

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Reports and Statutory financial statements for the financial year ended 30 June 2016

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Reports and Statutory financial statements for the financial year ended 30 June 2016

Index

| | Pages |
|--|--------------|
| Directors' report | 1 - 5 |
| Statement by directors | 6 |
| Statutory declaration | 6 |
| Independent auditors' report | 7 - 9 |
| Financial statements | |
| Statements of comprehensive income | 10 |
| Statements of financial position | 11 |
| Consolidated statement of changes in equity | 12 |
| Company statement of changes in equity | 13 |
| Statements of cash flows | 14 - 15 |
| Notes to the financial statements | 16 - 75 |

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Directors' report for the financial year ended 30 June 2016

The directors are pleased to submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 30 June 2016.

Principal activities

The principal activity of the Company is that of investment holding. The principal activities of the subsidiary are shown in Note 12 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

Financial results

| | Group RM | Company RM |
|-----------------------------------|-------------------|------------------|
| Net profit for the financial year | <u>24,324,815</u> | <u>6,475,362</u> |

Dividends

Dividends declared and paid by the Company since the end of the Company's previous financial year are as follows:

| | RM |
|---|-------------------------|
| In respect of the financial year ended 30 June 2016: | |
| - First interim single-tier tax exempt dividend of 0.645 sen (rounded to 3 decimal places) per share on 310,000,000 ordinary shares of RM0.10 each, paid on 23 October 2015 | 2,000,000 |
| - Second interim single-tier tax exempt dividend of 0.645 sen (rounded to 3 decimal places) per share on 310,000,000 ordinary shares of RM0.10 each, paid on 18 April 2016 | 2,000,000 |
| - Third interim single-tier tax exempt dividend of 0.6 sen per share on 388,000,000 ordinary shares of RM0.10 each, paid on 30 June 2016 | <u>2,328,000</u> |
| | <u>6,328,000</u> |

The directors do not recommend the payment of a final dividend for the financial year ended 30 June 2016.

On 15 August 2016, the directors declared a first interim single-tier dividend in respect of the financial year ending 30 June 2017 of 0.6 sen per share on 388,000,000 ordinary shares amounting to RM2,328,000, payable on 30 September 2016.

Reserves and provisions

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

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Directors' report for the financial year ended 30 June 2016 (continued)

Directors

The directors who have held office since the date of the last report are as follows:

Lim Chong Shyh
Joshua Lim Phan Yih
Chia Chee Hoong (Appointed on 15 October 2015)
Low Teng Lum (Appointed on 15 October 2015)
Leow Chan Khiang (Appointed on 20 October 2015)

In accordance with Article 95 of the Articles of Association, Lim Chong Shyh and Joshua Lim Phan Yih retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Issue of shares

On 16 May 2016, the issued and fully paid-up ordinary share capital of the Company was increased from RM31,000,000 to RM38,800,000 by way of issuance of 78,000,000 ordinary shares of RM0.10 each at par at the issue price of RM0.80 per share pursuant to the initial public offering exercise. The Company raised a total gross cash proceeds of RM62,400,000. In connection with the initial public offering exercise, the Company was listed with its entire enlarged issued and paid-up ordinary share capital were quoted on Bursa Malaysia on 18 May 2016.

The newly issued ordinary shares rank pari passu in all respects with the existing ordinary shares of the Company.

Directors' interests

According to the Register of Directors' Shareholdings, particulars of interests of the directors who held office at the end of the financial year in shares in the Company and its subsidiary are as follows:

| | Number of ordinary shares of RM0.10 each | | | Balance at 30.6.2016 |
|--------------------------------------|--|---------|-------------|----------------------------|
| | Balance at 1.7.2015 | Bought | Sold | |
| Salutica Berhad (the Company) | | | | |
| <u>Direct interest</u> | | | | |
| Lim Chong Shyh | 6,027,780 | 0 | 6,027,780* | 0 |
| Joshua Lim Phan Yih | 861,110 | 0 | 861,110* | 0 |
| Chia Chee Hoong | 0 | 700,000 | 0 | 700,000 |
| Low Teng Lum | 0 | 700,000 | 0 | 700,000 |
| Leow Chan Khiang | 0 | 700,000 | 0 | 700,000 |
| <u>Indirect interest</u> | | | | |
| Lim Chong Shyh | 272,972,220 | 0 | 9,972,220* | 263,000,000 |
| Joshua Lim Phan Yih | 278,138,890 | 0 | 15,138,890* | 263,000,000 |

* Sold pursuant to Offer for Sale in conjunction with the initial public offering exercise

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Directors' report for the financial year ended 30 June 2016 (continued)

Directors' interests (continued)

| | Number of ordinary shares of RM1 each | | | Balance at 30.6.2016 |
|--|---------------------------------------|--------|------|----------------------------|
| | Balance at 1.7.2015 | Bought | Sold | |
| Blue Ocean Enlightenment Sdn. Bhd. (the ultimate holding company) | | | | |
| <u>Direct interest</u> | | | | |
| Lim Chong Shyh | 54 | 0 | 0 | 54 |
| Joshua Lim Phan Yih | 23 | 0 | 0 | 23 |

By virtue of their substantial interest in shares in Salutica Berhad as at 30 June 2016, Lim Chong Shyh and Joshua Lim Phan Yih are deemed to have interest in the shares in Salutica Allied Solutions Sdn. Bhd., the wholly owned subsidiary of the Company.

Other than as disclosed above, according to the Register of the Directors' Shareholdings, the directors who held office at the end of the financial year did not hold any other interests in shares in, or debentures of, the Company or its related corporations during the financial year.

Directors' benefits

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects 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.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than those disclosed in Note 6 to the financial statements) by reason of a contract made by the Company with the director or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest except that certain directors received remuneration from a related company in their capabilities as directors of the related company.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Directors' report for the financial year ended 30 June 2016 (continued)

Statutory information on the financial statements

Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the directors took reasonable steps:

- (a) to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and have satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- (b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Group and of the Company had 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:

- (a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- (c) 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.

No contingent or other liability 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 affect the ability of the Group and of the Company to meet their obligations when they fall due.

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

- (a) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Directors' report for the financial year ended 30 June 2016 (continued)

Statutory information on the financial statements (continued)

In the opinion of the directors:

- (a) the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than the significant event disclosed below and Note 21 to the financial statements; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

Ultimate holding company

The directors regard Blue Ocean Enlightenment Sdn. Bhd., a company incorporated in Malaysia, as the Company's ultimate holding company.

Significant event

On 18 May 2016, the Company was listed with its entire enlarged issued and fully paid-up ordinary share capital quoted on Bursa Malaysia.

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution dated 30 September 2016.

Lim Chong Shyh
Director

Joshua Lim Phan Yih
Director

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Statement by directors Pursuant to Section 169(15) of the Companies Act, 1965

We, Lim Chong Shyh and Joshua Lim Phan Yih, being two of the directors of Salutica Berhad, state that, in the opinion of the directors, the financial statements set out on pages 10 to 74 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2016 and of the results and cash flows of the Group and the Company for the financial year ended on that date in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The information set out in Note 35 on page 75 to the financial statements have been prepared in accordance with the 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 and the directive of Bursa Malaysia Securities Berhad.

Signed on behalf of the Board of Directors in accordance with a resolution dated 30 September 2016.

Lim Chong Shyh
Director

Joshua Lim Phan Yih
Director

Statutory declaration Pursuant to Section 169(16) of the Companies Act, 1965

I, Chan Shook Ling, being the officer primarily responsible for the financial management of Salutica Berhad, do solemnly and sincerely declare that the financial statements set out on pages 10 to 74 and information set out in Note 35 to the financial statements are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960 in Malaysia.

Chan Shook Ling

Subscribed and solemnly declared by the abovenamed Chan Shook Ling before me at Ipoh, in the state of Perak Darul Ridzuan, Malaysia on 30 September 2016.

Lam Ying Woh [No. A 209]
Commissioner for Oaths

23 Jalan Tranchell
31450 Menglembu, Ipoh
Perak Darul Ridzuan



**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SALUTICA BERHAD**
(Company no: 1024781 T)
(Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Salutica Berhad on pages 10 to 74, which comprise the statements of financial position as at 30 June 2016 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 34.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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



**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SALUTICA BERHAD (CONTINUED)**
(Company no: 1024781 T)
(Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 30 June 2016 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiary of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the financial statements of the subsidiary that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (c) The audit report on the financial statements of the subsidiary did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 35 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 the 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.



**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SALUTICA BERHAD (CONTINUED)**
(Company no: 1024781 T)
(Incorporated in Malaysia)

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
[No. AF: 1146]
Chartered Accountants

LIM HUCK KHIAM
[No. 3192/06/17 (J)]
Chartered Accountant

1st Floor, Standard Chartered Bank Chambers
21-27 Jalan Dato' Maharaja Lela
30000 Ipoh
Perak Darul Ridzuan

30 September 2016

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Statements of comprehensive income for the financial year ended 30 June 2016

| | | Group | | Company | |
|---|------|--------------------|---------------|------------------|------------|
| | Note | 2016 | 2015 | 2016 | 2015 |
| | | RM | RM | RM | RM |
| Revenue | 5 | 241,826,911 | 192,517,682 | 9,700,000 | 40,429,738 |
| Raw materials and consumables used | | (171,617,125) | (135,745,466) | 0 | 0 |
| Changes in inventories of work in progress and finished goods | | 9,046,072 | 175,485 | 0 | 0 |
| Employee benefit costs | | (20,628,048) | (19,506,206) | (202,708) | 0 |
| Contract workers | | (11,367,029) | (10,116,200) | 0 | 0 |
| Depreciation of property, plant and equipment | | (6,290,393) | (5,644,215) | 0 | 0 |
| Utilities | | (2,929,131) | (3,086,021) | 0 | 0 |
| Maintenance and upkeep | | (2,713,159) | (2,302,279) | 0 | 0 |
| Interest income | | 1,165,344 | 1,058,483 | 20,799 | 0 |
| Other operating income | | 3,225,127 | 7,015,487 | 19,274 | 0 |
| Other operating expenses | | (6,057,463) | (3,995,054) | (3,057,011) | (65,577) |
| Profit from operations | 6 | 33,661,106 | 20,371,696 | 6,480,354 | 40,364,161 |
| Finance cost | 7 | (762,262) | (87,963) | 0 | 0 |
| Profit before taxation | | 32,898,844 | 20,283,733 | 6,480,354 | 40,364,161 |
| Taxation | 8 | (8,574,029) | 7,128,101 | (4,992) | 0 |
| Net profit for the financial year | | 24,324,815 | 27,411,834 | 6,475,362 | 40,364,161 |
| Other comprehensive income | | | | | |
| Item that may be subsequently reclassified to profit or loss: | | | | | |
| - change in fair value of available-for-sale financial asset | | 0 | 16,000 | 0 | 0 |
| Total comprehensive income for the financial year, attributable to the owners of the Company | | 24,324,815 | 27,427,834 | 6,475,362 | 40,364,161 |
| Earnings per share (RM) | | | | | |
| Basic/diluted | 9 | 0.08 | 0.09 | | |

