from the adoption of MFRS 15.

(ii) MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Group will assess the financial impact that may arise from the adoption of MFRS 9.

Notes to the Financial Statements

1. Basis of preparation (continued)

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in Note 2.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM, unless otherwise stated.

(d) Use of estimates and judgements

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

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

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

2. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

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

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

(ii) Business combinations

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

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Business combinations (continued)

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

(iii) Loss of control

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

(iv) Transactions eliminated on consolidation

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

(b) Foreign currency transactions

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

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

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

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

Notes to the Financial Statements

2. Significant accounting policies (continued)

(c) Financial instruments

(i) Initial recognition and measurement

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

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

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

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

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

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

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

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

(b) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

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

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 2(i)(i)).

Financial liabilities

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

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

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial liabilities (continued)

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

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

(iii) Derecognition

A financial asset or a part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

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

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

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

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

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

(ii) Subsequent costs

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

Notes to the Financial Statements

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation

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

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

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

Leasehold land	74 - 99 years
Buildings	33 years
Plant and machinery	10 - 20 years
Motor vehicles	5 years
Renovation, office equipment and furniture and fittings	5 - 10 years
Hotel operating equipment	5 years

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

(e) Leased assets

(i) Finance lease

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

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

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

(ii) Operating lease

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

2. **Significant accounting policies (continued)**

(e) **Leased assets (continued)**

(ii) **Operating lease (continued)**

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

(f) **Investment property**

(i) **Investment property carried at cost**

Investment properties are properties which are owned to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. These include freehold land and leasehold land which in substance is a finance lease held for a currently undetermined future use. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties.

Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses, consistent with the accounting policy for property, plant and equipment as stated in accounting policy Note 2(d).

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of 33 years for buildings. Freehold land is not depreciated.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

An external independent valuation firm, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio every three to five years.

The fair values are based on the open market value method, and an assessment of the prevailing property market rate. The Directors are of the opinion that there were no significant changes in fair value to that as appraised by the independent professional valuer since the last valuation.

(ii) **Reclassification from investment property**

When the use of a property changes such that it is reclassified as property, plant and equipment, its cost at the date of reclassification becomes its cost for subsequent accounting.

(g) **Inventories**

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

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

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

Notes to the Financial Statements

2. Significant accounting policies (continued)

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits placed with licenced banks which have an insignificant risk of changes in fair value, and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts.

(i) Impairment

(i) Financial assets

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

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

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

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

(ii) Other assets

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

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

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

Notes to the Financial Statements

2. Significant accounting policies (continued)

(i) Impairment (continued)

(ii) Other assets (continued)

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amounts of assets in the cash-generating unit (groups of cash-generating units) on a *pro rata* basis.

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

(j) Equity instruments

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

Ordinary shares

Ordinary shares are classified as equity.

(k) Employee benefits

(i) Short-term employee benefits

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

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

(ii) Statutory contributions

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

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Notes to the Financial Statements

2. Significant accounting policies (continued)

(m) Revenue

(i) Goods sold

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

(ii) Dividend income

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

(iii) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognised as other income.

(iv) Hotel operations

Revenue from the provision of rooms, food and beverage, and laundry services are recognised in profit or loss when services are rendered.

(v) Parking income

Parking income is recognised when the rights to receive payment is established.

(vi) Interest income

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

(n) Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss.

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

Notes to the Financial Statements

2. Significant accounting policies (continued)

(o) Income tax (continued)

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

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

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

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

(p) Earnings per ordinary share

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

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

(q) Operating segments

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

(r) Contingent liabilities

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

Notes to the Financial Statements

2. Significant accounting policies (continued)

(s) Fair value measurement

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

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

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

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

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

Notes to the Financial Statements

3. **Property, plant and equipment**

Group	Freehold Land RM	Leasehold land* RM	Buildings RM	Plant and machineries RM	Motor vehicles RM	Renovation, office equipment and furniture and fittings RM	Hotel operating equipment RM	Total RM
Cost								
At 1 June 2014	6,661,284	13,329,580	26,058,232	45,626,999	959,936	9,051,666	773,423	102,461,120
Additions	-	-	-	250,300	1,180,667	484,217	6,150	1,921,334
Disposals	-	-	-	(61,800)	(645,263)	-	-	(707,063)
Transfer from investment property	-	-	7,963,209	-	-	-	-	7,963,209
At 31 May 2015/1 June 2015	6,661,284	13,329,580	34,021,441	45,815,499	1,495,340	9,535,883	779,573	111,638,600
Additions	-	-	-	314,450	-	469,739	12,726	796,915
Disposals	-	-	-	(35,000)	-	-	-	(35,000)
At 31 May 2016	6,661,284	13,329,580	34,021,441	46,094,949	1,495,340	10,005,622	792,299	112,400,515
Accumulated depreciation								
At 1 June 2014	-	2,742,749	7,667,016	43,516,421	889,673	5,295,685	737,502	60,849,046
Charge for the year	-	176,385	1,020,644	454,949	236,132	665,973	21,798	2,575,881
Disposals	-	-	-	(61,800)	(574,999)	-	-	(636,799)
Transfer from investment property	-	-	3,781,515	-	-	-	-	3,781,515
At 31 May 2015/1 June 2015	-	2,919,134	12,469,175	43,909,570	550,806	5,961,658	759,300	66,569,643
Charge for the year	-	176,385	1,020,644	466,038	236,133	722,865	13,209	2,635,274
Disposals	-	-	-	(35,000)	-	-	-	(35,000)
At 31 May 2016	-	3,095,519	13,489,819	44,340,608	786,939	6,684,523	772,509	69,169,917
Carrying amounts								
At 1 June 2014	6,661,284	10,586,831	18,391,216	2,110,578	70,263	3,755,981	35,921	41,612,074
At 31 May 2015/1 June 2015	6,661,284	10,410,446	21,552,266	1,905,929	944,534	3,574,225	20,273	45,068,957
At 31 May 2016	6,661,284	10,234,061	20,531,622	1,754,341	708,401	3,321,099	19,790	43,230,598

* The leasehold land has an unexpired lease period of more than 50 years.

