LAPORAN TAHUNAN **2017** ANNUAL REPORT

PAOS HOLDINGS BERHAD

(Company No: 452536-W) Incorporated in Malaysia

Twentieth Annual General Meeting

Venue : **BEST WESTERN i-City Shah Alam,**
A-GF-01, No. 6, Persiaran Multimedia,
CityPark, i-City, 40000 Shah Alam, Selangor D.E.

Date : **Wednesday, 22 November 2017** Time : **10.00 a.m.**

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Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Twentieth 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 **22 November 2017, Wednesday** at **10.00 a.m.**

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 May 2017 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 2017. **(Ordinary Resolution 1)**

3. To approve the payment of Directors' benefits to the Directors up to an amount of RM60,000.00 for the period commencing from 1 February 2017 up to the next Annual General Meeting of the Company. **(Ordinary Resolution 2)**

4. To re-elect the following Directors who retire in accordance with Article 103 of the Company's Articles of Association :-

   (a) Mr. Lim Zhen Qi **(Ordinary Resolution 3)**
   (b) Ms. Alice Boo Miau Li **(Ordinary Resolution 4)**

5. To re-appoint the following Directors :-

   (a) Mr. Wang Hak Tham @ Wong Hak Tham **(Ordinary Resolution 5)**
   (b) Mr. Yap Min Lee **(Ordinary Resolution 6)**

6. To re-appoint KPMG PLT as Auditors of the Company and authorise the Directors to fix their remuneration. **(Ordinary Resolution 7)**

7. 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 Sections 75 and 76 of the Companies Act, 2016, 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 to be issued 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 or at the expiry of the period within which the next Annual General Meeting is required to be held in accordance to the provisions of the Companies Act, 2016, whichever is the earlier." **(Ordinary Resolution 8)**

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

   "THAT subject to the passing of Ordinary Resolution 5, 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." **(Ordinary Resolution 9)**

8. 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)
Company Secretaries

Petaling Jaya
Selangor Darul Ehsan.
28 September 2017

NOTES:-

1. A member of the Company entitled to attend and vote at the meeting shall be entitled to appoint more than 1 proxy to exercise all or any of his/her rights to attend, participate, speak and vote in his/her stead. Where a member appoints more than one proxy, the appointment shall be invalid unless he/she specifies the proportions of his/her shareholdings to be represented by each proxy.

2. 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.

3. Where a member of a Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.

4. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account") , there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.

5. The instrument appointing a proxy and the power of attorney or other authority duly authorised in writing or if such appointor is a Corporation, under its common seal or under the hand of an officer or attorney of the Corporation duly authorised, shall be deposited at the registered office at 308, Block A (3rd Floor), Kelana Business Centre, 97, Jalan SS7/2, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting.

6. Depositors who appear in the Record of Depositors as at 15 November 2017 shall be regarded as Member of the Company entitled to attend the Twentieth Annual General Meeting or appoint a proxy or proxies to attend and vote on his/her behalf.

EXPLANATORY NOTES

(a) **Audited Financial Statements**

This Agenda item is meant for discussion only, as the provision of Section 340(1) of the Companies Act, 2016 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 2 – Directors' benefits payable**

The proposed Directors' benefits payable comprises allowances and other benefits.

The total estimated amount of Directors' benefits payable is calculated based on the estimated number of Board's and Board Committees' meetings for the period from 1st February 2017 until the next Annual General Meeting and other benefits. This authority, unless revoked or varied by the Company in a general meeting will expire at the conclusion of the next Annual General Meeting of the Company.

(c) **Ordinary Resolution 5 – Re-appointment of Director**

The proposed Ordinary Resolution 5 is to seek shareholders' approval on the re-appointment of Mr. Wang Hak Tham @ Wong Hak Tham, who has been re-appointed in the previous Annual General Meeting held on 25 November 2016 as Director of the Company pursuant to Section 129(6) of the former Companies Act, 1965 which was then in force and whose term would expire at the conclusion of this meeting as Director of the Company. This resolution, if passed will authorise the continuation of the Director in office from the date of this Annual General Meeting onwards.

Notice of Annual General Meeting

EXPLANATORY NOTES (continued)

(d) **Ordinary Resolution 6 – Re-appointment of Director**

The proposed Ordinary Resolution 6 is to seek shareholders' approval on the re-appointment of Mr. Yap Min Lee, who has been re-appointed in the previous Annual General Meeting held on 25 November 2016 as Director of the Company pursuant to Section 129(6) of the former Companies Act, 1965 which was then in force and whose term would expire at the conclusion of this meeting as Director of the Company. This resolution, if passed will authorise the continuation of the Director in office from the date of this Annual General Meeting onwards.

(e) **Ordinary Resolution 8- Authority To Directors To Issue Shares**

The proposed Ordinary Resolution 8 is to seek a renewal of the General Mandate for the issue of new ordinary shares which was approved by the shareholders at the Nineteenth Annual General Meeting.

The proposed Ordinary Resolution 8, 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 or at the expiry of the period within which the next Annual General Meeting is required to be held in accordance to the provisions of the Companies Act, 2016, whichever is the earlier.

The General Mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to funding future investment, working capital and/or acquisitions.

At the date of this notice, no new shares in the Company were issued pursuant to the General Mandate granted to the Directors at the Nineteenth Annual General Meeting held on 25 November 2016 and which will lapse at the conclusion of the Twentieth Annual General Meeting.

(f) **Ordinary Resolution 9 - 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.

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 PLT *(LLP0010081-LCA & AF 0758)*
Chartered Accountants
Level 10, KPMG Tower,
8, First Avenue, Bandar Utama,
47800 Petaling Jaya,
Selangor Darul Ehsan.
Phone No. : 03-7721 3388
Fax No. : 03-7721 3399

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
Stock Name : PAOS
Stock Code : 5022

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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

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Profile of Directors'

LIM CHANG CHING
Executive Chairman,
Non-Independent Executive Director

Ms. Lim Chang Ching, aged 43, 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 32, 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
Independent Non-Executive Director

Ms. Alice Boo, female, aged 48, 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 76, 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. He also served as Director of Woodlandor Holdings Berhad, a public listed company in April 2001 to June 2017.

Profile of Directors'

LIM POH SEONG
Non-Independent Non-Executive Director

Mr. Lim Poh Seong, aged 50, 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 74, 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 48, 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 48, 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 67, 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 54, 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 53, 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 other 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.

5 - Year
Financial Highlights

FINANCIAL YEAR ENDED 31 MAY		2013	2014	2015	2016	2017
Financial Results						
Revenue	RM'000	276,416	169,306	57,277	74,102	237,447
Profit Before Tax	RM'000	7,190	7,091	2,997	5,403	2,589
Profit After Tax	RM'000	4,905	4,597	1,749	3,457	1,854
Return On Shareholders' Equity	%	4.91	4.53	1.75	3.43	1.86
Financial Position						
Shareholders' Equity	RM'000	99,907	101,485	100,214	100,652	99,547
Total Assets	RM'000	108,206	109,943	109,828	109,655	106,609
Total Borrowings	RM'000	914	1,518	615	151	285
Share Statistics						
Earnings Per Share*	sen	2.71	2.54	0.97	1.91	1.02
Dividend Per Share*	sen	1.67	1.67	1.67	1.67	1.63
Net Assets Per Share*	RM	0.55	0.56	0.55	0.56	0.55

** restated pursuant to issuance of bonus shares during financial year ended 31 May 2017.*

Management Discussion And Analysis

OVERVIEW OF THE GROUP'S BUSINESS AND OPERATIONS

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 Group is also involved in trading of specialty fats produced from palm oil and trading of marine gas oil. The Group has two manufacturing operations that are located in Shah Alam and Banting, Selangor.

Additionally, the Group owns Kompleks Selangor which consists of retail podium and office space located at Jalan Sultan, Kuala Lumpur as well as The 5 Elements Hotel which is located at the adjoining property.

REVIEW OF FINANCIAL RESULTS AND FINANCIAL CONDITION

During the financial year ended 31 May 2017, the Group achieved a profit before taxation of RM2.59 million against revenue of RM237.45 million, in comparison with a profit before taxation of RM5.40 million against revenue of RM74.10 million recorded in the previous financial year.

The increase in the Group's revenue was mainly due to increase in revenue from the trading of marine gas oil which commenced in the fourth quarter of the previous financial year ended 31 May 2016.

Profit before taxation of the Group decreased mainly due to decrease in other income from RM4.03 million to RM2.01 million during the current financial year.

The Group's trade receivables had increased from RM16.76 million to RM23.99 million during the financial year. This increase was primarily due to timing of collection from the higher sales of marine gas oil during the financial year.

As a result of the above timing of collection, cash and cash equivalents balances had also decreased from RM18.29 million to RM10.04 million. However, the amount was subsequently collected after the financial year end. The Group's cash flow position remains strong with sufficient liquidity to meet its liabilities as and when they fall due.

Earnings per share for the financial year stood at 1.02 sen (2016 : restated 1.91 sen) and net assets per share were RM0.55 as at 31 May 2017 (31 May 2016 : restated RM0.56).

REVIEW OF OPERATING ACTIVITIES

The manufacturing segment recorded revenue of RM37.38 million with segment profit of RM0.39 million during the financial year ended 31 May 2017 against revenue of RM45.75 million with segment profit of RM4.78 million in the preceding financial year. Sales volume of bar soap had reduced by 21.4% from the previous financial year. The decrease in revenue was mainly due to the weaker consumer sentiments which saw a change in shopping habits, where purchasing basket sizes were reduced, shoppers were buying in smaller quantities and only purchase when necessary.

In order to address this, the Group has taken steps to ensure the availability of choices for consumers in the form of product variety in smaller pack sizes. Additionally, we had also worked on expanding our customer base by developing niche market for unique bar soap formulations. This move enables us to better serve the various segments of the bar soap market.

Our contract manufacturing of animal feed had also decreased in tolling volume by 29.3% from the previous year mainly due to shortage of raw material i.e. palm stearin. However, the supply of palm stearin had since

Management Discussion And Analysis

improved from April 2017 onwards. To expand and diversify our customer base, we had also started our own homebrand of animal feed, namely Nutripid, in 2016. We had registered the trademarks in Malaysia, Taiwan, Thailand and the Phillipines, and had recently commenced sales of Nutripid domestically and to countries like China and Europe. We intend to grow our homebrand and generate more sales of Nutripid in the future.

Whereas, segment profit of the manufacturing segment had reduced in tandem with the decrease in sales volume and also the increase in costs of wages and utilities which had resulted in higher operating costs. The manufacturing segment purchases raw materials like soap chips and palm stearin which are subject to fluctuations in commodity prices ie crude palm oil prices. However, the Group mitigates the risks of fluctuations in commodity prices by entering into contracts with customers based on the contracted raw material prices.

The trading segment contributed to the increase in the Group's revenue during the financial year with revenue of RM193.40 million against revenue of RM22.18 million in the previous year. The trading of marine gas oil generated revenue of RM187.90 million during the year as compared to RM14.30 million in the previous year as the trading of marine gas oil only commenced in the fourth quarter of the last financial year. With the increase in revenue, segment profit of the trading segment had also increased to RM1.70 million from RM0.39 million in the previous financial year. Our trading segment operates on a back to back arrangement with our suppliers and customers. This has effectively minimised our risk exposure.

The integrated hotel operation and property investment segment recorded an improvement in its performance with revenue of RM6.66 million and segment profit of RM0.49 million in comparison to revenue of RM6.17 million and segment profit of RM0.31 million respectively. Both the hotel operation and rental of retail and office space had shown improvement with the average occupancy rate of 65.4% and 85.4% against the previous year's average occupancy rate of 53.5% and 83.9%, respectively.

The integrated hotel operation and property investment segment faces competition from other hotels and retail and office buildings within the vicinity area. In order to remain competitive, we have leveraged on good customer service and feedback, creating awareness and organise promotion activities for our hotel, training of our staff to meet customers' requirements and continuously refurbishing our hotel to provide better facilities for our guests.

