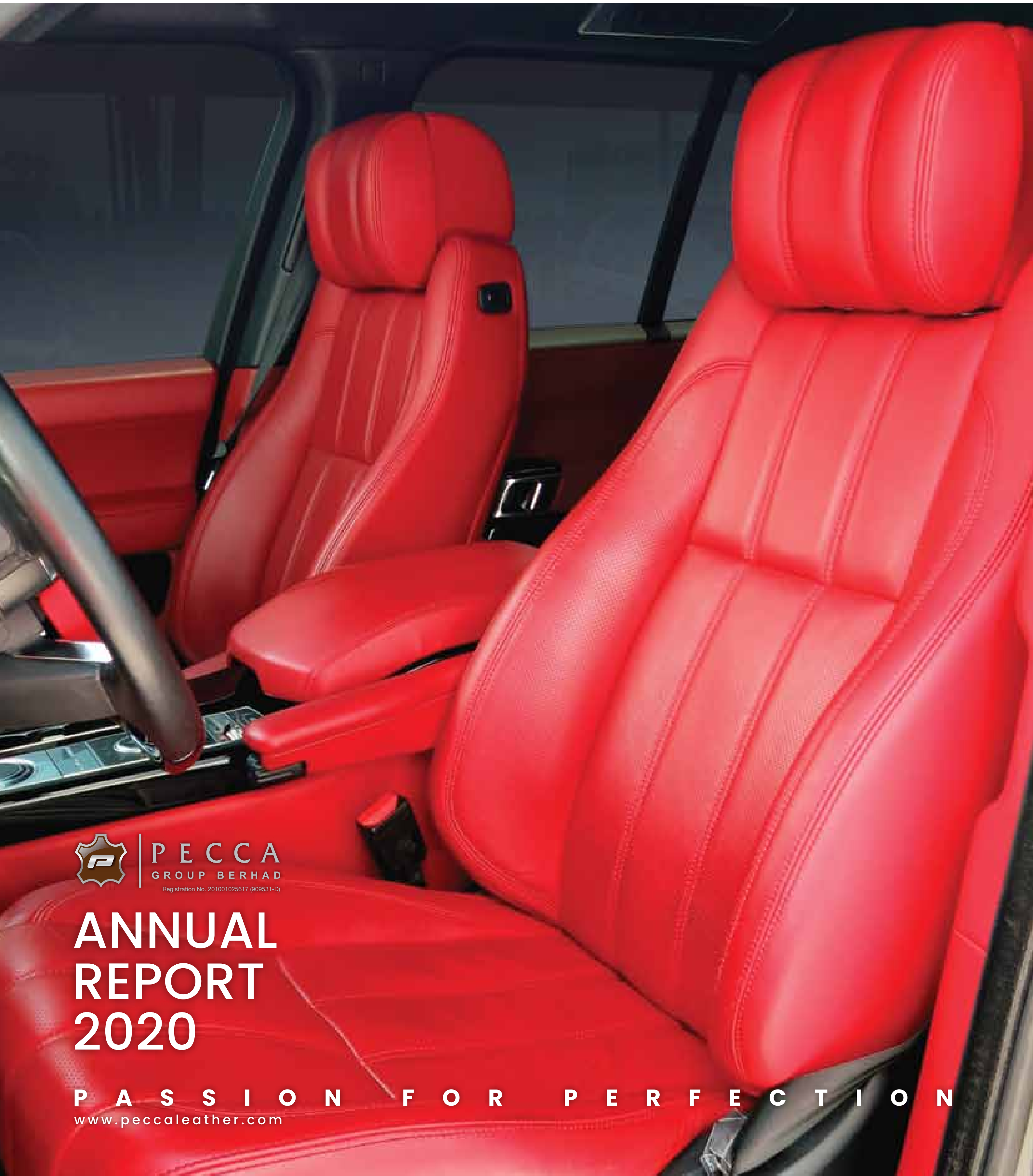
PECCA
GROUP BERHAD



PECCA
GROUP BERHAD
Registration No. 201001025617 (909531-D)

ANNUAL REPORT 2020

PASSION FOR PERFECTION

www.peccaleather.com

ANNUAL REPORT CONTENTS

ABOUT US

Pecca Group Berhad's

principle business activities are in the styling, manufacturing and installation of leather upholstery for seat covers for the automotive and aviation industries.