Notes to the Financial Statements

4. Investment properties

Group	Freehold land RM	Buildings RM	Total RM
Cost			
At 1 June 2014	8,838,716	27,603,106	36,441,822
Transfer to property, plant and equipment	-	(7,963,209)	(7,963,209)
At 31 May 2015/1 June 2015/31 May 2016	8,838,716	19,639,897	28,478,613
Accumulated depreciation			
At 1 June 2014	-	7,463,994	7,463,994
Charge for the year	-	589,197	589,197
Transfer to property, plant and equipment	-	(3,781,515)	(3,781,515)
At 31 May 2015/1 June 2015	-	4,271,676	4,271,676
Charge for the year	-	589,198	589,198
At 31 May 2016	-	4,860,874	4,860,874
Carrying amounts			
At 1 June 2014	8,838,716	20,139,112	28,977,828
At 31 May 2015/1 June 2015	8,838,716	15,368,221	24,206,937
At 31 May 2016	8,838,716	14,779,023	23,617,739
Fair value			
At 1 June 2014	15,659,068	27,206,516	42,865,584
At 31 May 2015/1 June 2015/31 May 2016	15,659,068	21,406,516	37,065,584

Investment properties comprise commercial properties that are leased to third parties. The leases are renewed every year and the rental rates are based on prevailing market rates.

Fair value information

The fair value of investment properties is categorised as level 2 fair value. The Group engaged Henry Butcher Malaysia Sdn. Bhd., an independent professional valuation firm to perform the valuation of the investment properties. The last valuation was performed on 15 July 2015 for all investment properties using the open market value method, and an assessment of the prevailing property market rate. The Directors are of the opinion that there were no significant changes in fair value to that as appraised by the independent professional valuer since the last valuation.

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

	2016 RM	2015 RM
Rental income	3,337,917	3,374,966
Direct operating expenses:		
- income generating investment properties	2,715,057	2,692,018

Notes to the Financial Statements

5. Investments in subsidiaries

	Cost of investment RM	Capital contribution RM	Total RM
Company			
At 31 May 2015/1 June 2015/31 May 2016	40,795,136	49,993,037	90,788,173
		Note 5.1	

The principal activities of the subsidiaries, their places of incorporation and the effective ownership interest of the Company are as follows:

Name of company	Principal activities	Effective ownership interest 2016 %	2015 %
Paos Industries Sdn. Bhd.	Manufacture and trading of soap and its related products, trading in specialty fats produce from palm oil and marine gasoil.	100	100
Premier Oil Industries Sdn. Bhd.	Contract manufacturing of products from palm oil and manufacturing of specialty fats.	100	100
Alpine Legacy (M) Sdn. Bhd.	Rental of hotel building, office space and shop lots	100	100
Subsidiary of Alpine Legacy (M) Sdn. Bhd.			
The 5 Elements Hotel Sdn. Bhd.	Operation and management of hotel and restaurant	100	100

All subsidiaries are incorporated in Malaysia.

5.1 Capital contributions relate to advances to a subsidiary of which the repayment of these advances is neither fixed nor expected in the next 12 months.

6. Inventories

	Group 2016 RM	2015 RM
At cost:		
Raw materials	3,600,627	3,114,628
Manufactured inventories	1,910,805	2,019,534
Food and beverage	14,544	13,954
	5,525,976	5,148,116
Recognised in profit or loss:		
Inventories recognised as cost of sales	52,495,196	37,554,998

Notes to the Financial Statements

7. Other investments

	Group 2016 RM	Group 2015 RM
Quoted shares		
Financial assets at fair value through profit or loss		
- Held for trading	942,000	1,012,400
Market value of quoted shares	942,000	1,012,400

8. Trade and other receivables

	Group 2016 RM	Group 2015 RM
Trade		
Trade receivables	16,764,795	8,239,037
Non-trade		
Other receivables	473,806	365,405
	17,238,601	8,604,442

9. Deposits and prepayments

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Deposits	66,316	98,066	2,000	2,000
Prepayments	166,815	237,584	-	-
	233,131	335,650	2,000	2,000

10. Cash and cash equivalents

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Deposits placed with licensed bank	12,000,000	11,500,000	-	-
Cash and bank balances	6,286,242	12,767,324	9,519	6,559
	18,286,242	24,267,324	9,519	6,559

Notes to the Financial Statements

11. Capital and reserves

11.1 Share capital

	Group and Company			
	Amount 2016 RM	Number of shares 2016	Amount 2015 RM	Number of shares 2015
Authorised:				
Ordinary shares of RM0.50 each	100,000,000	200,000,000	100,000,000	200,000,000
Issued and fully paid:				
Ordinary shares of RM0.50 each	60,388,000	120,776,000	60,388,000	120,776,000

11.2 Share premium

The share premium represents premium arising from the issuance of ordinary shares of the Company at issue price above par value.