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

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Statements of financial position as at 30 June 2016

| | Note | Group | | Company | |
|---|------|---------------------------|--------------------|--------------------------|-------------------|
| | | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| ASSETS | | | | | |
| Non current assets | | | | | |
| Property, plant and equipment | 10 | 40,095,745 | 38,944,241 | 0 | 0 |
| Intangible asset | 11 | 2,191,399 | 0 | 0 | 0 |
| Investment in a subsidiary | 12 | 0 | 0 | 50,000,005 | 5 |
| Available-for-sale financial asset | 13 | 118,900 | 55,000 | 0 | 0 |
| Deferred tax assets | 14 | 171,953 | 8,484,291 | 0 | 0 |
| | | <u>42,577,997</u> | <u>47,483,532</u> | <u>50,000,005</u> | <u>5</u> |
| Current assets | | | | | |
| Inventories | 15 | 34,288,613 | 15,593,481 | 0 | 0 |
| Receivables, deposits and prepayments | 16 | 28,402,136 | 18,616,493 | 3,681 | 234,684 |
| Amount due from a subsidiary | 17 | 0 | 0 | 33,809,738 | 30,809,738 |
| Derivative financial instruments | 18 | 113,445 | 0 | 0 | 0 |
| Tax recoverable | | 20,869 | 0 | 208 | 0 |
| Short term investments | 19 | 57,732,947 | 0 | 7,916,229 | 0 |
| Deposits, cash and bank balances | 20 | 40,163,086 | 41,217,644 | 550,936 | 297,067 |
| | | <u>160,721,096</u> | <u>75,427,618</u> | <u>42,280,792</u> | <u>31,341,489</u> |
| Total Assets | | <u>203,299,093</u> | <u>122,911,150</u> | <u>92,280,797</u> | <u>31,341,494</u> |
| EQUITY | | | | | |
| Equity attributable to owners of the Company | | | | | |
| Share capital | 21 | 38,800,000 | 31,000,000 | 38,800,000 | 31,000,000 |
| Share premium | 22 | 53,002,368 | 0 | 53,002,368 | 0 |
| Fair value reserve | 23 | 16,000 | 16,000 | 0 | 0 |
| Retained profits | 24 | 63,162,762 | 45,165,947 | 180,590 | 33,228 |
| | | <u>154,981,130</u> | <u>76,181,947</u> | <u>91,982,958</u> | <u>31,033,228</u> |
| LIABILITIES | | | | | |
| Non current liabilities | | | | | |
| Finance lease liability | 25 | 0 | 9,365,706 | 0 | 0 |
| Hire-purchase creditors | 26 | 1,309,525 | 0 | 0 | 0 |
| Term loans | 27 | 2,072,507 | 0 | 0 | 0 |
| | | <u>3,382,032</u> | <u>9,365,706</u> | <u>0</u> | <u>0</u> |
| Current liabilities | | | | | |
| Payable and accruals | 28 | 40,415,926 | 30,675,554 | 297,839 | 308,266 |
| Derivative financial instruments | 18 | 45,831 | 147,352 | 0 | 0 |
| Finance lease liability | 25 | 0 | 6,483,155 | 0 | 0 |
| Hire-purchase creditors | 26 | 947,315 | 0 | 0 | 0 |
| Term loans | 27 | 3,442,412 | 0 | 0 | 0 |
| Provision for warranties | 29 | 84,447 | 54,796 | 0 | 0 |
| Tax payable | | 0 | 2,640 | 0 | 0 |
| | | <u>44,935,931</u> | <u>37,363,497</u> | <u>297,839</u> | <u>308,266</u> |
| Total liabilities | | <u>48,317,963</u> | <u>46,729,203</u> | <u>297,839</u> | <u>308,266</u> |
| Total equity and liabilities | | <u>203,299,093</u> | <u>122,911,150</u> | <u>92,280,797</u> | <u>31,341,494</u> |

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

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Consolidated statement of changes in equity for the financial year ended 30 June 2016

| Group | Issued and fully paid share capital RM | Share premium RM | Fair value reserve RM | Retained profits RM | Total RM |
|--|---|---------------------------------|--------------------------------------|------------------------------------|---------------------|
| At 1 July 2014 | 200 | 0 | 0 | 58,275,113 | 58,275,313 |
| <u>Total comprehensive income</u> | | | | | |
| Net profit for the financial year | 0 | 0 | 0 | 27,411,834 | 27,411,834 |
| Other comprehensive income for the financial year - fair value gain of available-for-sale financial asset | 0 | 0 | 16,000 | 0 | 16,000 |
| Total comprehensive income for the financial year | 0 | 0 | 16,000 | 27,411,834 | 27,427,834 |
| <u>Total transactions with owners, recognised directly in equity</u> | | | | | |
| Issue of share capital (Note 21) | 7,000 | 0 | 0 | 0 | 7,000 |
| Bonus issue (Note 21) | 30,992,800 | 0 | 0 | (30,992,800) | 0 |
| Dividends (Note 30) | 0 | 0 | 0 | (9,528,200) | (9,528,200) |
| | 30,999,800 | 0 | 0 | (40,521,000) | (9,521,200) |
| At 30 June 2015 | 31,000,000 | 0 | 16,000 | 45,165,947 | 76,181,947 |
| At 1 July 2015 | 31,000,000 | 0 | 16,000 | 45,165,947 | 76,181,947 |
| Net profit/Total comprehensive income for the financial year | 0 | 0 | 0 | 24,324,815 | 24,324,815 |
| <u>Total transactions with owners, recognised directly in equity</u> | | | | | |
| Issue of share capital (Note 21 and 22) | 7,800,000 | 54,600,000 | 0 | 0 | 62,400,000 |
| Transaction costs arising from issue of share capital (Note 22) | 0 | (1,597,632) | 0 | 0 | (1,597,632) |
| Dividends (Note 30) | 0 | 0 | 0 | (6,328,000) | (6,328,000) |
| | 7,800,000 | 53,002,368 | 0 | (6,328,000) | 54,474,368 |
| At 30 June 2016 | 38,800,000 | 53,002,368 | 16,000 | 63,162,762 | 154,981,130 |

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

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Company statement of changes in equity for the financial year ended 30 June 2016

| | Issued and fully paid share capital RM | Share premium RM | Retained profits RM | Total RM |
|---|---|------------------------|---------------------------|-------------------|
| Company | | | | |
| At 1 July 2014 | 200 | 0 | 190,067 | 190,267 |
| Net profit/Total comprehensive income for the financial year | 0 | 0 | 40,364,161 | 40,364,161 |
| Total transactions with owners, recognised <u>directly in equity</u> | | | | |
| Issue of share capital (Note 21) | 7,000 | 0 | 0 | 7,000 |
| Bonus issue (Note 21) | 30,992,800 | 0 | (30,992,800) | 0 |
| Dividends (Note 30) | 0 | 0 | (9,528,200) | (9,528,200) |
| | 30,999,800 | 0 | (40,521,000) | (9,521,200) |
| At 30 June 2015 | 31,000,000 | 0 | 33,228 | 31,033,228 |
| At 1 July 2015 | 31,000,000 | 0 | 33,228 | 31,033,228 |
| Net profit/Total comprehensive income for the financial year | 0 | 0 | 6,475,362 | 6,475,362 |
| Total transactions with owners, recognised <u>directly in equity</u> | | | | |
| Issue of share capital (Note 21 and 22) | 7,800,000 | 54,600,000 | 0 | 62,400,000 |
| Transaction costs arising from issue of share capital (Note 22) | 0 | (1,597,632) | 0 | (1,597,632) |
| Dividends (Note 30) | 0 | 0 | (6,328,000) | (6,328,000) |
| | 7,800,000 | 53,002,368 | (6,328,000) | 54,474,368 |
| At 30 June 2016 | 38,800,000 | 53,002,368 | 180,590 | 91,982,958 |

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

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Statements of cash flows for the financial year ended 30 June 2016

| | Group | | Company | |
|--|---------------------|--------------|---------------------|--------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Operating activities | | | | |
| Net profit for the financial year | 24,324,815 | 27,411,834 | 6,475,362 | 40,364,161 |
| Adjustments for: | | | | |
| Property, plant and equipment | | | | |
| - depreciation | 6,290,393 | 5,644,215 | 0 | 0 |
| - gains on disposal | (29,109) | (111,868) | 0 | 0 |
| - write off | 17,346 | 125 | 0 | 0 |
| Capitalisation of development cost | (2,191,399) | 0 | 0 | 0 |
| Short term investments | | | | |
| - gain on disposal | (12,001) | 0 | (3,045) | 0 |
| - fair value gain | (182,947) | 0 | (16,229) | 0 |
| Gain from early settlement of finance lease liability | (1,148,861) | 0 | 0 | 0 |
| Interest expense | 762,262 | 87,963 | 0 | 0 |
| Interest income | (1,165,344) | (1,058,483) | (20,799) | 0 |
| Dividend income | 0 | 0 | (9,700,000) | (40,429,738) |
| (Reversal)/Allowance for slow moving inventories | (69,115) | 615,808 | 0 | 0 |
| Provision for warranties | 47,789 | 54,762 | 0 | 0 |
| Unrealised losses/(gains) on foreign currency exchange | 91,906 | (43,368) | 0 | 0 |
| Fair value (gains)/losses on derivative financial instruments | (214,966) | 172,947 | 0 | 0 |
| Taxation | 8,574,029 | (7,128,101) | 4,992 | 0 |
| | 35,094,798 | 25,645,834 | (3,259,719) | (65,577) |
| Changes in working capital: | | | | |
| Inventories | (18,626,017) | 2,180,176 | 0 | 0 |
| Receivables | (9,461,813) | 11,008,697 | 231,003 | (234,684) |
| Payables | 9,915,408 | (12,567,717) | (10,427) | 262,665 |
| | 16,922,376 | 26,266,990 | (3,039,143) | (37,596) |
| Tax paid | (285,200) | (280,000) | (5,200) | 0 |
| Tax refunded | 0 | 11,308 | 0 | 0 |
| Net operating cash flows | 16,637,176 | 25,998,298 | (3,044,343) | (37,596) |
| Investing activities | | | | |
| Purchase of property, plant and equipment | (4,280,160) | (2,912,409) | 0 | 0 |
| Proceeds from disposal of property, plant and equipment | 355,340 | 111,936 | 0 | 0 |
| Interest income received | 1,165,344 | 1,058,483 | 20,799 | 0 |
| Uplift/(Placements) of deposit with a licensed bank (with maturity period of more than three months) | 8,800,000 | (3,800,000) | 0 | 0 |
| Dividend income received | 0 | 0 | 6,700,000 | 9,620,000 |
| Purchase of additional shares issued by a subsidiary | 0 | 0 | (50,000,000) | 0 |
| Purchase of short term investments | (72,450,000) | 0 | (10,300,000) | 0 |
| Proceeds from sales of short term investments | 14,912,001 | 0 | 2,403,045 | 0 |
| Purchase of golf club membership | (63,900) | 0 | 0 | 0 |
| Net investing cash flows | (51,561,375) | (5,541,990) | (51,176,156) | 9,620,000 |

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Statements of cash flows for the financial year ended 30 June 2016 (continued)

| | Group | | Company | |
|---|-------------------|-------------------|----------------|----------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Financing activities | | | | |
| Proceed from issuance of shares | 62,400,000 | 7,000 | 62,400,000 | 7,000 |
| Share issue expenses | (1,597,632) | 0 | (1,597,632) | 0 |
| Dividends paid (Note 30) | (6,328,000) | (9,528,200) | (6,328,000) | (9,528,200) |
| Repayment of finance lease liability | 0 | (5,635,787) | 0 | 0 |
| Repayment of hire-purchase creditor | (641,892) | 0 | 0 | 0 |
| Repayment of term loans | (10,385,330) | 0 | 0 | 0 |
| Uplift of deposits placed with bank as security | 1,500,000 | 0 | 0 | 0 |
| Interest paid | (762,262) | (87,963) | 0 | 0 |
| Net financing cash flows | 44,184,884 | (15,244,950) | 54,474,368 | (9,521,200) |
| Net change in cash and cash equivalents | 9,260,685 | 5,211,358 | 253,869 | 61,204 |
| Effects of exchange rate changes on cash and cash equivalents | (15,243) | 0 | 0 | 0 |
| Cash and cash equivalents at beginning of the financial year | 25,917,644 | 20,706,286 | 297,067 | 235,863 |
| Cash and cash equivalents at end of the financial year (Note 20) | 35,163,086 | 25,917,644 | 550,936 | 297,067 |

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

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016

1 General information

The principal activity of the Company is that of investment holding. The principal activities of the subsidiary are shown in Note 12 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on Bursa Malaysia on 18 May 2016.

The addresses of the registered office and principal place of business of the Group and the Company are as follows:

| <u>Registered office</u> | <u>Principal place of business</u> |
|--|--|
| 41 Jalan Medan Ipoh 6 Bandar Baru Medan Ipoh 31400 Ipoh Perak Darul Ridzuan | 3 Jalan Zarib 6 Kawasan Perindustrian Zarib 31500 Lahat, Ipoh Perak Darul Ridzuan |

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 30 September 2016.