CORPORATE DEVELOPMENT

During the current financial year, Paos Holdings Berhad ("the Company") completed the bonus issue of 60,388,000 new ordinary shares on the basis of one bonus share for every two existing shares held and also the issuance of 90,582,000 free warrants on the basis of one warrant for every two shares held after the bonus issue. Pursuant to the issuance of bonus shares, the paid up share capital of the Company had increased from RM60,388,000 to RM90,582,000. Consequently, the share premium and retained profits of the Company had also reduced accordingly.

Management Discussion And Analysis

CAPITAL

Capital Equity and Structure

Paos Holdings Berhad's paid up and issued capital consists of 181,164,000 ordinary shares, and a market price of RM0.56 per share bringing with it a market capitalisation value of RM101.45 million as at 31 May 2017.

There were no exercise of warrants during the financial year ended 31 May 2017.

Capital Commitments

The Group's total capital commitment approved but not contracted for, as at 31 May 2017, amounted to RM0.64 million.

Capital expenditure incurred for financial year 2017 was RM0.77 million. These were principally investments made in the upkeep of the factory plant and equipment and also the refurbishment of the hotel rooms as well as the retail podium and office space.

PROSPECTS

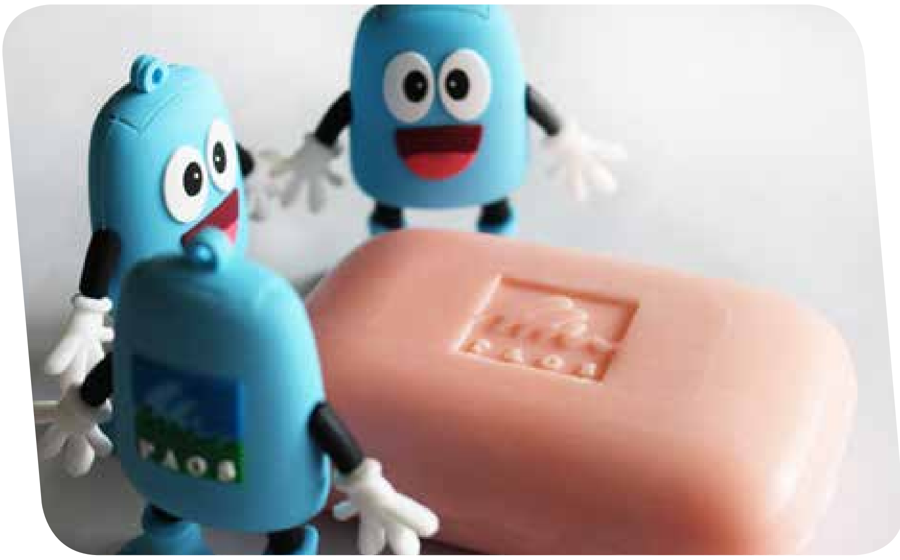
The Group anticipates the current economic situation will continue to present challenging business conditions in the coming year. The rising costs of wages and utilities have resulted in higher operating costs.

However, the Group will keep pursuing its initiatives to further optimise its operations and continue to focus and consolidate the existing business operations and resources to overcome the current economic challenges. We will also strive to improve returns on existing assets and efforts will continuously be made in improving productivity and efficiency of the operations as well as cost optimisation initiatives to cushion the impact of rising costs. We will also continue to expand and diversify our customer base as well as creating and innovating new products and branding.

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 2017, Paos Holdings Berhad paid two interim ordinary dividends totalling 1.63 sen per ordinary share (2016 : restated 1.67 sen per ordinary share).



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 : 2015 standards and Good Manufacturing Practices are constantly evaluated to minimise any possible negative impact on the environment throughout the entire production chain.

On 5 May 2017, we had also been accredited with RSPO Supply Chain Certification Standard for our purchase and use of RSPO certified sustainable palm based product in the production of our bar soap.

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 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 Corporate Governance Statement "statement" sets out how the Board has applied the Principles of the Code and how the Board of Directors has observed the recommendations supporting the Principles of the Code during the financial year ended 31 May 2017. Where a specific recommendation of the Code has not been observed during the financial year, the non-observation, including the reasons thereof and, where appropriate, the alternative practice, if any, is disclosed in the statement.

PRINCIPLE 1 ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

Clear Functions of the Board and Management

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 business, finance, legal, regulatory and operations 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 held firmly within the Board.

The Board reserves certain powers for itself and delegates certain matters such as the Company's day-to-day management and operations to the Executive Directors, representing the Management. Such delegations are subject to the approved authority limits. The Executive Directors with the assistance of key management staff formulate operation plans and oversee the execution of these plans. Board approval is required for any decision which exceeds the approved authority limits granted to the Management. The Executive Directors brief the Board on the Group's business operations and management's initiatives during Board Meeting.

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 Board Meetings. The Board conducts quarterly reviews of the performance of the business and is furnished with the analysis of the segment performance, detailed capital expenditure and detailed information relating to the running of the Group's operations.

During financial year ended 31 May 2017, the Board has reviewed and approved the corporate proposal in relation to Issuance of Bonus Shares, Issuance of Warrants, Increase of Authorised Share Capital and Amendment of Company's Memorandum of Association.

Statement on Corporate Governance

PRINCIPLE 1 ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (continued)

Roles and responsibilities of the Board (continued)

(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.

(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 risks 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 key management staff in order to maintain an appropriate balance of skills on the Board and to ensure continuity of the operations and management of the Group.

The active involvement of the Executive Directors in the Group's operations and their personal development has ensured the continuity of the Group's business. The succession planning programme includes identifying and developing a talent pool of personnel through mentoring and training for high level management positions that become vacant due to retirement, resignation, death or disability and the establishment of new businesses.

(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.

PRINCIPLE 1 ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (continued)

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.

Whistle Blowing Policy

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.

   Name : Felicia Lim
   Email : Felicia@paos.com.my
   Mail : *Marked* **Strictly Confidential**
   c/o Paos Holdings Berhad
   65, Persiaran Selangor,
   Section 15, 40200 Shah Alam,
   Selangor Darul Ehsan.
   Attention : Group Chairman

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

   Name : Wang Hak Tham @ Wong Hak Tham
   Email : wanght18@yahoo.com
   Mail : *Marked* **Strictly Confidential**
   c/o Paos Holdings Berhad
   65, Persiaran Selangor,
   Section 15, 40200 Shah Alam,
   Selangor Darul Ehsan.
   Attention : Chairman – Audit Committee

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 has been dealt with, he/she can escalate his/her report to the Chairman of Audit Committee.

Statement on Corporate Governance

PRINCIPLE 1 ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (continued)

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. Notices of ordinary meetings are sent to the Directors at least seven (7) days in advance. A set of Board papers on the matters to be deliberated are made available to Directors prior to each Board Meeting to enable the Directors to obtain further explanations, where necessary.

Key management staff and external advisers are invited to attend Board or Board Committees Meetings to provide additional insights and professional opinion and clarification on specific agenda items. At the Board Meetings, respective Chairman of the Board Committees will report, advise and recommend to the Board, salient views and conclusions of their respective agendas. Minutes of the Board Committees are circulated to all Board members for their notation.

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.

For financial year ended 31 May 2017, the Company Secretaries have attended the relevant continuous professional development programmes as required by the prescribed professional bodies.

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.

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 duties of the Nomination Committee are as follows :

(a) to consider, evaluate and recommend to the Board any new board appointments. In making a recommendation to the Board on the candidate for directorship, the committee shall have regard to :-

  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; and
  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 Malaysian Code on Corporate Governance 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.

(b) to recommend to the Board, Directors to fill the seats on Board Committees.

(c) to evaluate the performance and effectiveness of the Board as a whole, the Committees of the Board and the contribution of each individual Director on an annual basis as follows:-

  i) to assess the board based on specific criteria, covering areas such as size, composition (including gender diversity), mix of skills, principal responsibilities of the Board, the Board process, succession planning and Board governance;
  ii) to assess individual director based on criteria such as contribution to interaction, role and duties, knowledge and integrity;

(d) to assess Independence of Independent Directors on an annual basis based on the guidelines as set out in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("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.

(e) to make the following recommendations to the Board:-

  i) Matters relating to the plan of succession of Directors and Senior Management to maintain an appropriate balance of skills on the Board;
  ii) Matters relating to the re-appointment of any Independent Non-Executive Director at the conclusion of their specified term of office;
  iii) Matters relating to the re-election by shareholders of any Director under the retirement by rotation provisions in the Company's Articles of Association.

(f) to facilitate board induction and training programmes.

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

PRINCIPLE 2 STRENGTHEN COMPOSITION (continued)

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 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. The Company practices a clear and transparent nomination process which involves the following:-

a) Identification of candidates;
b) Evaluating suitability of candidates;
c) Discussion with the candidates on the proposed appointment;
d) Deliberation by the Nomination Committee; and
e) Recommendation to the Board

The Nomination Committee reviews candidates for appointment as Directors based on the following established criteria :-

a) Fulfillment of Para 2.20A of the MMLR in terms of character, experience, integrity, competence and time to effectively discharge his/her role as a director;
b) qualifications;
c) skills and functional knowledge; and
d) background.

In the process of selecting and evaluating candidates for the Board, the Nomination Committee also takes into consideration the overall composition of the Board and the combination skills of existing Directors as well as diversity in terms of gender, age and ethnicity. The ultimate goal is to ensure that the Board as a whole has the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.

The Nomination Committee reviews the Board Committees on an annual basis and as and when the need arises, such as when a committee is resigning or a new director is appointed. In determining the candidates for appointment to the Board Committees, the Nomination Committee considers the following factors, including :-

a) the needs of the particular Board Committee;
b) the results of the Board evaluation for the Board Committees;
c) regulatory requirements;
d) best practices or governance practices; and
e) time commitment and availability of the candidate.

There had been no new appointments to the Board or Board Committees during the financial year under review.

The process of assessing the Directors is an ongoing responsibility of the Nomination Committee and the Board. During the financial year ended 31 May 2017, the Nomination Committee met once with full attendance by its members and carried out the following mentioned activities, in accordance with its terms of reference and in compliance with MMLR.

The Nomination Committee conducted the annual evaluation on the performance and effectiveness of the Board as a whole, all the Board Committees and the individual Directors. The Board's performance and effectiveness were assessed in the areas of 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 Board Committees' performance and effectiveness were assessed in terms of its composition, committees meetings and its contribution.

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.

PRINCIPLE 2 STRENGTHEN COMPOSITION (continued)

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

The 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 Board for its consideration. Article 103 of the Company's Articles of Association provides that all the Directors shall retire from office at least once in every three (3) consecutive years from the date of their respective appointments.

The Nomination Committee also reviewed and recommended to the Board to retain the Independent Director who has served as Independent Director of the Company for a cumulative term of more than 9 years to continue to act as Independent Director of the Company.

The results of the aforesaid assessment were reported to the Board. The Board was satisfied with the results of the assessment and was satisfied that the Board's size, composition, balance of the mixture of skills, experience and knowledge of the members forms an appropriate and effective Board to perform and to carry out duties and responsibilities efficiently with integrity, accountability, transparency and good corporate governance. The contribution of the committees and individual Directors were appreciated by the Board.

During the financial year, the Nomination Committee also reviewed the training needs of Directors and authorised the management to continue to arrange relevant training for Directors in order to further enhance their knowledge and to keep abreast with the latest development in the industry as well as to keep abreast with the ever changing regulatory and compliance matters. The Nomination Committee was satisfied that the succession planning programme is in place which inter alia includes guidelines on appointing, training, fixing of compensation and replacement of Directors and Senior Management of the Company.