12. Deferred tax liabilities

Recognised deferred tax liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 RM	2015 RM	2016 RM	2015 RM	2016 RM	2015 RM
Group						
Property, plant and equipment	(16,579)	-	1,327,462	1,643,317	1,310,883	1,643,317
Provisions	(20,710)	(19,629)	-	-	(20,710)	(19,629)
Other items	-	-	71,725	387,725	71,725	387,725
Tax (assets)/liabilities	(37,289)	(19,629)	1,399,187	2,031,042	1,361,898	2,011,413
Set off of tax	-	19,629	-	(19,629)	-	-
Net tax (assets)/liabilities	(37,289)	-	1,399,187	2,011,413	1,361,898	2,011,413

Movement in temporary differences during the year

	At 1.6.2014 RM	Recognised in profit or loss (Note 18) RM	At 31.5.2015/ 1.6.2015 RM	Recognised in profit or loss (Note 18) RM	At 31.5.2016 RM
Group					
Property, plant and equipment	1,719,163	(75,846)	1,643,317	(332,434)	1,310,883
Provisions	(12,615)	(7,014)	(19,629)	(1,081)	(20,710)
Other items	80,427	307,298	387,725	(316,000)	71,725
	1,786,975	224,438	2,011,413	(649,515)	1,361,898

Notes to the Financial Statements

13. Loans and borrowings

	Group 2016 RM	Group 2015 RM
Current		
Bank overdrafts - unsecured	151,312	614,600

The bank overdrafts of the Group are subject to interest rates varying between 1.0% and 1.5% (2015: 1.0% and 1.5%) above the lender's base rate per annum.

The bank overdrafts of the subsidiaries are guaranteed by the Company.

14. Trade and other payables

	Note	Group 2016 RM	Group 2015 RM	Company 2016 RM	Company 2015 RM
Trade					
Trade payables		3,263,541	3,421,814	-	-
Non-trade					
Amount due to subsidiaries	14.1	-	-	12,763,930	13,001,852
Other payables	14.2	1,583,536	1,272,775	-	-
Accruals		2,508,311	2,293,225	247,822	283,340
		4,091,847	3,566,000	13,011,752	13,285,192
		7,355,388	6,987,814	13,011,752	13,285,192

14.1 The amount due to subsidiaries is unsecured, repayable on demand and subject to interest of 3% (2015: 3%) per annum, except for an amount due to a subsidiary of RM2,600,000 (2015: RM1,000,000) that is interest free.

14.2 Included in other payables of the Group are security deposits received from third party tenants amounting to RM767,071 (2015: RM772,348).

15. Revenue

	Group 2016 RM	Group 2015 RM	Company 2016 RM	Company 2015 RM
Revenue				
Sale of goods	58,627,119	43,095,724	-	-
Contract manufacturing	8,018,339	6,826,315	-	-
Dividends	-	-	3,999,000	4,000,000
Rental	4,062,758	4,074,978	-	-
Hotel operation	2,709,658	2,554,137	-	-
Others	684,408	726,098	-	-
	74,102,282	57,277,252	3,999,000	4,000,000

Notes to the Financial Statements

16. Profit and total comprehensive income for the year

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RM	**RM**	**RM**	**RM**
Profit and total comprehensive income for the year is arrived at after charging:				
Auditors' remuneration				
- audit services	150,000	150,000	44,000	44,000
- other services	20,000	20,000	20,000	20,000
Depreciation of investment properties	589,198	589,197	-	-
Depreciation of property, plant and equipment	2,635,274	2,575,881	-	-
Fair value loss on other investments	283,300	83,565	-	-
Interest payable on:				
- bank overdrafts	42,403	34,098	-	-
- subsidiaries	-	-	358,023	403,082
Personnel expenses (including key management personnel):				
- contributions to Employees Provident Fund	727,151	671,332	-	-
- wages, salaries and others	7,757,715	7,303,656	201,000	201,000
and after crediting:				
Dividend income from:				
Subsidiary				
- unquoted share	-	-	3,999,000	4,000,000
Other investments				
- quoted shares in Malaysia	28,540	52,580	-	-
Gain on disposal of other investments	-	66,904	-	-
Gain on disposal of property,plant and equipment	8,500	125,236	-	-
Interest income	448,534	173,574	-	-
Rental income	4,170,758	4,369,962	-	-
Net realised gain on foreign exchange	3,459,666	1,283,340	-	-
Net unrealised gain on foreign exchange	298,856	1,550,898	-	-

17. Key management personnel compensation

The key management personnel compensations are as follows:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RM	**RM**	**RM**	**RM**
Directors:				
- Fees	179,000	179,000	179,000	179,000
- Remuneration	1,833,012	1,680,078	22,000	22,000
	2,012,012	1,859,078	201,000	201,000
Other key management personnel:				
- Short-term employee benefits	1,658,430	1,444,491	-	-
	3,670,442	3,303,569	201,000	201,000

Other key management personnel comprise persons other than the Directors of Group entities, having authority and responsibility for planning, directing and controlling the activities of the Group entities either directly or indirectly.

Notes to the Financial Statements

18. Tax expense

	Group		Company	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Recognised in profit or loss				
Current tax expense				
- current year	2,455,184	988,884	-	-
- under provision in prior year	140,098	35,148	-	-
	2,595,282	1,024,032	-	-
Deferred tax expense				
- origination and reversal of temporary differences	(372,197)	389,787	-	-
- over provision in prior year	(277,318)	(165,349)	-	-
	(649,515)	224,438	-	-
Total income tax expense	1,945,767	1,248,470	-	-
Reconciliation of tax expense				
Profit for the year	3,457,126	1,748,851	3,295,801	3,191,701
Total income tax expense	1,945,767	1,248,470	-	-
Profit excluding tax	5,402,893	2,997,321	3,295,801	3,191,701
Income tax calculated using Malaysian tax rate of 24% (2015: 25%)	1,296,694	749,330	790,992	797,925
Non-taxable income	-	-	(959,760)	(1,000,000)
Non-deductible expenses	786,293	637,275	168,768	202,075
Tax incentives	-	(2,073)	-	-
Effect of changes in tax rate	-	(5,861)	-	-
	2,082,987	1,378,671	-	-
Under/(Over) provision in				
- current tax expense	140,098	35,148	-	-
- deferred tax expense	(277,318)	(165,349)	-	-
Total income tax expense	1,945,767	1,248,470	-	-

19. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share at 31 May 2016 was based on the profit attributable to ordinary shareholders of RM3,457,126 (2015: RM1,748,851) and a weighted average number of ordinary shares outstanding during the year of 120,776,000 (2015: 120,776,000).