2 Basis of preparation

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

The financial statements of the Group and of the Company have been prepared under the historical cost convention unless stated otherwise in the individual policy statement set out in Note 3 to the financial statements and are presented in Ringgit Malaysia.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period. It also requires directors to exercise their judgement in the process of applying the Group’s and the Company’s accounting policies. Although these estimates and judgements are based on the directors’ best knowledge of current events and actions, actual results may differ. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 to the financial statements.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

2 Basis of preparation (continued)

(a) New standards, amendments to published standards and Issue Committee (“IC”) interpretations to existing standards that are applicable to the Group and the Company and are effective

There are no new standards, amendments to published standards and IC interpretation to existing standards that are applicable to the Group and the Company and effective for the first time for the financial year beginning on 1 July 2015.

(b) New standards early adopted by the Group and the Company

There are no standards early adopted by the Group and the Company.

(c) New standards, amendments to published standards and IC interpretations to existing standards that are applicable to the Group and the Company but not yet effective

The Group and the Company will apply the new standards, amendments to published standards and IC interpretations in the following financial period:

- (i) Effective for the financial year beginning on/after 1 July 2016
- Amendments to MFRS 116 and MFRS 138 “Clarification of Acceptable Methods of Depreciation and Amortisation” (effective from 1 January 2016)
 - Amendments to MFRS 127 “Separate Financial Statements - Equity Accounting in Separate Financial Statements” (effective from 1 January 2016)
 - Amendments to MFRS 101 “Presentation of Financial Statements - Disclosure Initiative” (effective from 1 January 2016)
 - Amendments to MFRS 10, 12 & 128 “Investment entities - Applying the Consolidation Exception” (effective from 1 January 2016)
 - Annual Improvements to MFRSs 2012 - 2014 Cycle (Amendments to MFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, MFRS 7 “Financial Instruments: Disclosures” and MFRS 134 “Interim Financial Reporting”) (effective from 1 January 2016)
- (ii) Effective for the financial year beginning on/after 1 July 2017
- Amendments to MFRS 107 “Statement of Cash Flows” - Disclosure Initiative (effective from 1 January 2017)
 - Amendments to MFRS 112 “Income Taxes” - Recognition of Deferred Tax Assets for Unrealised Losses (effective from 1 January 2017)

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

2 Basis of preparation (continued)

(c) New standards, amendments to published standards and IC interpretations to existing standards that are applicable to the Group and the Company but not yet effective (continued)

- (iii) Effective for the financial year beginning on/after 1 July 2018
 - MFRS 9 “Financial Instruments”
 - MFRS 15 “Revenue from Contracts with Customers”
- (iv) Effective for the financial year beginning on/after 1 July 2019
 - MFRS 16 “Leases”

None of the standards listed above are expected to have a significant effect on the financial statements of the Group and of the Company upon initial application, except for the following:

- Amendments to MFRS 107 ‘Statement of Cash Flows – Disclosure Initiative’ (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.
- Amendments to MFRS 112 ‘Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses’ (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments shall be applied retrospectively.

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

2 Basis of preparation (continued)

(c) New standards, amendments to published standards and IC interpretations to existing standards that are applicable to the Group and the Company but not yet effective (continued)

- MFRS 9 “Financial Instruments” (effective 1 January 2018) will replace MFRS 139 “Financial Instruments: Recognition and Measurement”.

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income (“OCI”). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with a irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in OCI rather than the profit or loss, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit losses model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

2 Basis of preparation (continued)

(c) New standards, amendments to published standards and IC interpretations to existing standards that are applicable to the Group and the Company but not yet effective (continued)

- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

- MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The Group and the Company are currently still in process of assessing the impact of the new standards upon initial application of these standards.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. Unless otherwise stated, the following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

(a) Consolidation

(i) Subsidiary

Subsidiary is an entity over which the Group has control. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. Subsidiary is fully consolidated from the date on which control is transferred to the Group. It is deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combination.

The consideration transferred for acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Accounting policies of subsidiary have been changed where necessary, to ensure consistency with the policies adopted by the Group.

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(a) Consolidation (continued)

(ii) Changes in ownership interests in subsidiary without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in equity attributable to owners of the Group.

(iii) Disposal of subsidiary

When the Group ceases to consolidate because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Gains or losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the subsidiaries sold.

(b) Investment in subsidiary

In the Company's separate financial statements, investment in subsidiary is carried at cost less accumulated impairment losses. On disposal of investment in subsidiary, the differences between disposal proceeds and the carrying amounts of the investment is recognised in profit or loss.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(c) Property, plant and equipment

Property, plant and equipment are initially stated at cost, net of the amount of goods and services tax (“GST”), except where the amount of GST incurred is not recoverable from the government. When the amount of GST incurred is not recoverable from the government, the GST is recognised as part of the cost of acquisition of the property, plant and equipment. Property, plant and equipment are subsequently stated at historical cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also includes borrowing costs (if applicable) that are directly attributable to the acquisition, construction or production of a qualifying asset (refer to Note 3(q) to the financial statements for the accounting policy on borrowings and borrowing costs).

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

Leasehold land is amortised in equal instalments over the lease periods of 78 years which expires in the year 2092.

Other property, plant and equipment are depreciated on a straight line basis to allocate the costs of the assets, to their residual values over their expected useful lives. The annual depreciation rates are as follows:

| | % |
|--|---------|
| Buildings on long term leasehold land | 2 - 5 |
| Factory extension | 23 |
| Plant and machinery, moulds and motor vehicles | 10 - 20 |
| Furniture, fittings, equipment and electrical installation | 10 - 50 |

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at the end of the reporting period.

Assets under construction are carried as capital work in progress and depreciation only commences when the assets are ready for their intended use.

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds with carrying amounts and are included in profit or loss.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(c) Property, plant and equipment (continued)

At the end of the reporting period, the Group assesses whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See Note 3(e) to the financial statements on accounting policy for impairment of non-financial assets.

(d) Research and development

Research expenditure incurred for the Group's own products, is recognised as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Directly attributable costs capitalised as part of the intangible asset include employee costs involved in development and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent period.

Capitalised development costs recognised as intangible assets are amortised from the point at which the asset is ready for use on a straight line basis over its useful life of two years.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(e) Impairment of non-financial assets

Non current and non-financial assets that have an indefinite useful life, for example goodwill or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. Property, plant and equipment and other non current and non-financial assets that are subject to amortisation are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non current and non-financial assets subject to amortisation, other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

The impairment loss is charged to profit or loss. Impairment losses on goodwill are not reversed. In respect of other non current and non-financial assets that are subject to amortisation, any subsequent increase in recoverable amount is recognised in profit or loss. The reversal is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised.

(f) Non current assets held for sale

Non current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and sales is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(g) Accounting by lessee

(i) Finance leases

Leases of property, plant and equipment where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(g) Accounting by lessee (continued)

(i) Finance leases (continued)

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in the statements of financial position as current and non current liabilities. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant rate of interest on the remaining balance of the liability for each financial period. The property, plant and equipment acquired under finance leases are depreciated over the expected useful life of the asset if there is reasonable certainty that the lessee will obtain ownership by the end of the lease term. Otherwise, the leased assets are depreciated over the shorter of their expected useful lives and the lease period, if there is no reasonable certainty that the Group will obtain ownership at the end of the lease period.

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

(ii) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on the straight line basis over the lease period.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are capitalised as prepayments and recognised in profit or loss on a straight line basis over the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial period in which termination takes place.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(h) Financial instruments

Financial instruments recognised on the statements of financial position

The particular recognition method adopted for financial instruments recognised on the statements of financial position is disclosed in the individual accounting policy statements associated with each item.

(i) Financial assets

(i) Classification

The Group and the Company classify its financial assets where applicable, in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non current assets.

In addition, certain financial assets are designated at initial recognition at fair value through profit or loss when one of the designation criteria is met:

- Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- Its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The item is a hybrid contract that contains one or more embedded derivatives.

The Group's financial asset at fair value through profit or loss comprises "short term investment" in the statements of financial position.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(i) Financial assets (continued)

(i) Classification (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non current assets. The Group's and the Company's loans and receivables comprise "receivables and deposits" (excluding prepayments), "amount due from a subsidiary" (company level only) and "cash and bank balances" in the statements of financial position.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non current assets unless the investment matures or management intends to dispose of it within 12 months from the end of the reporting period.

(ii) Recognition and initial measurement

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

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets for all financial assets not carried at fair value through profit or loss (e.g. loans and receivables). Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(i) Financial assets (continued)

(iii) Subsequent measurement - gains and losses

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Loans and receivables financial assets are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of foreign currency translation, interest and dividend income are recognised in profit or loss in the financial period in which the changes arise.

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, except for impairment losses (see Note 3(i)(iv) to the financial statements) and foreign currency exchange gains and losses on monetary assets. The foreign currency exchange differences on monetary assets are recognised in profit or loss.

Interest and dividend income on available-for-sale financial assets are recognised in profit or loss, except for impairment losses (see Note 3(i)(iv) to the financial statements). Interest on available-for-sale debt securities calculated using the effective interest method is recognised in profit or loss. Dividends income on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

(iv) Subsequent measurement - impairment of financial assets

Assets carried at amortised cost

The Group and the Company assess at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(i) Financial assets (continued)

(iv) Subsequent measurement - impairment of financial assets (continued)

Assets carried at amortised cost (continued)

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default on delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If 'loans and receivables' has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's financial position), the reversal of the previously recognised impairment loss is recognised in profit or loss.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(i) Financial assets (continued)

(v) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group and the Company have transferred substantially all risks and rewards of ownership.

When available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

(j) Financial liabilities

(i) Classification

The Group and the Company classify the financial liabilities where applicable, in the following categories: at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition, and (ii) those classified as held-for-trading; and financial liabilities measured at amortised cost as other financial liabilities. Management determines the classification of its financial liabilities at initial recognition.

Financial liabilities at fair value through profit or loss

The Group and the Company have not designated any financial liabilities as financial liabilities at fair value through profit or loss. Financial liabilities held-for-trading are derivatives entered into by the Group that do not meet the hedge accounting criteria. Liabilities in this category are classified within current liabilities if they are either held-for-trading or are expected to be settled within 12 months after the reporting date. Otherwise, they are classified as non current liabilities.

Other financial liabilities

Other financial liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. Other financial liabilities are recognised as current liabilities unless the Group or the Company have an unconditional right to defer repayment of the liabilities for at least 12 months after the reporting date. Other financial liabilities of the Group and of the Company comprise “payables and accruals”, “term loans”, “hire-purchase creditors” and “finance lease liability” in the statements of financial position.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(j) Financial liabilities (continued)

(ii) Recognition and initial measurement

Financial liabilities within the scope of MFRS 139 are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

Financial liabilities are initially recognised at fair value, plus, in the case of financial liabilities other than derivatives, directly attributable transactions costs.

(iii) Subsequent measurement

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are subsequently carried at fair value. Changes in the fair value of financial liabilities at fair value through profit or loss, including the effect of foreign currency translation are recognised in profit or loss in the financial period in which the changes arise.

Other financial liabilities

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the other financial liabilities are derecognised, and through the amortisation process.

Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expired.

(k) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(l) Inventories

Inventories comprising raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value after adequate allowance has been made for all deteriorated, damaged, obsolete or slow moving inventories. Cost is determined on the first in, first out basis. Cost of raw materials includes purchase price and any cost that is directly attributable to bringing the inventories to their present condition and location. Costs of purchased inventory are determined after deducting rebates, discounts and the amount of GST, except where the amount of GST incurred is not recoverable from the government. When the amount of GST incurred is not recoverable from the government, the GST is recognised as part of the cost of purchased inventory.

Cost of work in progress and finished goods includes cost of direct materials, direct labour, other direct costs and an appropriate proportion of production overheads (based on normal operating capacity). It excludes borrowing costs.

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

(m) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Other receivables generally arise from transactions outside the usual operating activities of the Group and of the Company. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non current assets.