Upon recommendation of the Nomination Committee, the Board recommended the re-election /re-appointment of the following Directors at forthcoming Twentieth Annual General Meeting ("AGM") :-

(i) Mr. Lim Zhen Qi*
(ii) Ms. Alice Boo Miau Li*
(iii) Mr. Wang Hak Tham @ Wong Hak Tham#
(iv) Mr. Yap Min Lee#

* *subject to retirement pursuant to Article 103 of the Company's Articles of Association*

\# *who have been re-appointed in the previous Annual General Meeting held on 25 November 2016 as Directors of the Company pursuant to Section 129(6) of the former Companies Act, 1965 which was then in force and whose terms would expire at the conclusion of Twentieth AGM as Directors of the Company*

Gender, Ethnicity and Age Group Diversity Policy

The Board recognises the importance of boardroom diversity in terms of age, gender, ethnicity and nationality and recognises the benefit of this diversity.

The Board also recognises that having a range of different skills, backgrounds, experience and diversity is essential to ensure a broad range of viewpoints to facilitate optimal decision making and effective governance. The Board is of the view that while promoting boardroom diversity is essential, the normal selection criteria of a Director, based on an effective blend of competencies, skills, extensive experience and knowledge to strengthen the Board, should remain a priority. The Company is committed to ensuring that all Directors are appointed on merit and are in line with the standards as set out in Para 2.20A of the MMLR. In view of that, the Company does not set any specific target of boardroom diversity but will actively work towards achieving it.

The Group adheres to the practice of non-discrimination of any form throughout the Group. The Group is an equal opportunity employer and all appointments and employment are based strictly on merits and not driven by any age, gender or racial bias. The Group takes diversity as an essential measure of good governance, critically attributing to a well-functioning organisation and sustainable development of the Group.

PRINCIPLE 2 STRENGTHEN COMPOSITION (continued)

Gender, Ethnicity and Age Group Diversity Policy (continued)

The Group is committed to maintaining an environment of respect for people in all business dealings and achieving a workplace environment free of harassment and discrimination on the basis of gender, physical or mental state, ethnicity, nationality, religion or age.

Remuneration Policies

The Remuneration Committee was established on 26 July 2001. It comprises a majority of Non-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.

The remuneration packages of the Executive Directors have been structured to attract, retain and motivate Directors to manage the business of the Group. The Executive Directors are to be appropriately rewarded giving due regard to the corporate and individual performance. The Executive Director is entitled to a Board Committee fee on which he/she sits on. The Executive Directors play no part in deciding their own remuneration and the respective Board members shall abstain from all discussions pertaining their remuneration. It is the ultimate responsibility of the Board to approve the remuneration packages of Executive Directors.

In the case of the Non-Executive Directors, the level of remuneration reflects their experience and level of responsibility undertaken by them. Generally, all Non-Executive Directors are entitled to a basic fee as ordinary remuneration with an additional fee payable for chairmanship and Board Committee membership.

All Directors are entitled to meeting allowances for their attendance. The Directors' Fee payable and other benefits payable to Directors are subject to the members' approval at the AGM in accordance with Section 230(1) of the Companies Act, 2016.

The current fee structure per annum for the Directors comprises the following :-

	Executive Directors RM	Non-Executive Directors RM
Board Member	-	36,000
Audit Committee Member	-	5,000
Audit Committee Chairman	-	5,000
Remuneration Committee	3,000	3,000
Nomination Committee	-	3,000

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 Group'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 2017 with full attendance of its members and carried out review of remuneration package of Executive Directors and Directors' Fees payable to the Directors.

PRINCIPLE 2 STRENGTHEN COMPOSITION (continued)

Remuneration Policies (continued)

A summary of the remuneration of the Directors for the financial year ended 31 May 2017, distinguishing between Executive and Non-Executive Directors is set out below:

Company	Executive RM	Non-Executive RM
Salaries and other emoluments	9,000	16,500
Bonuses	-	-
Fees	3,000	176,000
Benefit in-kind	0	0

Group	Executive RM	Non-Executive RM
Salaries and other emoluments	1,465,117	16,500
Bonuses	192,500	-
Fees	3,000	176,000
Benefit in-kind	0	0

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	-

The Board does not consider it appropriate to disclose the remuneration of each individual Director so as to preserve a degree of privacy. The Board is of the view that the transparency and accountability aspects of corporate governance as applicable to Directors' Remuneration is adequately served by the "band disclosure" in accordance with the MMLR.

PRINCIPLE 3 REINFORCE INDEPENDENCE

Annual Assessment of Independence

Independent Directors provide independent judgement, 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 judgements 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.

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.

PRINCIPLE 3 REINFORCE INDEPENDENCE (continued)

Annual Assessment of Independence (continued)

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 integrity and objectivity.

The Nomination Committee and the Board have determined at the annual assessment carried out that Mr. Wang Hak Tham @ Wong Hak Tham, who had served the Board for more than nine (9) years remain objective and independent in expressing his views and in participating in deliberations and decision making of the Board and Board Committee. The length of his service on the Board does not in any way interfere with his exercise of independent judgement and ability to act in the best interests of the Company. The Board is of the view that there are significant advantages to be gained from retaining Mr. Wang Hak Tham @ Wong Hak Tham as Independent Non-Executive Director in view of his many years on the Board with incumbent knowledge of the Company, the Company's activities and corporate history. His vast experience in the Company allows him to provide guidance to the Management especially in setting the strategies and direction of the Company in areas pertaining to the business development, risk management and internals controls. He is practical in his analysis and assessment, vocal in in his outlook and views and has provided the Board with a strong and principled voice.

Mr. Wang Hak Tham @ Wong Hak Tham, an Associate of Chartered Institute of Secretaries and Administrators, London and an Associate of Chartered Institute of Bankers, has vast experience in the fields of business administration, management and corporate development which would enable him to lead the Audit Committee and serve the Board effectively by providing invaluable insight into the Company's business.

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 Board, with the assessment of the Nomination Committee, is satisfied with the skills, contribution and independent judgement that Mr. Wang Hak Tham @ Wong Hak Tham brings to the Board and is of the view that Mr. Wang Hak Tham @ Wong Hak Tham remains objective and independent in expressing his views and in participating in deliberations and decision making of the Board and Board Committees. In view therefore, the Board recommends and supports his re-appointment as Independent Non- Executive Director of the Company which are tabled for shareholders' approval at the forthcoming Twentieth AGM of the Company.

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

The Chairman assumes the roles of CEO. 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. 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.

PRINCIPLE 3 REINFORCE INDEPENDENCE (continued)

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

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 encourages constructive and healthy debate at all board meetings. The Directors are given the chance to freely express their opinions or share information with their peers in the course of deliberation as a participative Board. 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.

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 is in compliance with the MMLR.

The Directors collectively, with their different background and specialisation, bring with them a diverse wealth of experience and expertise in areas such as business, finance, legal, regulatory and operations which is relevant to the Group.

The Board is of the opinion that the interests of shareholders of the Company are fairly represented through the current composition and its size constitutes an effective Board to the Company with competent individuals with the wide spectrum of knowledge, skills and experience. The Board structure ensures that no individual or group dominates the Board's decision-making process.

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 check and balance on the decision making process of the Board.

The three (3) Independent Directors of the Company with wide boardroom experience and expertise, 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 believe 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 requires its members to devote sufficient time to the workings of the Board, to effectively discharge their duties as Directors of the Company, and to use their endeavours to attend meetings.

PRINCIPLE 4 FOSTER COMMITMENT (continued)

Time Commitment (continued)

The Board is required to meet quarterly for the purposes of deliberating on the Company's quarterly financial results and all matters relating to the overall control, business performance and strategy of the Company. Board meetings are scheduled one year ahead to enable full attendance. The Board will also meet on an ad-hoc basis to deliberate on urgent issues and matters that require expeditious Board direction or approval.

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.

To facilitate the Directors' time planning, an annual meeting calendar is prepared and circulated to them before beginning of every year. It provides the scheduled dates for meetings of the Board and Board Committees as well as the AGM. A reminder on scheduled meetings will be sent through email to respective Directors three (3) weeks before the meetings.

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. The attendance record of the Directors for the financial year ended 31 May 2017 was satisfactory. This is evidenced by the attendance record of the Directors at the Board Meetings as set out in the below table :-

Directors	Total meetings attended	Percentage (%)
Lim Chang Ching	5 out of 5	100
Lim Zhen Qi	5 out of 5	100
Alice Boo Miau Li	5 out of 5	100
Cheah Yee Leng	5 out of 5	100
Wang Hak Tham @ Wong Hak Tham	5 out of 5	100
Lim Poh Seong	5 out of 5	100
Yap Min Lee	5 out of 5	100

All the Directors have complied with the minimum 50% attendance requirement in respect of Board Meeting as stipulated in the MMLR. In the intervals between Board Meetings, any matters requiring urgent Board decisions and/or approval can be sought via circular resolutions which are supported with all the relevant information and explanations required for an informed decision to be made.

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 Programme ("MAP") prescribed by MMLR. During financial year ended 31 May 2017, the seminars, courses, workshops, programmes and talks attended by the Directors included the following :-

PRINCIPLE 4 FOSTER COMMITMENT (continued)

Directors' Training (continued)

Directors	Date	Description of Training Programme	Duration
(a) Lim Chang Ching	14 November 2016	Global Market Corporate Seminar 2016	½ day
	26 & 27 May 2017	A systematic approach to develop & implement a highly effective customised key performance indicator system (KPI).	2 days
(b) Lim Zhen Qi	26 October 2016	HACCP Awareness & Effective Implementation	1 day
	14 November 2016	Global Market Corporate Seminar 2016	½ day
(c) Alice Boo Miau Li	3 November 2016	Budget Seminar 2017 – Tax Implication on Budget 2017 with GST Coverage	1 day
(d) Wang Hak Tham @ Wong Hak Tham	23 August 2016	Fraud Risk Management Workshop	1 day
(e) Lim Poh Seong	3 November 2016	Budget Seminar 2017 – Tax Implication on Budget 2017 with GST Coverage	1 day
	15 & 16 November 2016	MIA International Accountants Conference 2016	2 days
(f) Cheah Yee Leng	20 July 2016	Talk - The Companies Bill : A Brave New World ?	2 ½ hours
	25 August 2016	Companies Bill Talk – On the Key Changes And Implications of the Companies Bill	½ day

Although Mr. Yap Min Lee did not attend any official training during the financial year under review, he enhanced his knowledge and kept abreast with the latest development on statutory and regulatory requirements from the briefings given by the Internal Auditors, External Auditors and the Company Secretaries from time to time during the Audit Committee and Board Meetings. He also enhanced his knowledge by focusing on business news and extensive reading of relevant business and regulatory materials. He actively seeks advice and interacts with the relevant professional personnel to enhance his skills and knowledge on specific area.

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, 2016. The Statement of Directors' Responsibility in relation to the financial statements is presented in this Annual Report.

Statement on Corporate Governance

PRINCIPLE 5 UPHOLD INTEGRITY IN FINANCIAL REPORTING (continued)

Assessment of suitability and independence of External Auditors (continued)

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.

The Audit Committee reviewed the performance of the External Auditors after completion of the year-end audit to ensure the suitability and independence of the External Auditors.

On evaluation on the suitability and effectiveness of External Auditors, the Audit Committee reviewed inter alia, the following:-

a) the engagement partner has not served for a continuous period of more than five (5) years of the Company;
b) the overall comprehensiveness of the external audit plan;
c) the timeliness and quality of communications promised under the plan and delivered during the audit;
d) the competency of external audit staff; and
e) the adequacy of resources to achieve the scope as outlined in the plan.

As part of the review, the Audit Committee obtained feedback from the Management regarding the quality of the audit services.

The Audit Committee reviewed and assessed the independence of the External Auditors, including but not limited to any relationships with the Company or any other person or entity that may impair or compromise, or appear to impair or compromise the External Auditors' independence. The Audit Committee received confirmation from the Auditors that KPMG PLT, the engagement partner, engagement quality control reviewer and members of the engagement team are independent for the purpose of audit in accordance with the terms of relevant professional and regulatory requirements.

The Audit Committee also assessed the fee chargeable by the External Auditors to ensure that the policies governing the provision of non-audit fees are observed.