Notes to the Financial Statements

20. Dividends

Dividends recognised by the Company:

	Sen per share (net of tax) RM	Total amount RM	Date of payment
2016			
First interim 2016 ordinary - single tier	1.25	1,509,701	27 November 2015
Second interim 2016 ordinary - single tier	1.25	1,509,700	27 May 2016
Total amount		3,019,401	
2015			
First interim 2015 ordinary - tax exempt	1.25	1,509,700	28 November 2014
Second interim 2015 ordinary - single tier	1.25	1,509,701	29 May 2015
Total amount		3,019,401	

The Directors do not recommend any final dividend to be paid for the financial year under review.

21. Operating segments

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's Executive Chairman (the chief operating decision maker) reviews internal management reports at least on a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Manufacturing : Manufacture of specialty fats, soap, and other palm oil related products and contract manufacturing.
- Trading : Trading of specialty fats from palm oil and other palm oil related products and marine gasoil.
- Integrated hotel operation and property investment : Hotel operations and investment properties holding.

The accounting policies of the reportable segments are the same as described in Note 2(q).

Performance is measured based on segment profit before tax, interest, depreciation and amortisation, included in the internal management reports that are reviewed by the Group's Executive Chairman (the chief operating decision maker). Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Segment assets

The total of segment assets is measured based on all assets of a segment, as included in the internal management reports that are reviewed by the Group's Executive Chairman. Segment total assets is used to measure the return of assets of each segment.

Segment liabilities

Segment liabilities information is neither included in the internal management reports nor provided regularly to the Group's Executive Chairman. Hence no disclosure is made on segment liabilities.

Segment capital expenditure

Segment capital expenditure is the total costs incurred during the financial year to acquire property, plant and equipment.

Notes to the Financial Statements

21. Operating segments (continued)

Group	Manufacturing 2016 RM	Manufacturing 2015 RM	Trading 2016 RM	Trading 2015 RM	Integrated hotel operations and property investment 2016 RM	Integrated hotel operations and property investment 2015 RM	Total 2016 RM	Total 2015 RM
Segment profit	4,779,167	2,461,251	394,882	92,828	314,651	275,346	5,488,700	2,829,425
Included in the measure of segment profit are:								
Revenue from external customers	45,753,175	41,238,986	22,181,124	9,947,065	6,167,983	6,091,201	74,102,282	57,277,252
Depreciation	1,295,729	1,271,895	236,133	236,132	1,692,610	1,657,051	3,224,472	3,165,078
Segment assets	52,716,756	49,803,206	19,793,419	22,304,972	142,094,586	141,699,289	214,604,761	213,807,467
Included in the measure of segment assets are:								
Additions to non-current assets other than financial instruments and deferred tax assets	435,075	1,456,924	-	-	361,840	464,410	796,915	1,921,334

Reconciliation of reportable segment profit or loss and assets

	Group 2016 RM	Group 2015 RM
Profit or loss		
Total profit or loss for reportable segments	5,488,700	2,829,425
Finance costs	(42,403)	(34,098)
Interest income	448,534	173,574
Unallocated expenses	(628,478)	(488,784)
Unallocated income	136,540	517,204
Consolidated profit before tax	5,402,893	2,997,321
Segment assets		
Total assets for reportable segments	214,604,761	213,807,467
Other non-reportable segments	1,522,249	2,196,759
Elimination of inter-segment balance	(106,472,475)	(106,176,041)
Consolidated total	109,654,535	109,828,185

Geographical segments

The manufacturing and trading segments are managed on a worldwide basis, but manufacturing facilities and sales offices are in Malaysia.

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of customers. Segment assets are based on the geographical location of the assets. The amounts of non-current assets do not include financial instruments and deferred tax assets.

Notes to the Financial Statements

21. Operating segments (continued)

	Revenue RM	Group Non-current assets RM
Geographical information		
2016		
Domestic	22,973,731	66,848,337
South East Asia	51,128,551	-
	74,102,282	66,848,337
2015		
Domestic	25,733,343	69,275,894
South East Asia	31,543,909	-
	57,277,252	69,275,894

Major customers

Approximately 81% (2015:71%) of the Group's revenue are from 4 (2015: 2) major customers.

22. Financial instruments

22.1 Categories of financial instruments

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

(a) Loans and receivables ("L&R");
(b) Fair value through profit or loss – Held for trading ("FVTPL-HFT"); and
(c) Financial liabilities measured at amortised cost ("FL").