Trade and other receivables are recognised initially at fair value, with the amount of GST included. The net amount of GST recoverable from the government is included in "other receivables" in the statements of financial position.

Cash flows are included in the statements of cash flows on a gross basis. The GST components of cash flows which are recoverable from, or payable to, the government are classified as operating cash flows.

Trade and other receivables are subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 3(i)(iv) to the financial statements on the accounting policy for subsequent measurement - impairment of financial assets.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(n) Cash and cash equivalents

For the purpose of the statements of cash flows, cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash on hand, deposits held at call with banks and short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts (if any).

(o) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non current liabilities.

Trade payables are recognised initially at fair value, with the amount of GST included. The net amount of GST payable to the government, wherever applicable, is presented as “other payables” in the statements of financial position. Cash flows are included in the statements of cash flows on a gross basis. The GST components of cash flows which are recoverable from, or payable to, the government are classified as operating cash flows.

Trade payables are subsequently measured at amortised cost using the effective interest method.

(p) Provision

Provision for warranty and claims are recognised when, the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the Group expects a provision to be reimbursed by another party (for example, under an insurance contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provision for warranties covers estimated liability to repair or replace products resulting from customers’ complaints and returns. Provision for warranties is recognised when the underlying products are sold. This provision is measured at a percentage rate of historical replacements and a review of possible outcomes against the associated probabilities of returns.

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(q) Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost; any difference between the initial recognised amount and the redemption amount is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group or the Company have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facilities will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facilities will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(r) Share capital

(i) Classifications

Ordinary shares are recorded at nominal value as share capital and proceeds received in excess of the nominal value of shares issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity.

(ii) Share issue costs

Incremental costs directly attributable to the issue of new shares are deducted against share premium account, if any, otherwise it is charged to profit or loss.

(iii) Dividend distribution

Liability is recognised for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group and the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

Distributions to holders of an equity instrument is recognised directly in equity.

(iv) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the period and excluding treasury shares, if any.

Diluted earnings per share

Diluted earnings per share adjusts the figures in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's and the Company's activities. Revenue is shown net of GST, returns, rebates and discounts and after eliminating sales within the Group.

The Group and the Company recognise revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's and the Company's activities as described below. The Group and the Company base their estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

- (i) Sales of goods are recognised upon delivery of goods to customers, when significant risks and rewards of ownership of the goods are transferred to the buyer.
- (ii) Service charges on contract works are recognised upon rendering of services.
- (iii) Revenue on fabrication of tools is recognised upon acceptance by customers.
- (iv) Rental income is recognised on accrual basis unless collection is in doubt.
- (v) Interest income is recognised using the effective interest method.
- (vi) Dividend income is recognised when the Group's or the Company's right to receive payment is established.
- (vii) Other income is recognised on an accrued basis unless collectability is uncertain.

(t) Employee benefits

(i) Short term employee benefits

Wages, salaries, social security contributions, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the financial period in which the associated services are rendered by employees of the Group and of the Company. The Group and the Company recognise a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the shareholders of the Company after certain adjustments. The Group and the Company recognise a provision when contractually obliged or where there is a past practice that has created a constructive obligation.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(t) Employee benefits (continued)

(ii) Post-employment benefits

The Group and the Company contribute to the Employees Provident Fund (EPF), the national defined contribution plan. The contributions are charged to the profit or loss in the financial period to which they relate. Once the contributions have been paid, the Group and the Company have no further payment obligations.

(u) Current and deferred taxes

The tax expense for the period comprises current and deferred tax. The income tax expense or credit for the financial period is the tax payable on the current financial period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the country where the Company and the subsidiary operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes (i.e. tax bases) and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and tax laws) enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(u) Current and deferred taxes (continued)

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences or unused tax losses or unused tax credits can be utilised.

Deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiary, except where the timing of the reversal of the temporary difference is controlled by the parent and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised on deductible temporary differences arising from investments in subsidiary only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the deductible temporary difference can be utilised.

Current and deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on the taxable entity where there is an intention to settle the balances on a net basis.

(v) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of the Group and of the Company are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in Ringgit Malaysia, which is the Company’s and the subsidiary’s functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into Ringgit Malaysia using the foreign currency exchange rates approximating those prevailing at the dates of transactions. Foreign currency exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the end of the reporting period using the foreign currency exchange rates approximating those prevailing at the reporting date, are recognised in profit or loss.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

3 Summary of significant accounting policies (continued)

(v) Foreign currencies (continued)

(ii) Transactions and balances (continued)

The principal closing rates used in the translation of major foreign currency assets and liabilities are as follows:

| | Group and Company | |
|---------------------------|-------------------|------|
| | 2016 | 2015 |
| | RM | RM |
| Foreign currencies | | |
| <u>Assets:</u> | | |
| 1 Euro | 4.46 | 4.22 |
| 1 US Dollar | 4.01 | 3.76 |
| <u>Liabilities:</u> | | |
| 1 Euro | 4.47 | 4.24 |
| 1 US Dollar | 4.02 | 3.78 |

(w) Government grants

Government grant comprises compensation receivable from the government for applicable past expenses relating to qualifying training, research related activities and modernisation of production processes incurred, which comply with conditions imposed on qualifying activities under the Domestic Investment Strategic Fund Grant obtained by the subsidiary for period from June 2013 to June 2016. The grant is recognised as income in profit or loss in the period the claim is approved by the relevant authorities and becomes receivable when there is no further unfulfilled condition that needs to be met subsequent to the approval by the relevant authorities.

(x) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Managing Director, who makes strategic decisions.

(y) Contingent liabilities

The Group and the Company do not recognise contingent liabilities but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and of the Company, or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

4 Significant accounting estimates and judgements

Estimates and judgements are continually evaluated by the directors based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may differ from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined follows:

(a) Current and deferred taxes

Income tax is estimated based on the rules governed under the Income Tax Act, 1967. Significant judgement is required in determining the capital allowances and deductibility of certain expenses during the estimation of the current and deferred taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax provisions in the period in which such determination is made.

Deferred tax assets are recognised for all unused tax losses and other deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Assumptions about generation of future taxable profits depend on management's estimate of future cash flows. These depend on estimates of future production and sales volume, operating costs, capital expenditure, dividends and the other capital management transactions. Judgement is also required about applicable income tax incentives. These judgements and assumptions are subject to risks and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised in the statements of financial position and the amount of unrecognised tax losses and unrecognised temporary differences.

(b) Inventory write down

Allowance for inventory write down for slow moving items is made based on an analysis of the ageing profile and taking into account the expected product life cycle and sales patterns of individual item held in inventory. Changes in the inventory ageing, the expected product life cycle and sales profiles can have an impact on the allowance recorded.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

5 Revenue

| | Group | | Company | |
|---|--------------------|--------------------|------------------|-------------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Dividend income | 0 | 0 | 9,700,000 | 40,429,738 |
| Sales of goods at invoiced value | | | | |
| less returns | 233,484,887 | 191,244,631 | 0 | 0 |
| Service charges on contract works | 392,214 | 1,273,051 | 0 | 0 |
| Services rendered in respect of product development | 7,949,810 | 0 | 0 | 0 |
| | <u>241,826,911</u> | <u>192,517,682</u> | <u>9,700,000</u> | <u>40,429,738</u> |

6 Profit from operations

| | Group | | Company | |
|---|-------------|-------------|------------|------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Profit from operations is stated after charging/(crediting): | | | | |
| Auditors' remuneration paid/payable: | | | | |
| - statutory audit | 128,000 | 90,000 | 48,000 | 17,000 |
| - other assurance services * | 895,000 | 0 | 804,000 | 0 |
| - other services | 113,555 | 81,700 | 13,100 | 10,000 |
| Employee benefit costs | 20,628,048 | 19,506,206 | 202,708 | 0 |
| Research expenses | 126,802 | 1,343,372 | 0 | 0 |
| (Reversal)/Allowance for slow moving inventories | (69,115) | 615,808 | 0 | 0 |
| Property, plant and equipment: | | | | |
| - depreciation | 6,290,393 | 5,644,215 | 0 | 0 |
| - write off | 17,346 | 125 | 0 | 0 |
| Provision for warranties (Note 29) | 47,789 | 54,762 | 0 | 0 |
| Rental expenses: | | | | |
| - hostel | 22,403 | 17,664 | 0 | 0 |
| - machinery | 44,879 | 4,919 | 0 | 0 |
| Interest income | (1,165,344) | (1,058,483) | (20,799) | 0 |
| Listing expenses (inclusive for fees paid to reporting accountants) | 2,890,311 | 0 | 2,890,311 | 0 |

* Included in other assurance services are fees relating to work performed as reporting accountants in connection with the initial public offering of the Company.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

6 Profit from operations (continued)

| | Group | | Company | |
|---|--------------------|-------------|-----------------|------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Included in other operating income are: | | | | |
| - Government grants income | (928,440) | (3,900,236) | 0 | 0 |
| - Net foreign currency exchange losses/(gains): | | | | |
| - realised | 1,067,828 | (1,776,892) | 0 | 0 |
| - unrealised | 91,906 | (43,368) | 0 | 0 |
| - Rental income of premise | (74,150) | (61,379) | 0 | 0 |
| - Fair value (gains)/losses on derivative financial instruments | (214,966) | 172,947 | 0 | 0 |
| - Gains on disposal of property, plant and equipment | (29,109) | (111,868) | 0 | 0 |
| - Gains from early settlement of finance lease liability (Note 25) | (1,148,861) | 0 | 0 | 0 |
| - Short term investments: | | | | |
| - gains on disposal | (12,001) | 0 | (3,045) | 0 |
| - fair value gain | (182,947) | 0 | (16,229) | 0 |
| Employee benefit costs (including directors' remuneration) | | | | |
| Directors of the Company: | | | | |
| - fee | 292,708 | 0 | 202,708 | 0 |
| - allowances | 84,000 | 84,000 | 0 | 0 |
| - salaries and bonus | 1,169,038 | 1,033,371 | 0 | 0 |
| - defined contribution plan | 237,319 | 212,306 | 0 | 0 |
| | 1,783,065 | 1,329,677 | 202,708 | 0 |
| Directors of the subsidiary: | | | | |
| - allowances | 1,750 | 36,000 | 0 | 0 |
| - salaries and bonus | 577,074 | 487,042 | 0 | 0 |
| - defined contribution plan | 108,461 | 99,378 | 0 | 0 |
| | 687,285 | 622,420 | 0 | 0 |
| Other staff costs: | | | | |
| - salaries, wages and bonus | 14,597,879 | 14,491,986 | 0 | 0 |
| - defined contribution plan | 1,820,564 | 1,797,123 | 0 | 0 |
| - other short term employee benefits | 1,739,255 | 1,265,000 | 0 | 0 |
| Total other staff costs | 18,157,698 | 17,554,109 | 0 | 0 |
| Total employee benefit expense | 20,628,048 | 19,506,206 | 202,708 | 0 |
| Monetary value of benefits in-kind other than cash given to directors | 73,107 | 39,093 | 0 | 0 |

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

7 Finance cost

| | Group | |
|-------------------------|----------------|---------------|
| | 2016 RM | 2015 RM |
| Interest on: | | |
| Term loans | 609,835 | 0 |
| Hire-purchase | 129,548 | 0 |
| Finance lease liability | 22,879 | 87,963 |
| | <u>762,262</u> | <u>87,963</u> |

8 Taxation

| | Group | | Company | |
|---|------------------|--------------------|--------------|------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Current financial year: | | | | |
| Income tax charge | 279,710 | 282,640 | 4,992 | 0 |
| Deferred tax assets (Note 14) | | | | |
| - origination and reversal of temporary differences | <u>8,312,338</u> | <u>(7,410,751)</u> | <u>0</u> | <u>0</u> |
| | <u>8,592,048</u> | <u>(7,128,111)</u> | <u>4,992</u> | <u>0</u> |
| Previous financial years: | | | | |
| (Over)/Under accrual of income tax | <u>(18,019)</u> | <u>10</u> | <u>0</u> | <u>0</u> |
| Tax expense/(credit) | <u>8,574,029</u> | <u>(7,128,101)</u> | <u>4,992</u> | <u>0</u> |

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

8 Taxation (continued)

The explanation of the relationship between taxation and profit before taxation is as follows:

| | Group | | Company | |
|--|-------------------|--------------------|------------------|-------------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Profit before taxation | <u>32,898,844</u> | <u>20,283,733</u> | <u>6,480,354</u> | <u>40,364,161</u> |
| Tax calculated at the Malaysian income tax rate of 24% (2015: 25%) | 7,895,723 | 5,070,933 | 1,555,285 | 10,091,040 |
| Tax effects of: | | | | |
| - expenses not deductible for tax purposes | 1,491,159 | 646,618 | 782,333 | 16,394 |
| - income not subject to tax | (545,313) | 0 | (2,332,626) | (10,107,434) |
| - previously unrecognised deductible temporary differences now recognised | 0 | (10,502,279) | 0 | 0 |
| - utilisation of deductible temporary differences previously not recognised | 0 | (2,343,383) | 0 | 0 |
| - (over)/under accrual of income tax in respect of previous financial years | (18,019) | 10 | 0 | 0 |
| - under provision of deferred tax assets in respect of previous financial year | <u>(249,521)</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Tax expenses/(credit) | <u>8,574,029</u> | <u>(7,128,101)</u> | <u>4,992</u> | <u>0</u> |

As at 30 June 2016, the subsidiary has unused tax losses amounting to approximately RM8,684,000 (2015: RM42,508,000) which can be carried forward and utilised to set off against its future taxable profits.