Upon completion of its assessment in accordance to the established policy practiced by the Company, Audit Committee was satisfied KPMG PLT's technical competency and audit independence during the financial year under review and recommended the re-appointment of KPMG PLT as External Auditors for the financial year ending 31 May 2018. The Board in turn recommended the same for shareholders' approval at the forthcoming Twentieth AGM of the Company.

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.

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

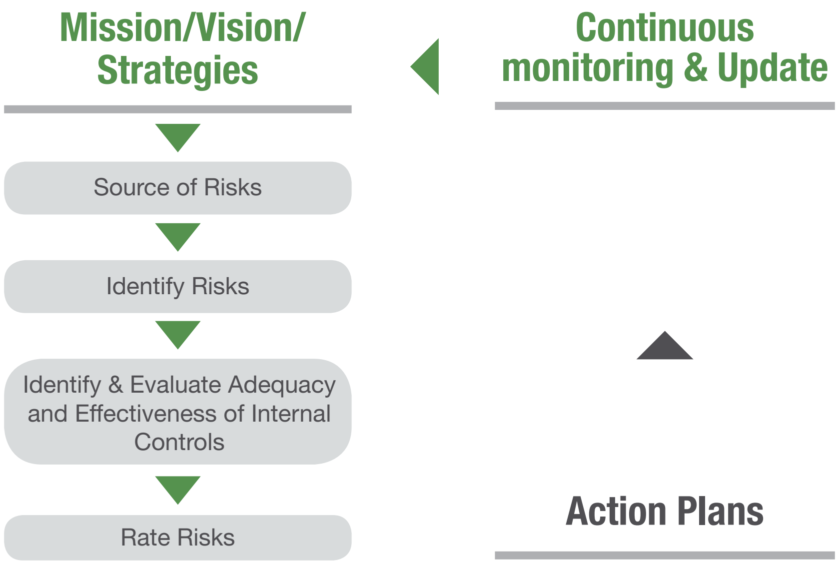
(i) Manufacturing and Trading, and
(ii) Integrated Hotel Operations and Property Investment

PRINCIPLE 6 RECOGNISE AND MANAGE RISK (continued)

Sound framework to manage risk (continued)

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

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 organisation. 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 2017, the Risk Management Committee met two (2) times.

Internal Audit Function

The Group has engaged the services of an independent professional firm 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. The External Auditors have reviewed the said Statement on Risk Management and Internal Control.

Statement on Corporate Governance

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 endeavours 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. The information is also electronically published at the Bursa Securities website at www.bursamalaysia.com and the Group website at www.paos.com.my.

The information includes:-

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

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, 2016 and the MMLR. The Board endeavours 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.

At the Nineteenth AGM and EGM both held on 25 November 2016, all the Directors were present to engage personally with the shareholders present.

Poll Voting

In line with the amendments made to the MMLR, all resolutions set out in the notices of Nineteenth AGM and EGM, both held on 25 November 2016 were voted by way of a poll. The shareholders were briefed on the voting procedures while the results of the poll were verified by an independent scrutineer.

PRINCIPLE 8 STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS (continued)

Poll Voting (continued)

The Board will ensure all resolutions set out in the notice of Twentieth 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 Twentieth AGM.

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 any issue concerning the Group and to make arrangement for Officers of the Company to present and handle other face-to-face enquiries from shareholders.

COMPLIANCE STATEMENT

The Board is satisfied that in financial year 2017, it complies substantially with the principles and recommendation of the Code.

This Statement on Corporate Governance is made in accordance with the resolution of the Board of Directors on 18 September 2017.

Other Compliance Information

1) UTILISATION OF PROCEEDS

During the financial year ended 31 May 2017, 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 2017 are as follows:-

Particular	Company (RM)	Group (RM)
Non-Audit Fees paid or payable to External Auditors		
- review of the Statement on Risk Management and Internal Control	14,000	14,000
- review of the supplementary financial information on the breakdown of realised and unrealsed profit or losses	8,000	8,000
Total	**22,000**	**22,000**
Non-Audit Fees paid or payable to a firm or corporation affiliated to the auditors firm		
- taxation services	4,100	27,500

3) MATERIAL CONTRACTS

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

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 fulfills 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.

During the financial year ended 31 May 2017, the Chairman of the Audit Committee has engaged on a continuous basis with the management, Internal Auditors and the External Auditors, in order to keep abreast of matters and issues affecting the Company.

The Company Secretary acts as the secretary to the Audit Committee.

ATTENDANCE

During the financial year ended 31 May 2017, the Committee met four (4) times. The number of meetings attended by each member is as follows :-

Directors	Total Meetings Attended	Percentage (%)
Wang Hak Tham @ Wong Hak Tham	4 out of 4	100
Lim Poh Seong	4 out of 4	100
Yap Min Lee	4 out of 4	100

The Audit Committee meetings were convened with proper notices and agenda and these were distributed to all members of the Audit Committee with sufficient notification. The Chairman of the Audit Committee reported the key issues discussed at each meeting to the Board.

All deliberations during the Audit Committee meetings were duly minuted. Minutes of the Audit Committee meetings were tabled for confirmation at every succeeding Audit Committee meeting and the Minutes were distributed to each Board member for their notation.

SUMMARY OF WORK

The work carried out by the Audit Committee during the financial year ended 31 May 2017 include the following :-

(a) Financial Reporting

The Committee reviewed the unaudited quarterly reports and audited financial statements of the Company and the Group and recommended the same to the Board for approval prior to the announcement to Bursa Malaysia Securities Berhad. The review is to ensure that the unaudited quarterly reports and audited financial statements of the Company and the Group present a true and fair view of the Group's financial position and performance and compliance with regulatory requirements.

Audit Committee Report

SUMMARY OF WORK (continued)

(a) Financial Reporting (continued)

The Committee reviewed the financial reports 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 have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors such as impairment on other investments, trade receivables, inventories and others adopted by management.

(b) External Audit

On 27 July 2016, the Audit Committee reviewed the External Auditors' presentation for financial year ended 31 May 2016. A summary of External Auditors' key findings were presented to the Audit Committee.

On 27 April 2017, the Audit Committee reviewed with the External Auditors, their Audit Plan and Strategy for financial year ended 31 May 2017. Audit scope, audit materiality, audit methodology & timing of audit, potential key audit matters & other significant audit matters, critical milestones, significant accounting policies, summary key changes of listing requirements, audit fee amongst others were discussed and brought to the attention of the Audit Committee.

Audit Committee had two private sessions with the External Auditors without the presence of the Executive Directors and Management on 27 July 2016 and 27 April 2017, respectively. The External Auditors were encouraged to raise with the Audit Committee any matters deemed to be important to bring to the Audit Committee's attention.

The Audit Committee reviewed the Independence of the External Auditors and their performance during the Audit Committee meetings. The External Auditors 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, the Audit Committee recommended the re-appointment of KPMG PLT for the financial year ending 31 May 2018 to the Board for approval by its shareholders at the forthcoming Twentieth Annual General Meeting.

(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.

SUMMARY OF WORK (continued)

(c) Internal Control and Risk Management (continued)

On 27 July 2016, the Audit Committee reviewed and discussed with the Management and internal auditors on the internal audit plan for financial year ended 31 May 2017 and 2018 which outlines the audit timetable for auditable business processes and follow up visit. They also reviewed the cost of internal audit function and assessed the adequacy of the scope, functions, competency and resources of the internal audit function and that they have the necessary authority to carry out their work.

Audit Committee also reviewed the Statement of Risk Management and Internal Control for inclusion in the Annual Report.

On 27 October 2016, 24 January 2017 and 27 April 2017, 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.

Internal Audit Function and Summary of Works

The Group outsourced its internal audit function to Audex Governance Sdn. Bhd. ("Audex"), a professional service firm, to assist the Audit Committee in discharging its duties and responsibility more effectively. Audex performed the internal audit function guided by risk management methodology or also known as "Risk Based Internal Audit" to enhance the Company internal control and risk management practice. Audex acted independently and with due professional care and presented the Internal Audit Reports on the findings and recommendations 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 audits 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 2017, the Internal Auditors had carried out internal audit reviews on the following subsidiaries:

a) Paos Industries Sdn. Bhd. covering the following business process/areas:
   - Fixed Assets Management.

b) Premier Oil Industries Sdn. Bhd. covering the business process/areas:
   - Inventory Management.

c) The 5 Elements Hotel Sdn. Bhd. covering the business process/areas:
   - Housekeeping.

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

Audit Committee Report

SUMMARY OF WORK (continued)

Internal Audit Function and Summary of Works (continued)

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 fees incurred in maintaining the outsourced internal audit function for the financial year ended 31 May 2017 amounted to RM50,000.00.

In view of the merger of internal audit practice of Audex and Axcelasia Columbus Sdn. Bhd., the Group's Internal Audit function will be outsourced to Axcelasia Columbus Sdn. Bhd. effective financial year 2018.

This report is made in accordance with a resolution of the Board of Directors on 18 September 2017.

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 2017, 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, on 27 July 2017, 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 systems, in all material aspects, are 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. 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 risk management committee. The responsibility for managing risks at each business division lies with the Risk Management Team, which comprises all the Heads of Department.

In addition, 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. Significant risks that may affect the Group's business objectives are continually monitored and any new significant risk identified are subsequently evaluated and managed.

The following are key elements of the Group's risk management framework: -

- A risk management structure which outlines the responsibilities at different levels, i.e. the Board, Audit Committee and Management
- Identify key risks associated with the Group's vision, mission and strategies based on a list of sources of risks
- Identify the existing controls that manage the risks
- Rate the identified risks in terms of likelihood of occurrence and the resulting impact on the Group. The rating takes into account the effectiveness of existing controls put in place to manage risks
- Continuous monitoring to ensure compliance and maintenance of an updated risk profile

During the year under review, the Risk Management Committee met on 7 December 2016 and 24 May 2017 to discuss the risk rating and controls and updates of the Group's risk profiles of the manufacturing and trading, and the hotel operation and property investment divisions. On 27 July 2017, the Board was updated on the key risks, risk rating and the corresponding controls to manage the risks of the Group accordingly.

The abovementioned risk management practices of the Group serve as the 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.

Statement on Risk Management and Internal Control

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

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.

- 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 ("PISB"), is ISO 9001:2008 certified. On 8 July 2017, PISB upgraded its ISO 9001:2008 to ISO 9001:2015. 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 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 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. They report directly to the Audit Committee.

During the financial year ended 31 May 2017, internal audit visits were carried out on the key subsidiaries of the Group in accordance with the internal audit plan approved by the Audit Committee. The entities and business processes reviewed are as follows:

Entity	Business Processes
The 5 Elements Hotel Sdn. Bhd.	Housekeeping
Premier Oil Industries Sdn. Bhd.	Inventory Management
Paos Industries Sdn. Bhd.	Fixed Assets Management

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

3. Internal Audit Function (continued)

The results of the internal audit reviews, including the recommended corrective actions, were discussed with key management staff and subsequently presented directly to the Audit Committee at their scheduled meetings.

In addition, follow-up reviews were conducted to ensure that corrective actions have been implemented by Management and the results of these follow-up reviews were also presented to the Audit Committee. 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 fees incurred for the internal audit function for the financial year ended 31 May 2017 was RM 50,000.00.

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 the Board's resolution dated 18 September 2017.

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, 2016 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 2017 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 2017, 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 18 September 2017.

FINANCIAL STATEMENTS

Directors' Report
for the year ended 31 May 2017

Directors' report for the year ended 31 May 2017

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 May 2017.

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.

Subsidiaries

The details of the Company's subsidiaries are disclosed in Note 5 to the financial statements.

Results

	Group RM	Company RM
Profit for the year	1,853,830	16,209,265

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 amount of dividends paid by the Company was as follows:

In respect of the financial year ended 31 May 2017:

i) a first interim single tier dividend of 1.25 sen per ordinary share totalling RM1,509,700 declared on 27 October 2016 and paid on 28 November 2016; and

ii) a second interim single tier dividend of 0.80 sen per ordinary share totalling RM1,449,312 declared on 27 April 2017 and paid on 31 May 2017.