	Carrying amount RM	L&R/ (FL) RM	FVTPL - HFT RM
2016			
Financial assets			
Group			
Other investments	942,000	-	942,000
Trade and other receivables	16,878,374	16,878,374	-
Deposits	66,316	66,316	-
Cash and cash equivalents	18,286,242	18,286,242	-
	36,172,932	35,230,932	942,000
Company			
Deposits	2,000	2,000	-
Cash and cash equivalents	9,519	9,519	-
	11,519	11,519	-
Financial liabilities			
Group			
Loans and borrowings	(151,312)	(151,312)	-
Trade and other payables	(7,222,124)	(7,222,124)	-
	(7,373,436)	(7,373,436)	-
Company			
Trade and other payables	(13,011,752)	(13,011,752)	-

Notes to the Financial Statements

22. Financial instruments (continued)

22.1 Categories of financial instruments (continued)

	Carrying amount RM	L&R/ (FL) RM	FVTPL - HFT RM
2015			
Financial assets			
Group			
Other investments	1,012,400	-	1,012,400
Trade and other receivables	8,288,428	8,288,428	-
Deposits	98,066	98,066	-
Cash and cash equivalents	24,267,324	24,267,324	-
	33,666,218	32,653,818	1,012,400
Company			
Deposits	2,000	2,000	-
Cash and cash equivalents	6,559	6,559	-
	8,559	8,559	-
Financial liabilities			
Group			
Loans and borrowings	(614,600)	(614,600)	-
Trade and other payables	(6,941,113)	(6,941,113)	-
	(7,555,713)	(7,555,713)	-
Company			
Trade and other payables	(13,285,192)	(13,285,192)	-

22.2 Net gains and losses arising from financial instruments

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Net gains/(losses) on:				
Fair value through profit or loss:				
- Held for trading	(311,840)	(69,241)	-	-
Loans and receivables	4,188,426	2,973,714	-	-
Financial liabilities measured at amortised cost	(23,773)	141,345	(358,023)	(403,082)
	3,852,813	3,045,818	(358,023)	(403,082)

22.3 Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

22.4 Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers. The Company's exposure to credit risk arises principally from financial guarantees given to banks for credit facilities granted to subsidiaries.

Notes to the Financial Statements

22. Financial instruments (continued)

22.4 Credit risk (continued)

22.4.1 Receivables

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk, credit quality and collateral

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

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 60 days, which are deemed to have higher credit risk, are monitored individually.

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

	Group	
	2016	**2015**
	RM	**RM**
Domestic	7,765,537	3,133,515
South East Asia	8,999,258	5,105,522
	16,764,795	8,239,037

Impairment losses

The Group maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

	Gross	**Individual impairment**	**Net**
	RM	**RM**	**RM**
2016			
Not past due	11,637,799	-	11,637,799
Past due 0 - 30 days	2,965,836	-	2,965,836
Past due 31 - 60 days	1,934,802	-	1,934,802
Past due more than 60 days	226,358	-	226,358
	16,764,795	-	16,764,795
2015			
Not past due	4,939,859	-	4,939,859
Past due 0 - 30 days	2,751,740	-	2,751,740
Past due 31 - 60 days	378,297	-	378,297
Past due more than 60 days	169,141	-	169,141
	8,239,037	-	8,239,037

There is no allowance for impairment losses of receivables during and at the end of the reporting period as a substantial amount has been collected subsequent to year end.

Notes to the Financial Statements

22. Financial instruments (continued)

22.4 Credit risk (continued)

22.4.2 Financial guarantees

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured financial guarantees to banks in respect of banking facilities granted to certain subsidiaries. The Company monitors on an ongoing basis the performance of the subsidiaries and repayments made by the subsidiaries.

Exposure to credit risk, credit quality and collateral

The maximum exposure to credit risk amounts to RM151,312 (2015: RM614,600) representing the outstanding banking facilities of the subsidiaries as at the end of the reporting period.

As at the end of the reporting period, there was no indication that the subsidiaries would default on repayment.

The financial guarantees have not been recognised since the fair value on initial recognition was not material.

22.4.3 Inter-company loans and advances

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured loans and advances to subsidiaries. The Company monitors the results of the subsidiaries regularly.

Exposure to credit risk, credit quality and collateral

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

Loans and advances are only provided to subsidiaries which are wholly owned by the Company.

Impairment losses

As at the end of the reporting period, there was no indication that the loans and advances to the subsidiaries are not recoverable. The Company does not specifically monitor the ageing of current advances to the subsidiaries. Nevertheless, these advances have been overdue for less than a year.

22.5 Liquidity risk

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

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Notes to the Financial Statements

22. Financial instruments (continued)

22.5 Liquidity risk (continued)

Maturity analysis

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

	Carrying amount RM	Contractual interest rate/coupon %	Contractual cash flows RM	Under 1 year RM
Group				
2016				
Non-derivative financial liabilities				
Bank overdrafts	151,312	7.60% - 8.10%	151,312	151,312
Trade and other payables	7,222,124	-	7,222,124	7,222,124
Bank guarantee	-	-	650,000	650,000
	7,373 ,436		8,023,436	8,023,436
2015				
Non-derivative financial liabilities				
Bank overdrafts	614,600	7.60% - 8.10%	614,600	614,600
Trade and other payables	6,941,113	-	6,941,113	6,941,113
Bank guarantee	-	-	480,000	480,000
	7,555,713		8,035,713	8,035,713
Company				
2016				
Non-derivative financial liabilities				
Amount due to subsidiaries				
- Interest-bearing	10,163,930	3.00%	10,163,930	10,163,930
- Non-interest bearing	2,600,000	-	2,600,000	2,600,000
Other payables and accruals	247,822	-	247,822	247,822
	13,011,752		13,011,752	13,011,752
2015				
Non-derivative financial liabilities				
Amount due to subsidiaries				
- Interest-bearing	12,001,852	3.00%	12,001,852	12,001,852
- Non-interest bearing	1,000,000	-	1,000,000	1,000,000
Other payables and accruals	283,340	-	283,340	283,340
	13,285,192		13,285,192	13,285,192

22.6 Market risk

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

22.6.1 Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than Ringgit Malaysia ("RM"). The currencies giving rise to this risk are primarily U.S. Dollar ("USD") and Singapore Dollar ("SGD").