9 Earnings per share

Basic/diluted earnings per share of the Group is calculated by dividing the net profit for the financial year by the weighted average number of ordinary shares in issue during the financial year.

| | Group | |
|---|-------------|-------------|
| | 2016 | 2015 |
| Net profit for the financial year attributable to owners of the Company (RM) | 24,324,815 | 27,411,834 |
| Weighted average number of ordinary shares in issue during the financial year | 319,830,137 | 309,930,384 |
| Basic/diluted earnings per share (RM) | <u>0.08</u> | <u>0.09</u> |

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

10 Property, plant and equipment

| Group | Long term leasehold land RM | Building on long term leasehold land RM | Factory extension RM | Plant and machinery, moulds and motor vehicles RM | Furniture, fittings, equipment and electrical installation RM | Total RM |
|--|--|--|-------------------------------------|--|--|---------------------|
| Cost | | | | | | |
| At 1 July 2015 | 4,905,000 | 21,559,238 | 550,762 | 13,513,192 | 4,293,867 | 44,822,059 |
| Additions | 775,569 | 0 | 0 | 5,618,932 | 1,390,973 | 7,785,474 |
| Disposals | 0 | 0 | 0 | (335,925) | (3,786) | (339,711) |
| Write off | 0 | 0 | 0 | (121) | (17,225) | (17,346) |
| At 30 June 2016 | 5,680,569 | 21,559,238 | 550,762 | 18,796,078 | 5,663,829 | 52,250,476 |
| Accumulated depreciation | | | | | | |
| At 1 July 2015 | 113,753 | 1,854,624 | 228,272 | 1,091,339 | 1,159,746 | 4,447,734 |
| Charge for the financial year | 65,478 | 1,011,613 | 124,511 | 3,924,423 | 1,164,368 | 6,290,393 |
| Disposals | 0 | 0 | 0 | (11,189) | (2,291) | (13,480) |
| At 30 June 2016 | 179,231 | 2,866,237 | 352,783 | 5,004,573 | 2,321,823 | 10,724,647 |
| Accumulated impairment loss | | | | | | |
| At 1 July 2015/ 30 June 2016 | 0 | 0 | 0 | 832,224 | 597,860 | 1,430,084 |
| Carrying amount | | | | | | |
| At 30 June 2016 | 5,501,338 | 18,693,001 | 197,979 | 12,959,281 | 2,744,146 | 40,095,745 |

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

10 Property, plant and equipment (continued)

| Group | Long term leasehold land RM | Building on long term leasehold land RM | Factory extension RM | Plant and machinery, moulds and motor vehicles RM | Furniture, fittings, equipment and electrical installation RM | Total RM |
|------------------------------------|--------------------------------------|--|----------------------------|--|---|-------------|
| Cost | | | | | | |
| At 1 July 2014 | 4,905,000 | 21,559,238 | 550,762 | 16,972,788 | 3,965,211 | 47,952,999 |
| Additions | 0 | 0 | 0 | 2,032,299 | 880,110 | 2,912,409 |
| Disposals | 0 | 0 | 0 | (5,309,879) | (203,489) | (5,513,368) |
| Write off | 0 | 0 | 0 | (182,016) | (347,965) | (529,981) |
| At 30 June 2015 | 4,905,000 | 21,559,238 | 550,762 | 13,513,192 | 4,293,867 | 44,822,059 |
| Accumulated depreciation | | | | | | |
| At 1 July 2014 | 51,706 | 843,011 | 103,760 | 3,174,713 | 671,669 | 4,844,859 |
| Charge for the financial year | 62,047 | 1,011,613 | 124,512 | 3,408,493 | 1,037,550 | 5,644,215 |
| Disposals | 0 | 0 | 0 | (5,309,859) | (201,625) | (5,511,484) |
| Write off | 0 | 0 | 0 | (182,008) | (347,848) | (529,856) |
| At 30 June 2015 | 113,753 | 1,854,624 | 228,272 | 1,091,339 | 1,159,746 | 4,447,734 |
| Accumulated impairment loss | | | | | | |
| At 1 July 2014 | 0 | 0 | 0 | 832,224 | 599,676 | 1,431,900 |
| Disposal | 0 | 0 | 0 | 0 | (1,816) | (1,816) |
| At 30 June 2015 | 0 | 0 | 0 | 832,224 | 597,860 | 1,430,084 |
| Carrying amount | | | | | | |
| At 30 June 2015 | 4,791,247 | 19,704,614 | 322,490 | 11,589,629 | 2,536,261 | 38,944,241 |

The carrying amount of land and buildings as at 30 June 2016 pledged as securities for the borrowings of the Group as disclosed in Note 27 to the financial statements in RM24,392,318 (2015: N/A).

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

10 Property, plant and equipment (continued)

Assets under finance lease and hire-purchase

Included in property, plant and equipment of the Group are assets acquired under finance lease and hire-purchase arrangement as follows:

| | Group | |
|---|------------------|------------|
| | 2016 | 2015 |
| | RM | RM |
| <u>Finance lease</u> | | |
| Land and building | | |
| - carrying amount at financial year end | 0 | 24,818,351 |
| <u>Hire-purchase</u> | | |
| Plant and machinery | | |
| - additions during the financial year | 3,684,054 | 0 |
| - carrying amount at financial year end | 3,372,759 | 0 |

On 19 June 2015, the subsidiary signed a Sale and Purchase Agreement with the lessor to exercise its purchase option to acquire the land and buildings under finance lease arrangement earlier than the agreed option exercise date due on 28 February 2017 at a revised purchase consideration of RM26,052,250. The transaction was completed on 12 October 2015. Stamp duty relating to the acquisition of the land and buildings amounting to RM775,569 had been capitalised as property, plant and equipment accordingly. Other transaction costs totalling RM105,110 are taken to profit or loss as expenses during the current financial year.

11 Intangible asset

| | Group | |
|-------------------|------------------|------|
| | 2016 | 2015 |
| | RM | RM |
| Development costs | | |
| At 1 July | 0 | 0 |
| Additions | 2,191,399 | 0 |
| At 30 June | 2,191,399 | 0 |

Intangible asset of the Group comprises development costs incurred on in-house developed products that meet the capitalisation criteria. All expenditure relating to research activities of RM126,802 (2015: RM1,343,372) are recognised as an expense in the profit or loss as incurred.

No amortisation was charged to profit or loss during the financial year as the intangible asset is not ready for use.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

12 Investment in a subsidiary

| | Company | |
|-------------------------------------|-------------------|------------|
| | 2016 RM | 2015 RM |
| Investment in a subsidiary, at cost | <u>50,000,005</u> | <u>5</u> |

On 27 May 2016, the Company injected RM50,000,000 cash and acquired additional 50,000,000 shares of RM1 each in Salutica Allied Solutions Sdn. Bhd.

Detail of the subsidiary which is incorporated in Malaysia, is as follows:

| Name of Company | Effective interest held by the Company | | Principal activities |
|-------------------------------------|--|-----------|---|
| | 2016 % | 2015 % | |
| Salutica Allied Solutions Sdn. Bhd. | 100 | 100 | Comprises vertical integration processes covering product design and development, and manufacturing of mobile communication products, wireless electronics and lifestyle devices. |

13 Available-for-sale financial asset

| | Group | |
|------------------------------------|----------------|---------------|
| | 2016 RM | 2015 RM |
| Available-for-sale financial asset | <u>118,900</u> | <u>55,000</u> |

The available-for-sale financial asset of the Group comprises a transferable golf club membership stated at fair value that is held for long term purposes as the Group has no intention to dispose it.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

14 Deferred tax assets

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxation relates to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statements of financial position:

| | Group | |
|---|----------------|------------------|
| | 2016 RM | 2015 RM |
| Deferred tax assets - subject to income tax | <u>171,953</u> | <u>8,484,291</u> |

The movements in deferred tax assets during the financial year comprise the following:

| Group | 2016 RM | 2015 RM |
|---|--------------------|--------------------|
| At 1 July | 8,484,291 | 1,073,540 |
| Credited/(Charged) to profit or loss (Note 8) | | |
| - property, plant and equipment | 108,053 | (3,027,661) |
| - provisions and allowances | (302,361) | 236,342 |
| - unused tax losses | (8,118,030) | 10,202,070 |
| | <u>(8,312,338)</u> | <u>7,410,751</u> |
| At 30 June | <u>171,953</u> | <u>8,484,291</u> |
| <u>Subject to income tax</u> | | |
| Deferred tax assets | | |
| - provisions and allowances | 93,876 | 396,237 |
| - unused tax losses | 2,084,040 | 10,202,070 |
| Deferred tax assets (before offsetting) | <u>2,177,916</u> | <u>10,598,307</u> |
| Offsetting | <u>(2,005,963)</u> | <u>(2,114,016)</u> |
| Deferred tax assets (after offsetting) | <u>171,953</u> | <u>8,484,291</u> |
| Deferred tax liabilities | | |
| - property, plant and equipment | (2,005,963) | (2,114,016) |
| Offsetting | <u>2,005,963</u> | <u>2,114,016</u> |
| Deferred tax liabilities (after offsetting) | <u>0</u> | <u>0</u> |
| Deferred tax assets | | |
| - to be realised within 12 months | 171,953 | 5,674,000 |
| - to be realised after 12 months | 0 | 2,810,291 |
| | <u>171,953</u> | <u>8,484,291</u> |

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

15 Inventories

| | Group | |
|------------------|-------------------|-------------------|
| | 2016 RM | 2015 RM |
| Raw materials | 17,627,486 | 7,978,426 |
| Work in progress | 7,078,815 | 4,099,010 |
| Finished goods | 9,582,312 | 3,516,045 |
| | <u>34,288,613</u> | <u>15,593,481</u> |

16 Receivables, deposits and prepayments

| | Group | | Company | |
|---|-------------------|-------------------|--------------|----------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Trade receivables | 24,429,280 | 16,051,173 | 0 | 0 |
| Other receivables | 833,910 | 1,268,969 | 0 | 0 |
| | <u>25,263,190</u> | <u>17,320,142</u> | <u>0</u> | <u>0</u> |
| Amounts recoverable from customers for product development | 0 | 9,323 | 0 | 0 |
| Deposits | 42,325 | 34,325 | 1,000 | 0 |
| Prepayments | 3,096,621 | 1,252,703 | 2,681 | 234,684 |
| | <u>28,402,136</u> | <u>18,616,493</u> | <u>3,681</u> | <u>234,684</u> |

Credit terms of trade receivables of the Group range from 10 to 75 days (2015: 15 to 90 days).