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

Directors of the Company

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

Lim Chang Ching
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 2017

Directors' interests in shares and warrants

The interests and deemed interests in the ordinary shares and warrants 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			
	At 1.6.2016	Bonus issue	Sold	At 31.5.2017
Direct interests in the Company				
Lim Chang Ching	20,000	10,000	-	30,000
Wang Hak Tham @ Wong Hak Tham	20,000	10,000	-	30,000
Cheah Yee Leng	20,000	-	(20,000)	-

	Number of warrants over the ordinary shares			
	At 1.6.2016	Bonus issue	Sold	At 31.5.2017
Direct interests in the Company				
Lim Chang Ching	-	15,000	-	15,000
Wang Hak Tham @ Wong Hak Tham	-	15,000	-	15,000

None of the other Directors holding office at 31 May 2017 had any interest in the ordinary shares and warrants 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 those fees and other benefits included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the financial statements or the fixed salary of 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.

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

During the financial year, the Company:

i) increased its issued and paid-up share capital from RM60,388,000 to RM90,582,000 by way of bonus issue of 60,388,000 new ordinary shares on the basis of one (1) bonus share for every two (2) existing ordinary shares held (the "Bonus issue"). The new shares issued shall rank pari passu with the existing shares of the Company; and

ii) issued 90,582,000 free warrants on the basis of one (1) free warrant for every two (2) ordinary shares held after the Bonus issue.

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

There were no debentures issued during the financial year.

Directors' Report
for the year ended 31 May 2017

Options granted over unissued shares

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

In December 2016, the Company issued 90,582,000 free warrants on the basis of one (1) free warrant for every two (2) ordinary shares held after the Bonus issue. The warrants are constituted by a Deed Poll dated 21 October 2016 and were listed on Bursa Malaysia Securities Berhad on 9 December 2016.

The main features of the warrants are as follows:

i) Each warrants will entitle its registered holder during the exercise period to subscribe for one (1) new ordinary share at the exercise price, which has been fixed at RM0.50 per share subject to adjustments in accordance with the provisions of the Deed Poll dated 21 October 2016 constituting the warrants.

ii) The warrants may be exercised at any time on or after 7 December 2016 until the end of the tenure of the warrants. The tenure of the warrants is for a period of five (5) years. Warrants not exercised during the exercise period shall thereafter lapse and cease to be valid for any purpose.

Indemnity and insurance costs

During the financial year, there was no indemnity given to or insurance effected for the Directors, officers or auditors of the Company.

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.

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.

Directors' Report
for the year ended 31 May 2017

Other statutory information (continued)

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 2017 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Auditors

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

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

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

....

Lim Chang Ching
Director

....

Alice Boo Miau Li
Director

Shah Alam, Malaysia

Date: 18 September 2017

Statements of Financial Position
for the year ended 31 May 2017

	Note	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Assets					
Property, plant and equipment	3	41,336,898	43,230,598	-	-
Investment properties	4	23,028,542	23,617,739	-	-
Investments in subsidiaries	5	-	-	90,788,173	90,788,173
Deferred tax assets	6	15,214	-	-	-
Total non-current assets		64,380,654	66,848,337	90,788,173	90,788,173
Inventories	7	4,832,286	5,525,976	-	-
Other investments	8	947,600	942,000	-	-
Current tax assets		1,627,681	580,248	47,913	22,913
Trade and other receivables	9	24,541,038	17,238,601	6,472,679	-
Deposits and prepayments	10	243,928	233,131	2,000	2,000
Cash and cash equivalents	11	10,035,372	18,286,242	14,426	9,519
Total current assets		42,227,905	42,806,198	6,537,018	34,432
Total assets		106,608,559	109,654,535	97,325,191	90,822,605
Equity					
Share capital	12	90,582,000	60,388,000	90,582,000	60,388,000
Reserves		8,964,901	40,264,083	479,106	17,422,853
Total equity attributable to owners of the Company		99,546,901	100,652,083	91,061,106	77,810,853
Liabilities					
Deferred tax liabilities	6	1,244,141	1,361,898	-	-
Total non-current liabilities		1,244,141	1,361,898	-	-
Borrowings	13	285,022	151,312	-	-
Current tax liabilities		7,726	133,854	-	-
Trade and other payables	14	5,524,769	7,355,388	6,264,085	13,011,752
Total current liabilities		5,817,517	7,640,554	6,264,085	13,011,752
Total liabilities		7,061,658	9,002,452	6,264,085	13,011,752
Total equity and liabilities		106,608,559	109,654,535	97,325,191	90,822,605

The notes set out on pages 51 to 89 are an integral part of these financial statements.

Statements of Profit or Loss and Other Comprehensive Income
for the year ended 31 May 2017

	Note	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Revenue	15	237,446,754	74,102,282	17,000,000	3,999,000
Cost of sales		(229,082,971)	(65,893,296)	-	-
Gross profit		8,363,783	8,208,986	17,000,000	3,999,000
Administrative expenses		(7,320,702)	(6,339,528)	(683,499)	(345,176)
Distribution expenses		(473,320)	(515,712)	-	-
Other expenses		(110,490)	(385,496)	-	-
Other income		2,007,599	4,028,512	-	-
Results from operating activities		2,466,870	4,996,762	16,316,501	3,653,824
Finance costs		(34,151)	(42,403)	(107,236)	(358,023)
Finance income		156,001	448,534	-	-
Profit before tax		2,588,720	5,402,893	16,209,265	3,295,801
Tax expense	18	(734,890)	(1,945,767)	-	-
Profit and total comprehensive income for the year	16	1,853,830	3,457,126	16,209,265	3,295,801
Basic earnings per ordinary share (sen)	19	1.02	1.91(restated)		

The notes set out on pages 51 to 89 are an integral part of these financial statements.

Statements of Changes in Equity
for the year ended 31 May 2017

	Note	Share capital RM	*Non-distributable* Share premium RM	*Distributable* Retained earnings RM	Total equity RM
Group					
At 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 2016/1 June 2016		60,388,000	14,871,806	25,392,277	100,652,083
Issuance of bonus shares	12	30,194,000	(14,871,806)	(15,322,194)	-
Profit and total comprehensive income for the year		-	-	1,853,830	1,853,830
Dividends	20	-	-	(2,959,012)	(2,959,012)
At 31 May 2017		90,582,000	-	8,964,901	99,546,901
		Note 12			

	Note	Share capital RM	*Non-distributable* Share premium RM	*Distributable* Retained earnings RM	Total equity RM
Company					
At 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 2016/1 June 2016		60,388,000	14,871,806	2,551,047	77,810,853
Issuance of bonus shares	12	30,194,000	(14,871,806)	(15,322,194)	-
Profit and total comprehensive income for the year		-	-	16,209,265	16,209,265
Dividends	20	-	-	(2,959,012)	(2,959,012)
At 31 May 2017		90,582,000	-	479,106	91,061,106
		Note 12			

The notes set out on pages 51 to 89 are an integral part of these financial statements.

Statements of Cash Flows
for the year ended 31 May 2017

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Cash flows from operating activities				
Profit before tax	2,588,720	5,402,893	16,209,265	3,295,801
Adjustments for:				
Depreciation of investment properties	589,197	589,198	-	-
Depreciation of property, plant and equipment	2,667,680	2,635,274	-	-
Dividend income	(48,770)	(28,540)	(17,000,000)	(3,999,000)
Fair value (gain)/loss on other investments	(282,170)	283,300	-	-
Finance costs	34,151	42,403	107,236	358,023
Finance income	(156,001)	(448,534)	-	-
Gain on disposal of other investments	(126,252)	-	-	-
Gain on disposal of property, plant and equipment	(1,700)	(8,500)	-	-
Net unrealised foreign exchange gain	(139,252)	(298,856)	-	-
Operating profit/(loss) before changes in working capital	5,125,603	8,168,638	(683,499)	(345,176)
Changes in working capital:				
Inventories	693,690	(377,860)	-	-
Trade and other receivables	(7,231,521)	(8,462,002)	(6,472,679)	-
Deposits and prepayments	(10,797)	102,519	-	-
Trade and other payables	(1,828,529)	349,293	(6,747,667)	(273,440)
Cash used in operations	(3,251,554)	(219,412)	(13,903,845)	(618,616)
Tax paid	(2,041,422)	(1,955,844)	(25,000)	(25,000)
Tax refund	-	98,527	-	25,000
Net cash used in operating activities	(5,292,976)	(2,076,729)	(13,928,845)	(618,616)
Cash flows from investing activities				
Acquisition of other investments	-	(212,900)	-	-
Acquisition of property, plant and equipment	(773,980)	(796,915)	-	-
Interest received	156,001	448,534	-	-
Proceeds from disposal of other investments	402,822	-	-	-
Proceeds from disposal of property, plant and equipment	1,700	8,500	-	-
Dividends received	48,770	28,540	17,000,000	3,999,000
Net cash (used in)/from investing activities	(164,687)	(524,241)	17,000,000	3,999,000

Statements of Cash Flows
for the year ended 31 May 2017

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Cash flows from financing activities				
Dividends paid	(2,959,012)	(3,019,401)	(2,959,012)	(3,019,401)
Interest paid	(34,151)	(42,403)	(107,236)	(358,023)
Net cash used in financing activities	(2,993,163)	(3,061,804)	(3,066,248)	(3,377,424)
Net (decrease)/increase in cash and cash equivalents	(8,450,826)	(5,662,774)	4,907	2,960
Cash and cash equivalents at 1 June	18,134,930	23,652,724	9,519	6,559
Effect of exchange rate fluctuations on cash held	66,246	144,980	-	-
Cash and cash equivalents at 31 May	9,750,350	18,134,930	14,426	9,519

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		Company	
		2017 RM	2016 RM	2017 RM	2016 RM
Deposits placed with licensed bank	11	3,081,859	12,000,000	-	-
Cash and bank balances	11	6,953,513	6,286,242	14,426	9,519
Borrowings	13	(285,022)	(151,312)	-	-
		9,750,350	18,134,930	14,426	9,519

The notes set out on pages 51 to 89 are an integral part of these financial statements.

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 2017 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 2017 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. There has been no significant change in the nature of these activities during the financial year.

These financial statements were authorised for issue by the Board of Directors on 18 September 2017.

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 2016 in Malaysia.

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

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

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

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 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)**
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions**
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts**
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)**
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

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

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

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

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 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 2017 for those amendments that are effective for annual periods beginning on or after 1 January 2017, except for those marked with "*" which are not applicable to the Group and the Company.

- from the annual period beginning on 1 June 2018 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2018, except for those marked as "*" which are not applicable to the Group and the Company.

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

The accounting standard that is effective for annual periods beginning on or after 1 January 2021 is not applicable to the Group and the Company.

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*.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

(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.

(iii) MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 15, MFRS 9 and MFRS 16.

(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.

(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.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(i) Subsidiaries (continued)

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

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

(ii) Business combinations

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

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

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

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

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

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

(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.

Notes to the Financial Statements

2. Significant accounting policies (continued)

(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.

(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.

(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 or financial assets that are specifically designated into this category upon initial recognition.

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)).

Notes to the Financial Statements

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

Financial liabilities

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

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

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) Financial guarantee contracts

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

When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made.

(iv) 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.

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(ii) Subsequent costs

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

(iii) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each 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.

Notes to the Financial Statements

2. Significant accounting policies (continued)

(e) Leased assets (continued)

(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.

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.

The fair values are based on the open market value method, and an assessment of the prevailing property market rate.

(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.

2. Significant accounting policies (continued)

(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.

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

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.

Notes to the Financial Statements

2. Significant accounting policies (continued)

(i) Impairment (continued)

(ii) Other assets (continued)

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

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated 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) State plans

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

(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) Manufacturing and trading sales

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 established, which in the case of quoted shares is the ex-dividend date.

(iii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the end of the reporting period. The stage of completion is assessed by reference to surveys of work performed.

(iv) 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.

(v) Hotel operation

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

(vi) Parking income

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

(vii) 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.

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 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, if any.