Notes to the Financial Statements

22. Financial instruments (continued)

22.6 Market risk (continued)

22.6.1 Currency risk (continued)

Risk management objectives, policies and processes for managing the risk

The Group manages its foreign currency risk to an acceptable level by entering into forward contracts where necessary.

Exposure to foreign currency risk

The Group's exposure to foreign currency (a currency which is other than the respective functional currencies of the Group entities) risk, based on carrying amounts as at the end of the reporting period was:

	Denominated in	
	USD	**SGD**
	RM	**RM**
Group		
2016		
Trade and other receivables	2,773,355	8,694,772
Trade and other payables	(1,254,094)	-
Cash and cash equivalents	718,533	2,930,880
	2,237,794	11,625,652
2015		
Trade and other receivables	233,632	4,871,897
Trade and other payables	(93,520)	-
Cash and cash equivalents	3,790,515	7,319,598
	3,930,627	12,191,495

Currency risk sensitivity analysis

A 10% (2015: 10%) strengthening of RM against the following currencies at the end of the reporting period would have increased (decreased) equity and post-tax profit or loss by the amounts shown below. This analysis is based on foreign exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

Group	Equity/Post-tax profit or loss	
	2016	**2015**
	RM	**RM**
USD	170,072	294,797
SGD	883,550	914,362

A 10% (2015: 10%) weakening of RM against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

Notes to the Financial Statements

22. Financial instruments (continued)

22.6 Market risk (continued)

22.6.2 Interest rate risk

The Group's fixed rate financial instruments are exposed to a risk of change in their fair values due to changes in interest rates. The Group's variable rate financial instruments are exposed to a risk of change in cash flows due to changes in interest rates. Short-term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

Interest rate exposure arises from the Group's borrowings and fixed deposits placed with licensed banks and is managed through effective negotiation with financial institutions for best available rates.

Exposure to interest rate risk

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

	2016 RM	2015 RM
Group		
Fixed rate instruments		
Financial assets	12,000,000	11,500,000
Floating rate instruments		
Financial liabilities	(151,312)	(614,600)
Company		
Fixed rate instruments		
Financial liabilities	(10,163,930)	(12,001,852)

Interest rate risk sensitivity analysis

(a) Fair value sensitivity analysis for fixed rate instruments

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

(b) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points ("bp") in interest rates at the end of the reporting period would have increased (decreased) equity and post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Equity/Post-tax profit or loss	
	100 bp increase RM	100 bp decrease RM
Group		
2016		
Cash flow sensitivity (net)	(1,150)	1,150
2015		
Cash flow sensitivity (net)	(4,610)	4,610

Notes to the Financial Statements

22. Financial instruments (continued)

22.6 Market risk (continued)

22.6.2 Interest rate risk (continued)

(c) Other price risk

Entity price risk arises from the Company's investments in quoted shares.

Risk management objectives, policies and processes for managing the risk

Management of the Group monitors the equity investments on a portfolio basis. Material investments within portfolio are managed on an individual basis and all buy and sell decisions are approved by the Board of Directors of the Group.

Equity price sensitivity analysis

This analysis assumes that all other variables remain constant and the Company's equity investments moved in correlation within the FTSE Bursa Malaysia KLCI ("FBMKLCI").

A 10% (2015: 10%) strengthening in FBMKLCI at the end of the reporting period would have increased equity and post-tax profit or loss by RM94,200 (2015: RM101,240) for investments classified as fair value through profit or loss. A 10% (2015: 10%) weakening in FBMKLCI would have had equal but opposite effect on equity and post-tax profit or loss.

22.7 Fair value information

The table below analyses financial instruments carried at fair value, together with their fair values and carrying amounts shown in the statement of financial position.

2016	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
Financial assets				
Quoted shares	942,000	-	-	942,000
2015				
Financial assets				
Quoted shares	1,012,400	-	-	1,012,400

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial year (2015: no transfer in either directions).

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

23. Capital management

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business.

There were no changes in the Group's approach to capital management during the year.

Notes to the Financial Statements

24. Contingent liabilities - unsecured

One of the subsidiaries of the Group has executed a bank guarantee in favour of third parties for purchase of utilities of up to a limit of RM650,000 (2015: RM480,000).

25. Capital commitments

Outstanding commitments in respect of capital expenditure at the end of the reporting period not provided for in the financial statements are:

	Group	
	2016 RM	**2015 RM**
Property, plant and equipment		
Approved, contracted for and payable within one year	18,380	55,000
Approved but not contracted for	752,751	183,562

26. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group or the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include all the Directors of the Group, and certain members of senior management of the Group.

The Group has a related party relationship with its subsidiaries, Directors and key management personnel.

Key management personnel compensation

Key management personnel compensation is as disclosed in Note 17.

Transactions with Directors other than compensation

A number of Directors, or their related parties, hold positions in the Group entities that result in them having control or significant influence over the financial or operating policies of these entities.

Other related party transactions

Significant related party transactions other than those disclosed elsewhere in the financial statements are as follows:

	Company	
	2016 RM	**2015 RM**
Subsidiaries		
Paos Industries Sdn. Bhd.		
Dividend income	-	4,000,000
Interest expense	(47,906)	(141,345)
Premier Oil Industries Sdn. Bhd.		
Dividend income	3,999,000	-
Interest expense	(310,117)	(261,737)

Related party transactions have been entered into in the normal course of business under negotiated trade terms. The outstanding amounts due to subsidiaries as at 31 May 2016 and 2015 respectively are disclosed in Note 14.