Included in other receivables of the Group are input tax receivable of RM456,547 (2015: RM488,793) in respect of GST paid for the purchases and sales of goods and services.

Included in prepayments of the Group are downpayments of RM1,273,156 (2015: RM606,582) for the purpose of acquisition of property, plant and equipment.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

16 Receivables, deposits and prepayments (continued)

The currency profile of receivables and deposits of the Group is as follows:

| | Group | | Company | |
|--------------------|-------------------|-------------------|--------------|------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| - US Dollar | 24,239,282 | 16,148,381 | 0 | 0 |
| - Ringgit Malaysia | 1,066,233 | 1,205,344 | 1,000 | 0 |
| - Euro | 0 | 742 | 0 | 0 |
| | <u>25,305,515</u> | <u>17,354,467</u> | <u>1,000</u> | <u>0</u> |

17 Related party disclosures

(a) Related parties and relationship

The directors regard Blue Ocean Enlightenment Sdn. Bhd., a company incorporated in Malaysia, as the Company's ultimate holding company.

The wholly-owned subsidiary of the Company is Salutica Allied Solutions Sdn. Bhd., a company incorporated in Malaysia.

All directors of the Company and the senior management team of the subsidiary are regarded as key management personnel of the Group.

(b) Related party balance

Amount due from a subsidiary is denominated in Ringgit Malaysia, interest free and is receivable on demand.

(c) Significant related party transactions

| | Group | | Company | |
|--|------------|------------|------------|------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Consultation fee paid/payable | | | | |
| - with a person connected with certain directors of the Company | 14,729 | 11,077 | 0 | 0 |
| - with firms in which certain directors of the Company are members | 330,000 | 103,500 | 300,000 | 0 |

The above transactions were established based on terms and prices agreed between the related parties.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

17 Related party disclosures (continued)

(d) Key management compensation

| | Group | | Company | |
|--|------------------|------------------|----------------|------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Salaries and other short term employee benefits | 2,745,652 | 2,117,148 | 202,708 | 0 |
| Post employment benefits | 442,561 | 404,836 | 0 | 0 |
| | <u>3,188,213</u> | <u>2,521,984</u> | <u>202,708</u> | <u>0</u> |

Key management compensation includes directors' remuneration as disclosed in Note 6 to the financial statements.

18 Derivative financial instruments

| | Group | |
|---|----------------|----------------|
| | 2016 RM | 2015 RM |
| <u>Derivative financial instruments</u> | | |
| Assets | <u>113,445</u> | <u>0</u> |
| Liabilities | <u>45,831</u> | <u>147,352</u> |

The subsidiary does not apply hedge accounting. It has entered into foreign currency forward exchange contracts which are economic hedges to mitigate its risk of foreign currency exposure.

The notional principal amounts of the outstanding derivative financial instruments are as follows:

| | Currency bought | Currency sold | Group | |
|--|--------------------|------------------|------------------|------------------|
| | | | 2016 RM | 2015 RM |
| - foreign currency forward exchange contracts | RM | USD | <u>8,967,200</u> | <u>6,307,800</u> |

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

19 Short term investments

| | Group | | Company | |
|---|-------------------|------------|------------------|------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Investments in unit trust quoted in Malaysia at fair value | <u>57,732,947</u> | <u>N/A</u> | <u>7,916,229</u> | <u>N/A</u> |
| Quoted market price per unit | <u>1.00</u> | <u>N/A</u> | <u>1.00</u> | <u>N/A</u> |

The short term investments are in respect of investments in an Islamic money market fund.

20 Cash and cash equivalents

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

| | Group | | Company | |
|--|--------------------|---------------------|----------------|----------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Deposits with licensed banks | 37,300,000 | 36,350,000 | 0 | 0 |
| Cash and bank balances | <u>2,863,086</u> | <u>4,867,644</u> | <u>550,936</u> | <u>297,067</u> |
| | <u>40,163,086</u> | <u>41,217,644</u> | <u>550,936</u> | <u>297,067</u> |
| Deposits with licensed banks | 37,300,000 | 36,350,000 | 0 | 0 |
| Deposits pledged with a licensed bank | (5,000,000) | (6,500,000) | 0 | 0 |
| Deposits with maturity period more than three months (unencumbered) | 0 | (8,800,000) | 0 | 0 |
| | <u>(5,000,000)</u> | <u>(15,300,000)</u> | <u>0</u> | <u>0</u> |
| Deposits with maturity period less than three months (unencumbered) | 32,300,000 | 21,050,000 | 0 | 0 |
| Cash and bank balances | <u>2,863,086</u> | <u>4,867,644</u> | <u>550,936</u> | <u>297,067</u> |
| Cash and cash equivalents | <u>35,163,086</u> | <u>25,917,644</u> | <u>550,936</u> | <u>297,067</u> |

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

20 Cash and cash equivalents (continued)

The currency profile of deposits, cash and bank balances of the Group and of the Company is as follows:

| | Group | | Company | |
|------------------|-------------------|------------|----------------|------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Ringgit Malaysia | 39,281,939 | 38,088,265 | 550,936 | 297,067 |
| US Dollar | 868,204 | 3,126,684 | 0 | 0 |
| Euro | 12,172 | 1,651 | 0 | 0 |
| Others | 771 | 1,044 | 0 | 0 |
| | 40,163,086 | 41,217,644 | 550,936 | 297,067 |

| | Group | |
|--|---------------|-----------|
| | 2016 % | 2015 % |
| Weighted average effective interest rate of the deposits of the Group at the reporting date is as follows: | | |
| Deposits with licensed banks | 3.74 | 3.64 |
| | Days | Days |
| The range of maturity periods of the deposits with licensed banks are as follows: | | |
| - encumbered | 183 | 183 |
| - unencumbered | 3 - 92 | 8 - 365 |

The cash and bank balances of the Group and of the Company are deposits placed in current accounts of various licensed banks in Malaysia and cash in hand which do not earn any interest.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

21 Share capital

| | Group and Company | | | |
|--|-----------------------------------|-----------------------------------|-------------------|-------------------|
| | 2016 Number of shares | 2015 Number of shares | 2016 RM | 2015 RM |
| <u>Authorised</u> | | | | |
| At 1 July | 500,000,000 ⁽¹⁾ | 100,000 ⁽²⁾ | 50,000,000 | 100,000 |
| Creation of new ordinary shares during the financial year | 0 | 49,900,000 ⁽²⁾ | 0 | 49,900,000 |
| | 500,000,000 | 50,000,000 | 50,000,000 | 50,000,000 |
| Sub-division of shares of RM0.10 each during the financial year | 0 | 450,000,000 ⁽¹⁾ | 0 | 0 |
| At 30 June | 500,000,000 ⁽¹⁾ | 500,000,000 ⁽¹⁾ | 50,000,000 | 50,000,000 |
| <u>Issued and fully paid</u> | | | | |
| At 1 July | 310,000,000 ⁽¹⁾ | 200 ⁽²⁾ | 31,000,000 | 200 |
| Issuance of new ordinary shares during the financial year | 78,000,000 ⁽¹⁾ | 7,000 ⁽²⁾ | 7,800,000 | 7,000 |
| Bonus issue | 0 | 30,992,800 ⁽²⁾ | 0 | 30,992,800 |
| | 388,000,000 ⁽¹⁾ | 31,000,000 | 38,800,000 | 31,000,000 |
| Sub-division of shares of RM0.10 each during the financial year | 0 | 279,000,000 ⁽¹⁾ | 0 | 0 |
| At 30 June | 388,000,000 ⁽¹⁾ | 310,000,000 ⁽¹⁾ | 38,800,000 | 31,000,000 |

⁽¹⁾ The nominal value of these shares is RM0.10 each following the subdivision of the Company's shares from the nominal value of RM1.00 each to RM0.10 each on 30 June 2015.

⁽²⁾ The nominal value of these shares were RM1.00 each.

(i) During the current financial year, the Company completed the following transaction:

On 16 May 2016, the issued and fully paid-up ordinary share capital of the Company was increased from RM31,000,000 to RM38,800,000 by way of issuance of 78,000,000 ordinary shares of RM0.10 each at par at the issue price of RM0.80 per share for total gross cash proceeds of RM62,400,000, pursuant to the initial public offering exercise, where the Company was listed with its entire enlarged issued and paid-up ordinary share capital quoted on Bursa Malaysia on 18 May 2016.

The newly issued ordinary shares rank pari passu in all respects with the existing ordinary shares of the Company.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

21 Share capital (continued)

(ii) In preceding financial year, the Company completed the following transactions:

On 29 June 2015, issued and fully paid share capital of the Company was increased from RM200 to RM7,200 by way of issuance of 7,000 ordinary shares of RM1.00 each at par for cash. The newly issued ordinary shares ranked pari passu in all respects with the existing ordinary shares of the Company.

On 30 June 2015, the Company completed the following transactions:

- (a) The authorised share capital of the Company was increased from RM100,000 to RM50,000,000 by the creation of 49,900,000 new ordinary shares of RM1.00 each at par. The increased authorised share capital was subsequently subdivided to 500,000,000 ordinary shares of RM0.10 each;
- (b) A bonus issue of 30,992,800 new ordinary shares of RM1.00 each on the basis of 4,304.56 (rounded to 2 decimal places) new ordinary shares for every one existing ordinary share held in the Company; and
- (c) Sub-division of issued share capital of RM31,000,000 comprising 31,000,000 ordinary shares of RM1.00 each to 310,000,000 ordinary shares of RM0.10 each. Each of the new shares of RM0.10 each had the same rights as the previous shares of RM1.00 nominal value.

22 Share premium

| | Group and Company | |
|--|-------------------|------------|
| | 2016 RM | 2015 RM |
| At 1 July | 0 | 0 |
| Issuance of new ordinary shares (Note 21) | 54,600,000 | 0 |
| | 54,600,000 | 0 |
| Transaction costs arising from issue of shares | (1,597,632) | 0 |
| At 30 June | 53,002,368 | 0 |

23 Fair value reserve

| | Group | |
|--------------------|------------|------------|
| | 2016 RM | 2015 RM |
| Fair value reserve | 16,000 | 16,000 |

Fair value reserve is in respect of accumulated fair value gains on available-for-sale financial asset.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

24 Retained profits

Dividends paid out of retained profits of the Company are single-tier dividends which are tax exempt in the hands of shareholders.

25 Finance lease liability

| | Group | |
|---|--------------|------------|
| | 2016 | 2015 |
| | RM | RM |
| Present value of minimum lease payments: | | |
| <u>Current</u> | | |
| - payable within one year | 0 | 6,483,155 |
| <u>Non current</u> | | |
| - payable later than one year but not later than five years | 0 | 9,365,706 |
| | 0 | 15,848,861 |
| | 0 | 15,848,861 |

The subsidiary leased the land and buildings under a finance lease arrangement with lease term expiring in 2018 and a purchase option exercisable in January to February 2017.

On 19 June 2015, the subsidiary signed a Sale and Purchase Agreement with the lessor to exercise its purchase option to acquire the land and buildings under finance lease arrangement earlier than the agreed option exercise date due on 28 February 2017 at a revised purchase consideration of RM26,052,250. The final settlement amount of RM14,700,000 was derived based on revised purchase consideration plus transaction costs relating to acquisition less accumulated lease payments. The transaction was completed on 12 October 2015 with the drawdown a term loan of RM14,700,000 to re-finance the finance lease liability. The early settlement of the finance lease liability resulted in a gain of RM1,148,861, being the difference between final settlement amount of RM14,700,000 and outstanding finance lease liability of RM15,848,861, recognised in profit or loss of the Group during the current financial year.