(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 occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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.

3. **Property, plant and equipment**

Group	Freehold land RM	Leasehold land* RM	Buildings RM	Plant and machinery RM	Motor vehicles RM	Renovation, office equipment and furniture and fittings RM	Hotel operating equipment RM	Total RM
Cost								
At 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 2016/1 June 2016	6,661,284	13,329,580	34,021,441	46,094,949	1,495,340	10,005,622	792,299	112,400,515
Additions	-	-	-	24,000	5,950	734,350	9,680	773,980
Disposals	-	-	-	-	(3,057)	-	-	(3,057)
At 31 May 2017	6,661,284	13,329,580	34,021,441	46,118,949	1,498,233	10,739,972	801,979	113,171,438
Accumulated depreciation								
At 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 2016/1 June 2016	-	3,095,519	13,489,819	44,340,608	786,939	6,684,523	772,509	69,169,917
Charge for the year	-	173,168	1,020,644	437,716	237,025	791,933	7,194	2,667,680
Disposals	-	-	-	-	(3,057)	-	-	(3,057)
At 31 May 2017	-	3,268,687	14,510,463	44,778,324	1,020,907	7,476,456	779,703	71,834,540
Carrying amounts								
At 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 2016/1 June 2016	6,661,284	10,234,061	20,531,622	1,754,341	708,401	3,321,099	19,790	43,230,598
At 31 May 2017	6,661,284	10,060,893	19,510,978	1,340,625	477,326	3,263,516	22,276	41,336,898

* 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 2015/31 May 2016/1 June 2016 /31 May 2017	8,838,716	19,639,897	28,478,613
Accumulated depreciation			
At 1 June 2015	-	4,271,676	4,271,676
Charge for the year	-	589,198	589,198
At 31 May 2016/1 June 2016	-	4,860,874	4,860,874
Charge for the year	-	589,197	589,197
At 31 May 2017	-	5,450,071	5,450,071
Carrying amounts			
At 1 June 2015	8,838,716	15,368,221	24,206,937
At 31 May 2016/1 June 2016	8,838,716	14,779,023	23,617,739
At 31 May 2017	8,838,716	14,189,826	23,028,542
Fair value			
At 1 June 2015/31 May 2016/1 June 2016	15,659,068	21,406,516	37,065,584
At 31 May 2017	18,489,453	25,533,056	44,022,509

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 Rahim & Co., an independent professional valuation firm to perform the valuation of the investment properties. The last valuation was performed on 8 August 2017 for all investment properties using the open market value method, and an assessment of the prevailing property market rate.

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

	2017 RM	2016 RM
Rental income	3,428,881	3,337,917
Direct operating expenses:		
- income generating investment properties	2,753,538	2,715,057

Notes to the Financial Statements

5. Investments in subsidiaries

	Cost of investments RM	Capital contributions RM	Total RM
Company			
At 1 June 2015/31 May 2016/1 June 2016/31 May 2017	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 2017 %	Effective ownership interest 2016 %
Paos Industries Sdn. Bhd.	Manufacture and trading of soap and its related products, trading in specialty fats produced 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. Deferred tax assets/(liabilities)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 RM	2016 RM	2017 RM	2016 RM	2017 RM	2016 RM
Group						
Property, plant and equipment	(15,214)	(16,579)	1,202,011	1,327,462	1,186,797	1,310,883
Provisions	(22,221)	(20,710)	-	-	(22,221)	(20,710)
Other items	-	-	64,351	71,725	64,351	71,725
Tax (assets)/liabilities	(37,435)	(37,289)	1,266,362	1,399,187	1,228,927	1,361,898
Set off of tax	22,221	37,289	(22,221)	(37,289)	-	-
Net tax (assets)/liabilities	(15,214)	-	1,244,141	1,361,898	1,228,927	1,361,898

Movement in temporary differences during the year

	At 1.6.2015 RM	Recognised in profit or loss (Note 18) RM	At 31.5.2016/ 1.6.2016 RM	Recognised in profit or loss (Note 18) RM	At 31.5.2017 RM
Group					
Property, plant and equipment	1,643,317	(332,434)	1,310,883	(124,086)	1,186,797
Provisions	(19,629)	(1,081)	(20,710)	(1,511)	(22,221)
Other items	387,725	(316,000)	71,725	(7,374)	64,351
	2,011,413	(649,515)	1,361,898	(132,971)	1,228,927

7. Inventories

	Group	
	2017 RM	2016 RM
At cost:		
Raw materials	3,171,043	3,600,627
Manufactured inventories	1,645,984	1,910,805
Food and beverages	15,259	14,544
	4,832,286	5,525,976
Recognised in profit or loss:		
Inventories recognised as cost of sales	218,633,386	52,495,196

Notes to the Financial Statements

8. Other investments

	Group 2017 RM	Group 2016 RM
Quoted shares		
Financial assets at fair value through profit or loss		
- Held for trading	947,600	942,000
Market value of quoted shares	947,600	942,000

9. Trade and other receivables

	Note	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Trade					
Trade receivables		23,991,459	16,764,795	-	-
Non-trade					
Amount due from subsidiaries	9.1	-	-	6,472,679	-
Other receivables		549,579	473,806	-	-
		549,579	473,806	6,472,679	-
		24,541,038	17,238,601	6,472,679	-

9.1 The amount due from subsidiaries is unsecured, repayable on demand and interest free.

10. Deposits and prepayments

	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Deposits	79,724	66,316	2,000	2,000
Prepayments	164,204	166,815	-	-
	243,928	233,131	2,000	2,000

Notes to the Financial Statements

11. Cash and cash equivalents

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Deposits placed with licensed bank	3,081,859	12,000,000	-	-
Cash and bank balances	6,953,513	6,286,242	14,426	9,519
	10,035,372	18,286,242	14,426	9,519

12. Capital and reserves

12.1 Share capital

	Group and Company			
	Amount 2017 RM	Number of shares 2017 RM	Amount 2016 RM	Number of shares 2016 RM
Issued and fully paid:				
At 1 June	60,388,000	120,776,000	60,388,000	120,776,000
Issuance of bonus shares	30,194,000	60,388,000	-	-
At 31 May	90,582,000	181,164,000	60,388,000	120,776,000

During the financial year, the Company:

i) increased its issued and paid-up share capital from RM60,388,000 to RM90,582,000 by way of bonus issue of 60,388,000 new ordinary shares on the basis of one (1) bonus share for every two (2) existing ordinary shares held ("the Bonus issue"). The new shares issued shall rank pari passu with the existing shares of the Company; and

ii) issued 90,582,000 free warrants on the basis of one (1) free warrant for every two (2) ordinary shares held after the Bonus issue.

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

12.2 Share premium

The share premium represents premium arising from the issuance of ordinary shares of the Company at issue price above par value. During the financial year, the Company utilised the share premium of RM14,871,806 as part of bonus issue of 60,388,000 new ordinary shares on the basis of one (1) bonus share for every two (2) existing ordinary shares held.

Notes to the Financial Statements

13. Borrowings

	Group 2017 RM	Group 2016 RM
Current		
Bank overdrafts - unsecured	285,022	151,312

The bank overdrafts of the Group are subject to interest rates varying between 1.0% and 1.5% (2016: 1.0% and 1.5%) above the lender's base rate per annum.

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

14. Trade and other payables

	Note	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Trade					
Trade payables		2,439,811	3,263,541	-	-
Non-trade					
Amount due to subsidiaries	14.1	-	-	6,015,318	12,763,930
Other payables	14.2	1,712,848	1,583,536	-	-
Accruals		1,372,110	2,508,311	248,767	247,822
		3,084,958	4,091,847	6,264,085	13,011,752
		5,524,769	7,355,388	6,264,085	13,011,752

14.1 The amount due to subsidiaries is unsecured, repayable on demand and subject to interest of 3% (2016: 3%) per annum, except for an amount due to a subsidiary of RM3,900,000 (2016: RM2,600,000) that is interest free.

14.2 Included in other payables of the Group are security deposits received from third party tenants amounting to RM776,539 (2016: RM767,071).

15. Revenue

	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Revenue				
Sale of goods	224,049,384	58,627,119	-	-
Contract manufacturing	5,635,067	8,018,339	-	-
Dividends	-	-	17,000,000	3,999,000
Rental	3,952,881	4,062,758	-	-
Hotel operation	3,108,361	2,709,658	-	-
Others	701,061	684,408	-	-
	237,446,754	74,102,282	17,000,000	3,999,000

Notes to the Financial Statements

16. Profit and total comprehensive income for the year

	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Profit and total comprehensive income for the year is arrived at after charging:				
Auditors' remuneration				
- audit services	165,000	150,000	49,000	44,000
- other services	22,000	20,000	22,000	20,000
Depreciation of investment properties	589,197	589,198	-	-
Depreciation of property, plant and equipment	2,667,680	2,635,274	-	-
Fair value loss on other investments	-	283,300	-	-
Finance cost on:				
- bank overdrafts	34,151	42,403	-	-
- amount due to subsidiaries	-	-	107,236	358,023
Personnel expenses (including key management personnel):				
- contributions to state plans	772,827	727,151	-	-
- wages, salaries and others	8,890,782	7,757,715	204,500	201,000
and after crediting:				
Dividend income from:				
Subsidiaries				
- unquoted shares	-	-	17,000,000	3,999,000
Other investments				
- quoted shares in Malaysia	48,770	28,540	-	-
Fair value gain of other investments	282,170	-	-	-
Finance income	156,001	448,534	-	-
Gain on disposal of property, plant and equipment	1,700	8,500	-	-
Gain on disposal of other investments	126,252	-	-	-
Net realised gain on foreign exchange	865,409	3,459,666	-	-
Net unrealised gain on foreign exchange	139,252	298,856	-	-
Rental income	4,060,881	4,170,758	-	-

Notes to the Financial Statements

17. Key management personnel compensation

The key management personnel compensations are as follows:

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Directors:				
- Fees	179,000	179,000	179,000	179,000
- Remuneration	2,035,587	1,833,012	25,500	22,000
	2,214,587	2,012,012	204,500	201,000
Other key management personnel:				
- Short-term employee benefits	1,805,649	1,658,430	-	-
	4,020,236	3,670,442	204,500	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.

18. Tax expense

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Recognised in profit or loss				
Current tax expense				
- current year	1,302,940	2,455,184	-	-
- (over)/under provision in prior year	(435,079)	140,098	-	-
Total current tax expense	867,861	2,595,282	-	-
Deferred tax expense				
- origination and reversal of temporary differences	(61,832)	(372,197)	-	-
- over provision in prior year	(71,139)	(277,318)	-	-
Total deferred tax expense	(132,971)	(649,515)	-	-
Total income tax expense	734,890	1,945,767	-	-
Reconciliation of tax expense				
Profit for the year	1,853,830	3,457,126	16,209,265	3,295,801
Total income tax expense	734,890	1,945,767	-	-
Profit excluding tax	2,588,720	5,402,893	16,209,265	3,295,801

18. Tax expense (continued)

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Income tax calculated using Malaysian tax rate of 24%	621,293	1,296,694	3,890,224	790,992
Non-taxable income	-	-	(4,080,000)	(959,760)
Non-deductible expenses	619,815	786,293	189,776	168,768
	1,241,108	2,082,987	-	-
(Over)/Under provision in				
-current tax expense	(435,079)	140,098	-	-
-deferred tax expense	(71,139)	(277,318)	-	-
Total income tax expense	734,890	1,945,767	-	-

19. Earnings per ordinary share

Basic earnings per ordinary share

During the financial year, the Company increased its issued and paid up share capital from RM60,388,000 to RM90,582,000 by way of bonus issue of 60,388,000 new ordinary shares on the basis of one (1) bonus share for every two (2) existing ordinary shares held.

The basic earnings per ordinary share is adjusted for the effect of changes in the number of shares retrospectively. The calculation of basic earnings per ordinary share at 31 May 2017 was based on the profit attributable to ordinary shareholders of RM1,853,830 (2016: RM3,457,126) and a weighted average number of ordinary shares outstanding during the year of 181,164,000 (adjusted 2016: 181,164,000).