Notes to the Financial Statements

27. Supplementary financial information on the breakdown of realised and unrealised profits or losses

The breakdown of the retained earnings of the Group and of the Company as at 31 May, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Total retained earnings of the Company and its subsidiaries				
- realised	56,387	55,347	2,551	2,275
- unrealised	(1,063)	(461)	-	-
	55,324	54,886	2,551	2,275
Less: Consolidation adjustments	(29,932)	(29,931)	-	-
Total retained earnings	25,392	24,955	2,551	2,275

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

Statement by Directors

pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 37 to 73 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 May 2016 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 27 on page 74 to the financial statements has been compiled in accordance with the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

....
Lim Chang Ching

....
Alice Boo Miau Li

Shah Alam, Malaysia

Date: 30 August 2016

Statutory Declaration

pursuant to Section 169(16) of the Companies Act, 1965

I, **Alice Boo Miau Li,** the Director primarily responsible for the financial management of Paos Holdings Berhad, do solemnly and sincerely declare that the financial statements set out on pages 37 to 74 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 in Petaling Jaya on 30 August 2016.

Alice Boo Miau Li

Before me:

Raymond Cha Kar Xiang (B 362)
Commissioner for Oaths

Independent Auditors' Report

to the members of Paos Holdings Berhad
(Company No. 452536-W)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Paos Holdings Berhad, which comprise the statements of financial position as at 31 May 2016 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 37 to 73.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements 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, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 May 2016 and of their financial performance and 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, 1965 in Malaysia.

Independent Auditors' Report
to the members of Paos Holdings Berhad
(Company No. 452536-W)
(Incorporated in Malaysia)

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

c) The audit report on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Reporting Responsibilities

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 27 on page 74 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG
Firm Number: AF 0758
Chartered Accountants

Chan Chee Keong
Approval Number: 3175/04/17(J)
Chartered Accountant

Petaling Jaya, Selangor

Date: 30 August 2016

Group Properties

The details of the properties of the Group as at 31 May 2016.

Particulars of property	Tenure	Description/ existing use	Date of acquisition	Land area/ built-up area (square feet)	Net book value (RM'000)	Approx. age (years)
PISB/H.S. (C) 65 No. 65, Persiaran Selangor, Section 15 40200 Shah Alam Selangor Darul Ehsan	99 years lease expiring on 26.03.2071	Industrial/double storey office block, four storey office block annexed single storey factory building and single storey warehouse building	20.08.1996	254,850/ 160,740	15,038	36
POISB/No. 3 Jalan Gangsa Kaw. Perusahaan Banting 42700 Banting Selangor Darul Ehsan	99 years lease expiring on 20.04.2089	Industrial/single storey detached factory cum office annexe	24.02.1995 02.09.1996	119,356/ 37,452	4,329	17
ALSB/Lot 243 ALSB/Lot 244 ALSB/Lot 245 Kompleks Selangor Jalan Sultan 50000 Kuala Lumpur	Freehold	i) 3-Storey retail podium together with 13 storey office block ii) 16-Storey hotel block iii) Car park	26.02.2008	18,307/ 119,208	41,417	45

Analysis of Shareholdings

As at 30 August 2016

AUTHORISED SHARE CAPITAL	: RM100,000,000.00
ISSUED AND FULLY PAID-UP CAPITAL	: RM60,388,000.00
CLASS OF SHARES	: Ordinary shares of RM0.50 each
VOTING RIGHTS	: One vote per share (on poll)

DISTRIBUTION SCHEDULE OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	No. of Shares Held	% of Issued Capital
Less than 100 shares	105	1,571	0.00
100 to 1,000 shares	137	59,819	0.05
1,001 to 10,000 shares	675	2,271,110	1.88
10,001 to 100,000 shares	159	4,787,608	3.96
100,001 to less than 5% of issued shares	26	27,720,200	22.95
5% and above of issued shares	2	85,935,692	71.15
Total	1,104	120,776,000	100.00

TOP THIRTY SECURITIES ACCOUNT HOLDERS

(without aggregating the securities from different securities accounts belonging to the same Depositor)

No.	Name of Shareholders	No. of Shares Held	% of Issued Capital
1.	LIM TONG YONG @ LIM TONG YAIM	55,784,000	46.19
2.	HAP SENG CONSOLIDATED BERHAD	30,151,692	24.96
3.	ER KOK LEONG @ ER CHAI TUAN	5,386,200	4.46
4.	LIM CHAO FENG	5,210,000	4.31
5.	NG POH CHUAN	3,119,600	2.58
6.	TAN PENG CHEONG	2,022,400	1.67
7.	TANG CHING LENG	2,000,000	1.66
8.	PANG HEE KIN	1,881,000	1.56
9.	LIAW KONG WAH	1,000,000	0.83
10.	LOW SEE NAM	995,000	0.82
11.	MICHAEL FOONG KA-MENG	929,800	0.77
12.	TEO KWEE HOCK	737,400	0.61
13.	YEO BOON LEONG	700,000	0.58
14.	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR ZURICH INSURANCE MALAYSIA BERHAD (LIFE PAR)	596,700	0.49
15.	CHEAH KIU LEAN	450,000	0.37
16.	LIAW KONG WAH	442,500	0.37
17.	CHEONG YOU CHIN	316,800	0.26
18.	AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR AIK YUN KIM @ YEK YUE KIEW	300,000	0.25
19.	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN SOON HUI (E-SJA)	266,500	0.22
20.	TAN YEE LENG	241,300	0.20
21.	JF APEX NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR THOO SOON HUAT (MARGIN)	231,000	0.19
22.	AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LOW KOUN	181,000	0.15

Analysis of Shareholdings
As at 30 August 2016

TOP THIRTY SECURITIES ACCOUNT HOLDERS (CONT'D)
(without aggregating the securities from different securities accounts belonging to the same Depositor)