As at 30 June 2015, Finance lease liability was effectively secured as the rights to the leased assets revert to the lessor in the event of default.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

26 Hire-purchase creditors

| | Group | |
|---|------------------|----------|
| | 2016 | 2015 |
| | RM | RM |
| Future minimum hire-purchase payments: | | |
| - Payable within one year | 1,071,610 | 0 |
| - Payable later than one year but not later than five years | 1,371,782 | 0 |
| | <u>2,443,392</u> | <u>0</u> |
| Less: Finance charges | (186,552) | 0 |
| | <u>2,256,840</u> | <u>0</u> |
| Present value of hire-purchase liabilities: | | |
| <u>Current</u> | | |
| - Payable within one year | 947,315 | 0 |
| <u>Non current</u> | | |
| - Payable later than one year but not later than five years | 1,309,525 | 0 |
| | <u>2,256,840</u> | <u>0</u> |

Hire-purchase creditors are denominated in Ringgit Malaysia. The effective interest rates ranged from 6.60% - 7.42% (2015: N/A) per annum. Hire-purchase creditors are effectively secured as the rights to the leased assets revert to the lessor in the event of default and they are guaranteed by a director.

The carrying amount is approximates the fair value as at the reporting date.

27 Term loans

| | Group | |
|---|------------------|----------|
| | 2016 | 2015 |
| | RM | RM |
| <u>Secured</u> | | |
| Term loan 1 | 4,489,411 | 0 |
| <u>Unsecured</u> | | |
| Term loan 2 | 1,025,508 | 0 |
| | <u>5,514,919</u> | <u>0</u> |
| <u>Current</u> | | |
| - Repayable within one year | 3,442,412 | 0 |
| <u>Non current</u> | | |
| - Repayable later than one year but not later than five years | 2,072,507 | 0 |
| | <u>5,514,919</u> | <u>0</u> |

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

27 Term loans (continued)

Term loans 1 and 2 are repayable by 60 instalments commencing November 2015 and September 2015 respectively.

Term loan 1 is secured by way of first legal charge on the leasehold land and buildings of the Company and certain fixed deposits pledged.

Term loan 1 and 2 are guaranteed by a director.

These term loans have effective interest rates per annum as follows:

| | Group | |
|-------------|-----------|-----------|
| | 2016 % | 2015 % |
| Term loan 1 | 5.90 | 0 |
| Term loan 2 | 5.65 | 0 |

The interest expenses on these term loans are calculated based on floating interest rates which may be varied from time to time at the bank's discretion. All of the term loans are denominated in Ringgit Malaysia.

28 Payables and accruals

| | Group | | Company | |
|---|-------------------|------------|----------------|------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Trade payables | 33,470,717 | 18,735,684 | 0 | 0 |
| Other payables and accruals | 5,724,347 | 4,332,678 | 297,839 | 308,266 |
| | 39,195,064 | 23,068,362 | 297,839 | 308,266 |
| Advances from customers for product development | 84,481 | 1,835,782 | 0 | 0 |
| Advances from customers for sales of goods | 1,136,381 | 5,771,410 | 0 | 0 |
| | 40,415,926 | 30,675,554 | 297,839 | 308,266 |

Credit terms of trade payables granted to the Group vary from 14 to 90 days (2015: 14 to 90 days) from invoice date.

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

28 Payables and accruals (continued)

The currency profile of payables and accruals is as follows:

| | Group | | Company | |
|------------------|--------------------------|-------------------|-----------------------|----------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| US Dollar | 31,198,334 | 16,417,901 | 0 | 0 |
| Ringgit Malaysia | 7,800,199 | 6,357,924 | 297,839 | 308,266 |
| Euro | 184,132 | 290,837 | 0 | 0 |
| Others | 12,399 | 1,700 | 0 | 0 |
| | <u>39,195,064</u> | <u>23,068,362</u> | <u>297,839</u> | <u>308,266</u> |

29 Provision for warranties

| | Group | |
|------------------------------------|----------------------|---------------|
| | 2016 RM | 2015 RM |
| At 1 July | 54,796 | 34 |
| Charge during the financial year | 47,789 | 54,762 |
| Utilised during the financial year | (18,138) | 0 |
| At 30 June | <u>84,447</u> | <u>54,796</u> |

Provision for warranties is in respect of finished products manufactured and sold by the Group directly to the end users. The provision is measured at a percentage rate of historical replacement and a review of possible outcomes against the associated probabilities of returns.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

30 Dividends

| | Company | |
|--|-------------------------|-------------------------|
| | 2016 RM | 2015 RM |
| <u>Paid</u> | | |
| First interim single-tier tax exempt dividend of 0.645 sen (rounded to 3 decimal places) per share on 310,000,000 ordinary shares of RM0.10 each, paid on 23 October 2015 (2015: First interim single-tier tax exempt dividend of RM5,665 per share on 200 ordinary shares of RM1.00 each, paid on 15 December 2014) | 2,000,000 | 1,133,000 |
| Second interim single-tier tax exempt dividend of 0.645 sen (rounded to 3 decimal places) per share on 310,000,000 ordinary shares of RM0.10 each, paid on 18 April 2016 (2015: Second interim single-tier tax exempt dividend of RM10,000 per share on 200 ordinary shares of RM1.00 each, paid on 23 March 2015) | 2,000,000 | 2,000,000 |
| Third interim single-tier tax exempt dividend of 0.6 sen per share on 388,000,000 ordinary shares of RM0.10 each, paid on 30 June 2016 (2015: Third interim single-tier tax exempt dividend of RM31,976 per share on 200 ordinary shares of RM1.00 each, paid on 22 June 2015) | <u>2,328,000</u> | <u>6,395,200</u> |
| | <u>6,328,000</u> | <u>9,528,200</u> |
| Dividends per share | | |
| - gross | <u>0.02</u> | <u>47,641.00</u> |

The directors do not recommend the payment of a final dividend for the financial year ended 30 June 2016.

On 15 August 2016, the directors declared a first interim single-tier tax exempt dividend in respect of the financial year ending 30 June 2017 of 0.6 sen per share on 388,000,000 ordinary shares amounting to RM2,328,000, payable on 30 September 2016.

31 Non cash transactions

The principal non cash transactions of the Group and the Company during the financial year is as follows:

| | Group | | Company | |
|--|---------------------|------------|------------|------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| - Purchase of plant and machinery by means of hire-purchase arrangement | (2,898,732) | 0 | 0 | 0 |
| - Payment of insurance premium of key management by means of a term loan disbursed directly to the insurer | (1,200,249) | 0 | 0 | 0 |
| - Early settlement of finance lease liability by means of a term loan disbursed directly to the lessor | <u>(14,700,000)</u> | <u>0</u> | <u>0</u> | <u>0</u> |

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

32 Capital commitments

Capital commitments in respect of property, plant and equipment not provided for in the financial statements are as follows:

| | Group | | Company | |
|-----------------------------|-------------------|------------|---------------|------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Approved and contracted | 3,047,000 | 4,094,854 | 21,000 | 0 |
| Approved but not contracted | 18,039,000 | 496,564 | 0 | 0 |

33 Financial instruments

(a) Classification of financial instruments

| | Group | | Company | |
|--|--------------------|------------|-------------------|------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Financial assets | | | | |
| Financial asset measured at fair value through profit or loss: | | | | |
| - Short term investments | 57,732,947 | 0 | 7,916,229 | 0 |
| - Derivative financial instruments | 113,445 | 0 | 0 | 0 |
| Available-for-sale financial asset | 118,900 | 55,000 | 0 | 0 |
| Loans and receivables at amortised cost: | | | | |
| - Trade, other receivables and deposits | 24,848,968 | 16,865,674 | 1,000 | 0 |
| - Deposits with a licensed bank | 37,300,000 | 36,350,000 | 0 | 0 |
| - Cash and bank balances | 2,863,086 | 4,867,644 | 550,936 | 297,067 |
| - Amount due from a subsidiary | 0 | 0 | 33,809,738 | 30,809,738 |
| Total | 122,977,346 | 58,138,318 | 42,277,903 | 31,106,805 |

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

33 Financial instruments (continued)

(a) Classification of financial instruments (continued)

| | Group | | Company | |
|--|-------------------|-------------------|----------------|----------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Financial liabilities | | | | |
| Financial liability measured at fair value through profit or loss: | | | | |
| - Derivative financial instrument | 45,831 | 147,352 | 0 | 0 |
| Other financial liabilities at amortised cost: | | | | |
| - Payables and accruals | 39,195,064 | 23,068,362 | 297,839 | 308,266 |
| - Finance lease liability | 0 | 15,848,861 | 0 | 0 |
| - Hire-purchase creditors | 2,256,840 | 0 | 0 | 0 |
| - Term loans | 5,514,919 | 0 | 0 | 0 |
| Total | <u>47,012,654</u> | <u>39,064,575</u> | <u>297,839</u> | <u>308,266</u> |

The Group and the Company have no financial assets classified as “held-to-maturity”.

(b) Financial risk management

The Group’s overall financial risk management objectives and policies are to ensure that the Group creates value and maximises returns for its shareholders. Financial risk management is carried out through risk review, internal control systems, benchmarking to the industry’s best practices and adherence to the Group’s financial risk management policies. The main risks arising from the financial instruments of the Group are market risk, price risk, credit risk and liquidity risk. Management monitors the Group’s financial position closely with the objective to minimise potential adverse effects on the financial performance of the Group. The nature of these risks and the Group’s approaches in managing these risks are listed below:

(i) Market risk

(a) Foreign currency exchange risk

Foreign currency exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of the changes in foreign exchange rates.

The Group’s sales are mostly denominated in US Dollar and Ringgit Malaysia whilst purchases of goods are denominated in US Dollar, Ringgit Malaysia and Euro.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

33 Financial instruments (continued)

(b) Financial risk management (continued)

(i) Market risk (continued)

(a) Foreign currency exchange risk (continued)

The Group mitigates its foreign currency exchange risk through the natural hedge of operating foreign currency accounts using the deposits from its export proceeds to pay imported purchases where both are denominated in the same foreign currency. The Group also enters into foreign currency forward exchange contracts to hedge its receivables for export proceeds, whenever considered necessary.

Sensitivity analysis for foreign currency exchange risk

Based on the currency profile of receivables and deposits, cash and bank balances and payables and accruals as disclosed in the respective Note 16, Note 20 and Note 28 to the financial statements respectively, the sensitivity analysis of foreign currency exchange risk is calculated based on reasonably possible change in exchange rates for the major currencies transacted by the Group against Ringgit Malaysia at the end of the financial year. This analysis assumes that all other variables are held constant.

| Group | Estimated % increase | | Impact on profit or loss | |
|---|----------------------|------|--------------------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| | % | % | RM | RM |
| Foreign currency strengthens against RM | | | | |
| - US Dollar | 7 | 17 | -402,000 | +494,000 |
| - Euro | 6 | 4 | -10,000 | +10,000 |

Conversely, weakening of major currencies against Ringgit Malaysia by the above percentages would have had equal but opposite effects on the results of the Group shown above on the basis that all other variables remain constant.

(b) Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

The Group's exposure to changes in interest rates relates mainly to term loans and deposits placed with licensed banks in Malaysia. Majority of the borrowings are contracted on variable terms.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

33 Financial instruments (continued)

(b) Financial risk management (continued)

(i) Market risk (continued)

(b) Interest rate risk (continued)

Sensitivity analysis for interest rate risk

Assuming all variables remain constant, an increase in interest rate by 0.5% (2015: 0.5%) on financial assets and liabilities of the Group which have variable interest rates would have an impact on the Group's profit or loss as shown below:

| Group | Impact on profit or loss (Unfavourable)/Favourable | |
|--------------------------------|---|----------------|
| | 2016 RM | 2015 RM |
| Increase in interest rate: | | |
| - term loans | (53,000) | 0 |
| - deposits with licensed banks | <u>184,000</u> | <u>145,000</u> |

Conversely, a decrease in interest rate by 0.5% on financial assets and liabilities of the Group would have had equal but opposite effect on the amounts shown above on the basis that all other variables remain constant.

The impact of fluctuation in interest risk on the results of the Company is not significant.

(ii) Price risk

Price risk is the risk that the fair value or future cash flows of the Group's and of the Company's financial instruments will fluctuate because of changes in market prices (other than interest or exchange rates).

The Group and the Company are exposed to price risk arising from its short term investments in money market fund. The short term investments are classified as fair value through profit or loss.