The comparative figure for the weighted average number of ordinary shares in issue for basic earnings per ordinary share calculation has been restated to reflect the adjustments arising from the bonus issue.

2016	As previously stated	As restated
Profit for the year (RM)	3,457,126	3,457,126
Weighted average number of ordinary shares outstanding during the year	120,776,000	181,164,000
Earnings per ordinary share (sen)	2.86	1.91

Notes to the Financial Statements

20. Dividends

Dividends recognised by the Company:

	Sen per share RM	Total amount RM	Date of payment
2017			
First interim 2017 ordinary - single tier	1.25	1,509,700	28 November 2016
Second interim 2017 ordinary - single tier	0.80	1,449,312	31 May 2017
Total amount		2,959,012	
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	

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 and depreciation, 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.

21. **Operating segments (continued)**

Group	Manufacturing 2017 RM	Manufacturing 2016 RM	Trading 2017 RM	Trading 2016 RM	Integrated hotel operations and property investment 2017 RM	Integrated hotel operations and property investment 2016 RM	Total 2017 RM	Total 2016 RM
Segment profit	394,986	4,779,167	1,704,912	394,882	486,810	314,651	2,586,708	5,488,700
Included in the measure of segment profit are:								
Revenue from external customers	37,380,445	45,753,175	193,402,006	22,181,124	6,664,303	6,167,983	237,446,754	74,102,282
Depreciation	1,299,464	1,295,729	237,026	236,133	1,720,387	1,692,610	3,256,877	3,224,472
Segment assets	38,398,940	52,716,756	23,474,104	19,793,419	148,678,728	142,094,586	210,551,772	214,604,761
Included in the measure of segment assets are:								
Additions to non-current assets other than financial instruments and deferred tax assets	290,050	435,075	-	-	483,930	361,840	773,980	796,915

Notes to the Financial Statements

21. Operating segments (continued)

Reconciliation of reportable segment profit or loss and assets

	Group	
	2017 RM	2016 RM
Profit or loss		
Total profit or loss for reportable segments	2,586,708	5,488,700
Finance costs	(34,151)	(42,403)
Finance income	156,001	448,534
Unallocated expenses	(683,499)	(628,478)
Unallocated income	563,661	136,540
Consolidated profit before tax	2,588,720	5,402,893
Segment assets		
Total assets for reportable segments	210,551,772	214,604,761
Other non-reportable segments	2,590,495	1,522,249
Elimination of inter-segment balance	(106,533,708)	(106,472,475)
Consolidated total	106,608,559	109,654,535

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.

	Group	
	Revenue RM	Non-current assets RM
Geographical information		
2017		
Domestic	210,393,886	64,365,440
South East Asia	21,766,020	-
Others	5,286,848	-
	237,446,754	64,365,440
2016		
Domestic	22,973,731	66,848,337
South East Asia	51,128,551	-
	74,102,282	66,848,337

Notes to the Financial Statements

21. Operating segments (continued)

Major customers

Approximately 93% (2016: 81%) of the Group's revenue are from 4 (2016: 4) major customers.

The following are major customers with revenue equal or more than 10% of the Group's total revenue:

	Revenue 2017 RM	Revenue 2016 RM	Segment
All common control companies of:			
Customer A	21,560,246	32,710,857	Manufacturing
Customer B	10,374,449	13,077,748	Trading
Customer C	117,404,731	7,136,986	Trading
Customer D	70,497,610	7,167,630	Trading
	219,837,036	60,093,221	

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
2017			
Financial assets			
Group			
Other investments	947,600	-	947,600
Trade and other receivables	24,152,092	24,152,092	-
Deposits	79,724	79,724	-
Cash and cash equivalents	10,035,372	10,035,372	-
	35,214,788	34,267,188	947,600
Company			
Trade and other receivables	6,472,679	6,472,679	-
Deposits	2,000	2,000	-
Cash and cash equivalents	14,426	14,426	-
	6,489,105	6,489,105	-
Financial liabilities			
Group			
Borrowings	(285,022)	(285,022)	-
Trade and other payables	(5,401,821)	(5,401,821)	-
	(5,686,843)	(5,686,843)	-
Company			
Trade and other payables	(6,264,085)	(6,264,085)	-

22. Financial instruments (continued)

22.1 Categories of financial instruments (continued)

	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			
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)	-

22.2 Net gains and losses arising from financial instruments

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Net gains/(losses) on:				
Fair value through profit or loss:				
- Held for trading	457,192	(254,760)	-	-
Loans and receivables	1,165,719	4,188,426	-	-
Financial liabilities measured at amortised cost	(39,208)	(23,773)	(107,236)	(358,023)
	1,583,703	3,909,893	(107,236)	(358,023)

22. Financial instruments (continued)

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 advances to subsidiaries and financial guarantees given to banks for credit facilities granted to a subsidiary.

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	
	2017	**2016**
	RM	**RM**
Domestic	18,380,572	7,765,537
South East Asia	4,776,002	8,999,258
Others	834,885	-
	23,991,459	16,764,795

22. Financial instruments (continued)

22.4 Credit risk (continued)

22.4.1 Receivables (continued)

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 RM	Individual impairment RM	Net RM
2017			
Not past due	20,430,326	-	20,430,326
Past due 0 - 30 days	2,195,705	-	2,195,705
Past due 31 - 60 days	227,754	-	227,754
Past due more than 60 days	1,137,674	-	1,137,674
	23,991,459	-	23,991,459
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

There is no allowance for impairment losses of receivables during and at the end of the reporting period.

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 a subsidiary. The Company monitors on an ongoing basis the performance of the subsidiary and repayments made by the subsidiary.

Exposure to credit risk, credit quality and collateral

The maximum exposure to credit risk amounts to RM285,022 (2016: RM151,312) representing the outstanding banking facilities of the subsidiary as at the end of the reporting period.

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

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

22. Financial instruments (continued)

22.4 Credit risk (continued)

22.4.3 Inter-company advances

Risk management objectives, policies and processes for managing the risk

The Company provides 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.

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 advances to subsidiaries are not recoverable. The Company does not specifically monitor the ageing of current advances to subsidiaries.

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 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.

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:

Group	Carrying amount RM	Contractual interest rate/coupon %	Contractual cash flows RM	Under 1 year RM
2017				
Non-derivative financial liabilities				
Borrowings	285,022	7.60% - 8.10%	285,022	285,022
Trade and other payables	5,401,821	-	5,401,821	5,401,821
Bank guarantee	-	-	650,000	650,000
	5,686,843		6,336,843	6,336,843
2016				
Non-derivative financial liabilities				
Borrowings	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

Notes to the Financial Statements

22. Financial instruments (continued)

22.5 Liquidity risk (continued)

Maturity analysis **(continued)**

Company	Carrying amount RM	Contractual interest rate/coupon %	Contractual cash flows RM	Under 1 year RM
2017				
Non-derivative financial liabilities				
Amount due to subsidiaries				
- Interest-bearing	2,115,318	3.00%	2,115,318	2,115,318
- Non-interest bearing	3,900,000	-	3,900,000	3,900,000
Other payables and accruals	248,767	-	248,767	248,767
	6,264,085		6,264,085	6,264,085
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

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").

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.

22. Financial instruments (continued)

22.6 Market risk (continued)

22.6.1 Currency risk (continued)

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		
2017		
Trade and other receivables	1,257,584	4,353,303
Trade and other payables	(710,054)	-
Cash and cash equivalents	167,253	1,693,897
	714,783	6,047,200
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

Currency risk sensitivity analysis

A 10% (2016: 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/Profit or loss	
	2017	**2016**
	RM	**RM**
USD	54,324	170,072
SGD	459,587	883,550

A 10% (2016: 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.

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 a licensed bank 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:

	2017 RM	2016 RM
Group		
Fixed rate instrument		
Financial asset	3,081,859	12,000,000
Floating rate instrument		
Financial liability	(285,022)	(151,312)
Company		
Fixed rate instrument		
Financial liability	(2,115,318)	(10,163,930)

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.

22. Financial instruments (continued)

22.6 Market risk (continued)

22.6.2 Interest rate risk (continued)

Interest rate risk sensitivity analysis (continued)

(b) Cash flow sensitivity analysis for variable rate instruments (continued)

	Profit or loss	
	100 bp increase RM	**100 bp decrease RM**
Group		
2017		
Cash flow sensitivity (net)	(2,166)	2,166
2016		
Cash flow sensitivity (net)	(1,150)	1,150

(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% (2016: 10%) strengthening in FBMKLCI at the end of the reporting period would have increased equity and post-tax profit or loss by RM94,760 (2016: RM94,200) for investments classified as fair value through profit or loss. A 10% (2016: 10%) weakening in FBMKLCI would have had equal but opposite effect on equity and post-tax profit or loss.

Notes to the Financial Statements

22. Financial instruments (continued)

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.

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
2017				
Financial assets				
Quoted shares	947,600	-	-	947,600
2016				
Financial assets				
Quoted shares	942,000	-	-	942,000

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 (2016: 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. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2017 RM	2016 RM
Less than one year	8,850	37,500
Between one and five years	-	41,250
	8,850	78,750

The Group leases residential properties under operating leases. The leases typically run for a period of 3 years, with an option to renew the lease after that date.

23. Operating leases (continued)

Leases as lessor

The Group leases out their investment properties (see Note 4). The future minimum lease receivables under non-cancellable leases are as follows:

	Group	
	2017 RM	2016 RM
Less than one year	2,015,318	2,030,215
Between one and five years	951,869	1,300,854
	2,967,187	3,331,069

Each of the leases contains an initial non-cancellable period of 2 year, with annual rents indexed to consumer prices. Subsequent renewals are negotiated with the lessees and on average renewal periods are 1 year. No contingent rents are charged.

24. 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.

25. 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 (2016: RM650,000).

26. 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	
	2017 RM	2016 RM
Property, plant and equipment		
Authorised but not contracted for	642,285	752,751
Contracted but not provided for	69,800	-
Contracted and provided for	-	18,380

Notes to the Financial Statements

27. 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.

Significant related party transactions

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

	Company	
	2017	**2016**
	RM	**RM**
Subsidiaries		
Paos Industries Sdn. Bhd.		
Dividend income	9,250,000	-
Interest expense	-	(47,906)
Premier Oil Industries Sdn. Bhd.		
Dividend income	7,750,000	3,999,000
Interest expense	(107,236)	(310,117)

Related party transactions have been entered into in the normal course of business under negotiated trade terms. The outstanding amount due from subsidiaries and amount due to subsidiaries as at the end of reporting period are disclosed in Notes 9 and 14, respectively.

Notes to the Financial Statements

28. 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	
	2017 RM	2016 RM	2017 RM	2016 RM
Total retained earnings of the Company and its subsidiaries				
- realised	39,985,808	56,386,549	479,106	2,551,047
- unrealised	(1,089,676)	(1,063,041)	-	-
	38,896,132	55,323,508	479,106	2,551,047
Less: Consolidation adjustments	(29,931,231)	(29,931,231)	-	-
Total retained earnings	8,964,901	25,392,277	479,106	2,551,047

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

Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 51 to 88 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 May 2017 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 28 on page 89 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
Director

....

Alice Boo Miau Li
Director

Shah Alam, Malaysia

Date: 18 September 2017

Statutory declaration pursuant to

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

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 51 to 89 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Alice Boo Miau Li, I/C No 690507-04-5082, at Petaling Jaya in the State of Selangor on 18 September 2017.

....

Alice Boo Miau Li

Before me:

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Paos Holdings Berhad, which comprise the statements of financial position as at 31 May 2017 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 51 to 89.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 May 2017 and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Key Audit Matters

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

Valuation of inventories

(Refer to Note 2(g) – Significant accounting policies: Inventories and Note 7 – Inventories of the financial statements)

The Group has RM4.8 million inventories as at 31 May 2017. Inventories are measured at the lower of cost and net realisable value. Valuation of inventories is a key audit matter due to the demand and ability of the Group to sell the inventories in the future may be adversely affected by changes in customer and consumer preferences and demand. There is judgement involved in assessing the level of inventory provision required in respect of slow moving inventories, therefore there is a risk that slow moving inventories has not been adequately provided for.