No.	Name of Shareholders	No. of Shares Held	% of Issued Capital
23.	CHEONG AH YOON	142,400	0.12
24.	AIK YUN KIM @ YEK YUE KIEW	125,000	0.10
25.	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KENG CHIN ENG (E-SGM)	115,100	0.10
26.	TOK KEE KONG	113,000	0.09
27.	LIM MAY KUIN	109,300	0.09
28.	NG TENG TOH	108,200	0.09
29.	BO ENG CHEE	100,000	0.08
30.	KAO, TE-PEI @ EDWARD KAO	100,000	0.08

DIRECTORS' INTERESTS IN THE SHARES HELD IN THE COMPANY AS PER REGISTER OF DIRECTORS' SHAREHOLDINGS
Shares held in the Company

		No. of Shares Held			
No.	**Name**	**Direct Interest**	**%**	**Deemed Interest**	**%**
1.	LIM CHANG CHING	20,000	0.02	-	-
2.	WANG HAK THAM @ WONG HAK THAM	20,000	0.02	-	-
3.	ALICE BOO MIAU LI	-	-	-	-
4.	LIM POH SEONG	-	-	-	-
5.	LIM ZHEN QI	-	-	-	-
6.	YAP MIN LEE	-	-	-	-
7.	CHEAH YEE LENG	20,000	0.02	-	-

LIST OF SUBSTANTIAL SHAREHOLDERS AS PER REGISTER OF SUBSTANTIAL SHAREHOLDERS (EXCLUDING BARE TRUSTEES)

		No. of Shares Held in the Company			
No.	**Name**	**Direct Interest**	**%**	**Deemed Interest**	**%**
1.	TAN SRI DATO' LIM TONG YONG @ LIM TONG YAIM	55,784,000	46.19	-	-
2.	HAP SENG CONSOLIDATED BERHAD	30,151,692	24.96	-	-

PROXY FORM

PAOS HOLDINGS BERHAD
Incorporated in Malaysia
(Company No.: 452536-W)

CDS account no.	No. of shares held

I/We, ...(name of shareholders as per NRIC, in capital letters)
IC No./ ID No./ Company No .... (new) ....(old)
of..
.... (full address) being a member(s) of the above Company, hereby
appoint..(name of proxy as per NRIC, in capital letters)
IC No ....(new)..(old)
or failing him/her ....(name of proxy as per NRIC, in capital letters)
IC No ....(new)..(old)

or failing him/her, the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the Nineteenth Annual General Meeting of the Company to be held at **BEST WESTERN i-City Shah Alam, A-GF-01, No. 6, Persiaran Multimedia, CityPark, i-City, 40000 Shah Alam, Selangor Darul Ehsan** on **25 November 2016, Friday** at **10.00 a.m.** and at any adjournment thereof.

My/Our proxy is to vote as indicated below with an "X":

Item	Agenda	RESOLUTIONS	FOR	AGAINST
1.	To receive the audited Financial Statements for the year ended 31 May, 2016 together with the Reports of the Directors and Auditors thereon.			
2.	To approve the payment of Directors' Fees of RM179,000.00.	1		
3.	To re-elect Ms. Lim Chang Ching as Director.	2		
4.	To re-elect Mr. Lim Poh Seong as Director.	3		
5.	To re-appoint Mr. Wang Hak Tham @ Wong Hak Tham as Director in compliance with Section 129 of the Companies Act, 1965.	4		
6.	To re-appoint Mr. Yap Min Lee as Director in compliance with Section 129 of the Companies Act, 1965.	5		
7.	To re-appoint Messrs KPMG as Auditors and to authorize the Directors to fix their remuneration.	6		
8.	To empower the Directors of the Company to issue shares pursuant to Section 132D of the Companies Act, 1965.	7		
9.	To retain Mr. Wang Hak Tham @ Wong Hak Tham as Independent Non-Executive Director of the Company.	8		

For appointment of two or more proxies, percentage of shareholdings to be represented by the proxies:

	No. of Shares	Percentage
Proxy 1		%
Proxy 2		%
Total		100%

....
Signature

Dated this ....day of ...., 2016.

NOTES:
1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his/her stead. Where two or more proxies are appointed, the proportions of shareholdings to be represented by each proxy must be specified in order for the appointments to be valid. If there is no indication as to how you wish your vote(s) to be cast, the proxy may vote or abstain from voting at his/her discretion.
2. A proxy may but need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
3. The instrument appointing a proxy, in the case of an individual, shall be signed by the appointer or by his/her attorney duly authorised in writing, and in the case of a corporation, shall either be given under its common seal or under the hand of an officer or attorney of the corporation duly authorised.
4. The instrument appointing a proxy must be duly executed and deposited at the Registered Office of the Company at No. 308, Block A (3rd Floor), Kelana Business Centre, 97, Jalan SS7/2, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan not less than 24 hours before the time appointed for holding the meeting or any adjournment thereof.
5. A depositor whose name appears in the Record of Depositors as at 18 November 2016 shall be regarded as a member of the Company entitled to attend the Nineteenth Annual General Meeting or appoint a proxy or proxies to attend and vote on his/her behalf.

Fold Here

Fold Here

Affix
stamp

PAOS HOLDINGS BERHAD
(Company No: 452536-W)
No. 308, Block A (3rd Floor)
Kelana Business Centre
97, Jalan SS7/2, Kelana Jaya
47301 Petaling Jaya
Selangor Darul Ehsan, Malaysia

Fold Here

PAOS HOLDINGS BERHAD
Incorporated in Malaysia (Company No: 452536-W)
No. 65, Persiaran Selangor, Section 15,
40200 Shah Alam, Selangor Darul Ehsan.
TEL : +603 - 5510 4219 FAX : +603 - 5510 4230

www.paos.com.my