At the end of the reporting period, if the money market fund had been 2% (2015: N/A) higher/lower, with all other variables held constant, the Group's and the Company's net profit would have been approximately RM1,154,659 (2015: N/A) and RM158,325 (2015: N/A) respectively higher/lower, as a result of an increase/decrease in the fair value of the quoted money market fund.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

33 Financial instruments (continued)

- (b) Financial risk management (continued)
- (iii) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial assets should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from derivative financial instruments, trade, other receivables and deposits, deposits with licensed banks and bank balances.

Trade receivables are monitored on an ongoing basis via the Group's management reporting procedures. The Group has significant concentration of credit risk in the form of outstanding balance due from 3 customers representing 89% of the total trade receivables (2015: 3 customers, 86%).

The credit quality of trade receivables that are neither past due nor impaired are substantially amounts due from these major customers with good collection track record with the Group. Management will continuously monitor closely the trade receivables which are past due.

Credit risk arising from derivative financial instruments and deposits with licensed banks

Credit risk also arises from derivative financial instruments and deposits with licensed banks. The derivative and deposits are placed with creditworthy licensed banks in Malaysia. The Group considers the risk of material loss in the event of non performance by a financial counterparty to be low.

Exposure to credit risk

At the end of the reporting period, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

33 Financial instruments (continued)

(b) Financial risk management (continued)

(iii) Credit risk (continued)

Ageing analysis

The ageing analysis of the Group's and the Company's financial assets is as follows:

| | Group | | Company | |
|--|-------------------|------------|-------------------|------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Neither past due nor impaired | | | | |
| Derivative financial assets | 113,445 | 0 | 0 | 0 |
| Trade receivables | 23,859,630 | 12,342,601 | 0 | 0 |
| Amount due from a subsidiary | 0 | 0 | 33,809,738 | 30,809,738 |
| Other receivables and deposits | 419,688 | 814,501 | 1,000 | 0 |
| Deposits with licensed banks | 37,300,000 | 36,350,000 | 0 | 0 |
| Cash and bank balances | 2,863,086 | 4,867,644 | 550,936 | 297,067 |
| | 64,555,849 | 54,374,746 | 34,361,674 | 31,106,805 |
| Trade receivables: Past due but not impaired | | | | |
| 1 to 30 days past due | 567,935 | 3,629,512 | 0 | 0 |
| 31 to 60 days past due | 0 | 79,060 | 0 | 0 |
| 61 to 90 days past due | 1,715 | 0 | 0 | 0 |
| Sub-total | 569,650 | 3,708,572 | 0 | 0 |
| Total | 65,125,499 | 58,083,318 | 34,361,674 | 31,106,805 |

Receivables that are neither past due nor impaired

Deposits and bank balances are mainly deposits placed with reputable licensed banks in Malaysia. Amount due from a subsidiary is receivable on demand and is within the treasury arrangements controlled within the Group. Trade and other receivables that are neither past due nor impaired are due from creditworthy debtors with good historical payment records with the Group. Majority of the Group's trade receivables arise from regular customers with the Group and with insignificant losses noted.

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

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

33 Financial instruments (continued)

(b) Financial risk management (continued)

(iii) Credit risk (continued)

Receivables that are past due but not impaired

As at 30 June 2016, trade receivables of the Group of RM569,650 (2015: RM3,708,572) were past due but not impaired. These debts relate to a number of independent customers for whom there is no recent history of default. All of these debts have been repaid subsequent to the financial year end.

Trade receivables that are impaired

There are no trade receivables that are impaired at the reporting date.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group maintains sufficient cash and ensures availability of funding through an adequate but flexible amount of credit facilities obtained from financial institutions in Malaysia. Certain facilities are maintained with varying maturities to ensure sufficient cash inflow from operations is available to meet all repayment requirements, if required.

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

| Group | 2016 | | Total RM |
|--|--------------------------|----------------------------|-------------------|
| | Within one year RM | Two to five years RM | |
| Financial liabilities: | | | |
| Payables and accruals | 39,195,064 | 0 | 39,195,064 |
| Term loans | 3,673,800 | 2,166,742 | 5,840,542 |
| Hire-purchase creditors | 1,071,610 | 1,371,782 | 2,443,392 |
| Total undiscounted financial obligations | <u>43,940,474</u> | <u>3,538,524</u> | <u>47,478,998</u> |
| Derivative financial liabilities: | | | |
| Gross settled currency forward | | | |
| - receipts | 3,192,300 | 0 | 3,192,300 |
| - payments | (3,238,131) | 0 | (3,238,131) |
| | <u>(45,831)</u> | <u>0</u> | <u>(45,831)</u> |

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

33 Financial instruments (continued)

(b) Financial risk management (continued)

(iv) Liquidity risk (continued)

| Group | 2015 | | |
|--|--------------------------|----------------------------|-------------------|
| | Within one year RM | Two to five years RM | Total RM |
| Financial liabilities: | | | |
| Payables and accruals | 23,068,362 | 0 | 23,068,362 |
| Term loans | 0 | 0 | 0 |
| Hire-purchase creditors | 0 | 0 | 0 |
| Finance lease liability | 6,542,250 | 9,306,611 | 15,848,861 |
| Total undiscounted financial obligations | <u>29,610,612</u> | <u>9,306,611</u> | <u>38,917,223</u> |
| Derivative financial liabilities: | | | |
| Gross settled currency forward | | | |
| - receipts | 6,307,800 | 0 | 6,307,800 |
| - payments | (6,455,152) | 0 | (6,455,152) |
| | <u>(147,352)</u> | <u>0</u> | <u>(147,352)</u> |
| | | | |
| | 2016 | | |
| | Within one year RM | Two to five years RM | Total RM |
| Company | | | |
| Other payables and accruals | <u>297,839</u> | <u>0</u> | <u>297,839</u> |
| | | | |
| | 2015 | | |
| | Within one year RM | Two to five years RM | Total RM |
| Company | | | |
| Other payables and accruals | <u>308,266</u> | <u>0</u> | <u>308,266</u> |

Salutica Berhad

(Company no: 1024781 T)

(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

33 Financial instruments (continued)

(b) Financial risk management (continued)

(v) Capital management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value.

Management monitors capital based on shareholders' equity attributable to the owners of the Group.

(c) Fair value of financial instruments

The carrying amounts of the following financial assets and liabilities approximate their fair values due to the relatively short term maturity of these financial instruments: deposits, cash and bank balances, receivables and payables.

The fair value of the floating interest rate borrowings approximates the carrying value as at the reporting date.

The disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

33 Financial instruments (continued)

(c) Fair value of financial instruments (continued)

The following table presents the Group's and the Company's assets that are measured at fair value:

| | Level 1 RM | Level 2 RM | Level 3 RM | Total RM |
|------------------------------------|------------------|----------------|---------------|------------------|
| <u>At 30 June 2016</u> | | | | |
| Group | | | | |
| <u>Assets</u> | | | | |
| Available-for-sale financial asset | 0 | 118,900 | 0 | 118,900 |
| Short term investments | 57,732,947 | 0 | 0 | 57,732,947 |
| Derivative financial instruments | <u>0</u> | <u>113,445</u> | <u>0</u> | <u>113,445</u> |
| <u>Liabilities</u> | | | | |
| Derivative financial instruments | <u>0</u> | <u>45,831</u> | <u>0</u> | <u>45,831</u> |
| Company | | | | |
| <u>Asset</u> | | | | |
| Short term investments | <u>7,916,229</u> | <u>0</u> | <u>0</u> | <u>7,916,229</u> |
| <u>At 30 June 2015</u> | | | | |
| Group | | | | |
| <u>Assets</u> | | | | |
| Available-for-sale financial asset | <u>0</u> | <u>55,000</u> | <u>0</u> | <u>55,000</u> |
| <u>Liabilities</u> | | | | |
| Derivative financial instruments | <u>0</u> | <u>147,352</u> | <u>0</u> | <u>147,352</u> |

There were no short term investment and derivative financial instrument of the Group and the Company as at 30 June 2015.

The fair value of the short term investments of the Group and the Company are based on quoted market price in active market and is therefore classified in Level 1.

The fair value of the derivative financial instruments and available-for-sale financial asset is based on certain inputs which are not directly obtainable from quoted prices and is therefore classified in Level 2.

There were no transfers between Levels 1, 2 and 3 during the financial year.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

34 Segment reporting

The Group operates in Malaysia under one business segment:

- Consumer electronics - is an operating segment which comprises vertical integration processes covering product design and development, and manufacturing of mobile communication products, wireless electronics and lifestyle devices.

(a) Analysis of results and financial position

| | Consumer electronics | |
|---|----------------------|--------------------|
| | 2016 | 2015 |
| | RM | RM |
| Group | | |
| Revenue | 241,826,911 | 192,517,682 |
| Results | | |
| Profit from operations | 33,661,106 | 20,371,696 |
| Finance cost | (762,262) | (87,963) |
| Profit before taxation | 32,898,844 | 20,283,733 |
| Taxation | (8,574,029) | 7,128,101 |
| Net profit for the financial year | 24,324,815 | 27,411,834 |
| Other information | | |
| Segment assets | 203,106,271 | 114,426,859 |
| Unallocated assets | 192,822 | 8,484,291 |
| Total assets | 203,299,093 | 122,911,150 |
| Segment liabilities | 48,317,963 | 46,726,563 |
| Unallocated liabilities | 0 | 2,640 |
| Total liabilities | 48,317,963 | 46,729,203 |
| Interest income | 1,165,344 | 1,058,483 |
| Depreciation of property, plant and equipment | 6,290,393 | 5,644,215 |
| Capital expenditure | 7,785,474 | 2,912,409 |

Unallocated assets consist of income tax recoverable and deferred tax assets. Unallocated liabilities include income tax payable.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2015 (continued)

34 Segment reporting (continued)

(b) Analysis of revenue by region

Although the Company and its subsidiary are located in Malaysia, the Group exports the goods to Asia, Europe, North America, Australia and Africa. The revenue of the Group is analysed as follows:

| | Group | |
|--|---------------------------|--------------------|
| | 2016 | 2015 |
| | RM | RM |
| North America | 216,492,168 | 137,428,331 |
| Europe | 8,671,189 | 31,377,593 |
| Australia (including New Zealand, Oceania) | 133,048 | 1,086,363 |
| Asia (excluding Malaysia) | 14,675,799 | 19,059,886 |
| Africa (including Middle East) | 32,524 | 223,887 |
| Malaysia | 1,822,183 | 3,341,622 |
| | <u>241,826,911</u> | <u>192,517,682</u> |

For the financial year, the revenue of 2 (2015: 3) customers which contributed more than 10% of the total revenue of the Group amounting to RM212,386,939 (2015: RM160,716,575).

All non current assets of the Group are located in Malaysia.

The basis of measurement of reported segment profit or loss, segment assets and segment liabilities is consistent with the basis used for the statements of comprehensive income of the Group for the financial year ended 30 June 2016 and the statements of financial position as at 30 June 2016. The components of the segment assets and liabilities include classes of assets and liabilities disclosed in the statements of financial position.

Salutica Berhad

(Company no: 1024781 T)
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2016 (continued)

35 Realised and unrealised profits/losses

The following analysis of realised and unrealised profits/losses at the legal entity level is prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants whilst the disclosure at the group level is based on the prescribed format by Bursa Malaysia Securities Berhad.

The retained profits as at the reporting date are analysed as follows:

| | Group | | Company | |
|--------------------------------------|-------------------|------------|----------------|------------|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Retained profits: | | | | |
| - realised | 44,756,254 | 18,680,089 | 164,361 | 33,228 |
| - unrealised | 393,513 | 8,472,863 | 16,229 | 0 |
| | 45,149,767 | 27,152,952 | 180,590 | 33,228 |
| Add: Consolidation adjustments | 18,012,995 | 18,012,995 | 0 | 0 |
| Total retained profits as at 30 June | 63,162,762 | 45,165,947 | 180,590 | 33,228 |

The disclosure of realised and unrealised profits/losses above is solely for compliance with the directive issued by Bursa Malaysia Securities Berhad and should not be used for any other purpose.