How the matter was addressed in our audit

We performed the following audit procedures, among others, around the valuation of inventories:

- We considered the Group's process of identification of slow moving or obsolete inventories; and
- We tested the accuracy of the ageing of inventories by testing the age profile of the inventories; and
- We assessed the appropriateness of inventories above one year which are not provided for.

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

Independent Auditors' Report

to the members of Paos Holdings Berhad

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

Key Audit Matters (continued)

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

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

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

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

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

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

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

Other Reporting Responsibilities

The supplementary information set out in Note 28 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other Matter

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

KPMG PLT
LLP0010081-LCA & AF 0758
Chartered Accountants

Chan Chee Keong
Approval Number: 03175/04/2019 J
Chartered Accountant

Petaling Jaya, Selangor

Date: 18 September 2017

Group Properties

The details of the properties of the Group as at 31 May 2017

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	14,535	37
POISB/No. 3 Jalan Gangsa, Kaw. Perusahaan Banting, 42700 Banting, Selangor Daru Ehsan	99 years lease expiring on 20.04.2089	Indutrial/single storey detached factory cum office annexe	24.02.1995 02.09.1996	119,356/ 37,452	4,082	18
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	40,384	46

Analysis of Shareholdings
As at 30 August 2017

ISSUED AND FULLY PAID-UP CAPITAL	:	RM90,582,000.00
CLASS OF SHARES	:	Ordinary shares
VOTING RIGHTS	:	One vote per share (on poll)

DISTRIBUTION SCHEDULE OF SHAREHOLDINGS

Size of Shareholdings	No. of Share-holders	No. of Shares Held	% of Issued Capital
Less than 100 shares	113	2,501	0.00
100 to 1,000 shares	117	37,550	0.02
1,001 to 10,000 shares	732	3,137,295	1.73
10,001 to 100,000 shares	306	9,017,400	4.98
100,001 to less than 5% of issued shares	50	40,065,712	22.12
5% and above of issued shares	3	128,903,542	71.15
Total	1,321	181,164,000	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.	TAN SRI DATO' LIM TONG YONG @ LIM TONG YAIM	66,676,004	36.80
2.	HAP SENG CONSOLIDATED BERHAD	45,227,538	24.96
3.	JF APEX NOMINEES (TEMPATAN) SDN BHD - AEH CAPITAL SDN BHD FOR TAN SRI DATO' LIM TONG YONG @ LIM TONG YAIM	17,000,000	9.38
4.	ER KOK LEONG @ ER CHAI TUAN	8,079,300	4.46
5.	LIM CHAO FENG	7,815,000	4.31
6.	NG POH CHUAN	4,012,500	2.21
7.	TAN PENG CHEONG	3,000,000	1.66
8.	TANG CHING LENG	3,000,000	1.66
9.	MICHAEL FOONG KA-MENG	1,394,700	0.77
10.	LIAW KONG WAH	1,074,600	0.59
11.	PANG HEE KIN	916,500	0.51
12.	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR ZURICH INSURANCE MALAYSIA BERHAD (LIFE PAR)	895,050	0.49
13.	JF APEX NOMINEES (TEMPATAN) SDN BHD - AEH CAPITAL SDN BHD FOR YEO BOON LEONG	833,200	0.46
14.	LIAW KONG WAH	706,050	0.39
15.	CHEAH KIU LEAN	675,000	0.37
16.	CHEONG YOU CHIN	475,200	0.26
17.	AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR AIK YUN KIM @ YEK YUE KIEW	450,000	0.25
18.	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN SOON HUI (E-SJA)	399,750	0.22
19.	WEE LEU KEE	369,000	0.20

Analysis of Shareholdings

As at 30 August 2017

TOP THIRTY SECURITIES ACCOUNT HOLDERS (continued)

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

No.	Name of Shareholders	No. of Shares Held	% of Issued Capital
20.	LOW CHU PENG	350,000	0.19
21.	TAN YEE SOO	338,500	0.19
22.	MALACCA EQUITY NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR PHILLIP CAPITAL MANAGEMENT SDN BHD (EPF)	267,400	0.15
23.	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR HEAN CHEW (MY2152)	258,500	0.14
24.	MAYBANK NOMINEES (TEMPATAN) SDN BHD NOMURA SINGAPORE LIMITED FOR LIM LIAN HOCK (410242)	252,000	0.14
25.	BO ENG CHEE	250,000	0.14
26.	CHEONG AH YOON	213,600	0.12
27.	BOBBY LEE KIAN HOCK	210,750	0.12
28.	MAYBANK NOMINEES (TEMPATAN) SDN BHD LIBRA INVEST BERHAD FOR LUM TECK CHEONG (EP0007-210322)	201,900	0.11
29.	LIM LIAN KHAI	200,000	0.11
30.	TEO KWEE HOCK	197,750	0.11

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	30,000	0.02	-	-
2.	WANG HAK THAM @ WONG HAK THAM	30,000	0.02	-	-
3.	ALICE BOO MIAU LI	-	-	-	-
4.	LIM POH SEONG	-	-	-	-
5.	LIM ZHEN QI	-	-	-	-
6.	YAP MIN LEE	-	-	-	-
7.	CHEAH YEE LENG	-	-	-	-

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	83,676,004	46.19	-	-
2.	HAP SENG CONSOLIDATED BERHAD	45,227,538	24.96	-	-

Analysis Of Warrants Holdings
As at 30 August 2017

ISSUE SIZE	:	90,582,000 Warrants 2016/2021
BALANCE OF WARRANTS NOT EXERCISED	:	90,582,000 Warrants 2016/2021
NO. OF WARRANTS HOLDERS	:	1,197 Warrants Holders

DISTRIBUTION TABLE ACCORDING TO THE NUMBER OF WARRANTS HELD IN RESPECT OF ISSUED HOLDINGS

Size of Holdings	No. of Warrants-holders	No. of Warrants Held	% of Holdings
Less than 100 shares	193	6,951	0.01
100 to 1,000 shares	76	37,876	0.04
1,001 to 10,000 shares	665	1,844,281	2.04
10,001 to 100,000 shares	226	7,657,031	8.45
100,001 to less than 5% of warrants	35	16,584,050	18.31
5% and above of warrants	2	64,451,811	71.15
Total	1,197	90,582,000	100.00

DIRECTORS' WARRANTS HOLDINGS

No.	Name	Direct Interest	%	Deemed Interest	%
1.	LIM CHANG CHING	15,000	0.02	-	-
2.	LIM ZHEN QI	-	-	-	-
3.	ALICE BOO MIAU LI	-	-	-	-
4.	WANG HAK THAM @ WONG HAK THAM	15,000	0.02	-	-
5.	LIM POH SEONG	-	-	-	-
6.	YAP MIN LEE	-	-	-	-
7.	CHEAH YEE LENG	-	-	-	-

Analysis Of Warrants Holdings

As at 30 August 2017

THIRTY (30) LARGEST WARRANTS HOLDERS

(As Record of Depositors)

No.	Name of Warrants Holders	No. of Warrants Held	% of Holdings
1.	TAN SRI DATO' LIM TONG YONG @ LIM TONG YAIM	41,838,042	46.19
2.	HAP SENG CONSOLIDATED BERHAD	22,613,769	24.96
3.	ER KOK LEONG @ ER CHAI TUAN	4,039,650	4.46
4.	TANG CHING LENG	1,500,000	1.66
5.	MAYBANK NOMINEES (TEMPATAN) SDN BHD - NOMURA SINGAPORE LIMITED FOR LIM LIAN HOCK (410242)	1,486,600	1.64
6.	NG POH CHUAN	1,140,000	1.26
7.	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD - PLEDGED SECURITIES ACCOUNT FOR TAN MOOI KIM (RH3 MARGIN)	862,000	0.95
8.	MICHAEL FOONG KA-MENG	697,350	0.77
9.	LIM CHAO FENG	597,300	0.66
10.	KENANGA NOMINEES (TEMPATAN) SDN BHD - PLEDGED SECURITIES ACCOUNT FOR TING HING CHOOI (011)	466,700	0.52
11.	HSBC NOMINEES (TEMPATAN) SDN BHD - HSBC (M) TRUSTEE BHD FOR ZURICH INSURANCE MALAYSIA BERHAD	447,525	0.49
12.	CHEAH KIU LEAN	337,500	0.37
13.	NG SIEW KEAN	322,000	0.36
14.	LOW CHU PENG	310,000	0.34
15.	YONG MOI @ LIM YONG MOI	301,900	0.33
16.	CHAI PAN HO	300,000	0.33
17.	MAYBANK NOMINEES (TEMPATAN) SDN BHD – PLEDGED SECURITIES ACCOUNT FOR HOO YEEK FOO	286,700	0.32
18.	LIM TIAM FOOK	261,000	0.29
19.	NGOI LEONG EE	250,000	0.28
20.	CHEONG YOU CHIN	237,600	0.26
21.	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR HEAN CHEW (MY2152)	221,400	0.24
22.	TAN YEE SOO	216,900	0.24
23.	HARLINA BINTI MOHD YUNOS	200,000	0.22
24.	PUBLIC NOMINEES (TEMPATAN) SDN BHD – PLEDGED SECURITIES ACCOUNT FOR CHONG KOO CHING (E-KTN/JRT)	200,000	0.22
25.	YONG SIONG MING	200,000	0.22
26.	PUBLIC NOMINEES (TEMPATAN) SDN BHD – PLEDGED SECURITIES ACCOUNT FOR TAN SOON HUI (E-SJA)	199,875	0.22
27.	TING HING CHOOI	183,000	0.20
28.	WEE LEU KEE	164,500	0.18
29.	HLIB NOMINESS (TEMPATAN) SDN BHD – HONG LEONG BANK BHD FOR ONG LAY HUAT	160,250	0.18
30.	MOHD AZMI BIN ALI	160,000	0.18

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

PROXY FORM

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 Twentieth 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 22 November 2017, Wednesday 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, 2017 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 approve the payment of Directors' benefits to the Directors up to an amount of RM60,000.00	2		
4.	To re-elect Mr. Lim Zhen Qi as Director.	3		
5.	To re-elect Ms. Alice Boo Miau Li as Director.	4		
6.	To re-appoint Mr. Wang Hak Tham @ Wong Hak Tham as Director.	5		
7.	To re-appoint Mr. Yap Min Lee as Director.	6		
8.	To re-appoint KPMG PLT as Auditors and to authorise the Directors to fix their remuneration.	7		
9.	To empower the Directors of the Company to issue shares pursuant to Sections 75 & 76 of the Companies Act, 2016.	8		
10.	To retain Mr. Wang Hak Tham @ Wong Hak Tham as Independent Non-Executive Director of the Company.	9		

....
Signature

Dated this .... day of ...., 2017.

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 %

NOTES:

1. A member of the Company entitled to attend and vote at the meeting shall be entitled to appoint more than 1 proxy to exercise all or any of his/her rights to attend, participate, speak and vote in his/her stead. Where a member appoints more than one proxy, the appointment shall be invalid unless he/she specifies the proportions of his/her shareholdings to be represented by each proxy.
2. 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.
3. Where a member of a Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
4. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
5. The instrument appointing a proxy and the power of attorney or other authority duly authorised in writing or if such appointor is a Corporation, under its common seal or under the hand of an officer or attorney of the Corporation duly authorised, shall be deposited at the registered office at 308, Block A (3rd Floor), Kelana Business Centre, 97, Jalan SS7/2, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting.
6. Depositors who appear in the Record of Depositors as at 15 November 2017 shall be regarded as Member of the Company entitled to attend the Twentieth Annual General Meeting or appoint a proxy or proxies to attend and vote on his/her behalf.

FOLD THIS FLAP FOR SEALING

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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

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www.paos.com.my

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