Vision

to be the leading upholstery manufacturer globally.

Mission

to keep exceeding our customers' expectations in design, quality and innovation.

PECCA AVIATION SERVICES

***PECCA AVIATION SERVICES SDN BHD** is dedicated to provide the highest quality cabin interior maintenance, repair and overhaul services.*

ULTIMATE CABIN INTERIOR SOLUTIONS

HEALTHCARE PRODUCTS

Pecca Leather Sdn Bhd (PLeather) has expanded its footprint into healthcare industry and diversify its product portfolio by developing, producing and supplying personal protective equipment (PPE).

CLEANROOM

PLeather had invested in cleanroom facilities and machineries for face mask manufacturing, to ensure that all face mask produced are contaminant free, to prepare for growth in demand for face mask in local and global markets.

CORPORATE INFORMATION

DIRECTORS

DATO' MOHAMED SUFFIAN BIN AWANG
(Independent Non-Executive Chairman)

DATUK TEOH HWA CHENG
(Group Managing Director)

DATIN SAM YIN THING
(Executive Director)

DATUK LEONG KAM WENG
(Independent Non-Executive Director)

CHEW KIAN SENG
(Executive Director)

LEONG CHEE TONG
(Independent Non-Executive Director)

TEOH ZI YI
(Executive Director)

TEOH ZI YUEN
(Executive Director)

REGISTERED OFFICE

12th Floor, Menara Symphony
No. 5, Jalan Professor Khoo Kay Kim
Seksyen 13, 46200 Petaling Jaya
Selangor Darul Ehsan
T: (03) 7890 4800 F: (03) 7890 4650

BUSINESS ADDRESS

No.1, Jalan Perindustrian Desa Aman 1A,
Industri Desa Aman, Kepong,
52200 Kuala Lumpur.
T: (03) 6275 1800 F: (03) 6275 9867
E: enquiry@peccaleather.com
www.peccaleather.com

LISTING

Main Market of Bursa Malaysia Securities Berhad
(Listed on 19 April 2016)
Stock Code: 5271
Stock Name: PECCA

AUDIT & RISK MANAGEMENT COMMITTEE

Datuk Leong Kam Weng *(Chairman)*
Dato' Mohamed Suffian Bin Awang
Leong Chee Tong

NOMINATION COMMITTEE

Dato' Mohamed Suffian Bin Awang *(Chairman)*
Datuk Leong Kam Weng
Leong Chee Tong

REMUNERATION COMMITTEE

Datuk Leong Kam Weng *(Chairman)*
Leong Chee Tong
Datuk Teoh Hwa Cheng

AUDITORS

KPMG PLT
Level 10, KPMG Tower,
8, First Avenue, Bandar Utama,
47800 Petaling Jaya,
Selangor Darul Ehsan.
T: (03) 7721 3388 F: (03) 7721 3399

COMPANY SECRETARIES

Tai Yit Chan (MAICSA 7009143)
Tan Ai Ning (MAICSA 7015852)

SHARE REGISTRAR

BOARDROOM SHARE REGISTRARS SDN BHD
(378993-D)
11th Floor, Menara Symphony
No. 5, Jalan Professor Khoo Kay Kim,
Seksyen 13, 46200 Petaling Jaya,
Selangor Darul Ehsan.
T: (03) 7890 4700 F: (03) 7890 4670

CORPORATE STRUCTURE

PECCA GROUP BERHAD

Pecca Leather Sdn Bhd (PLeather) 100%

- Styling, manufacturing, distribution and installation of leather upholstery for car seat covers
- Supply of leather cut pieces to the automotive leather upholstery industry
- Styling, manufacturing, distribution and installation of car door trim covers and covers for car accessories
- Supply of raw materials to the automotive upholstery industry
- Provision of sewing services for fabric car seat covers
- Provision of wrapping and stitching services
- Manufacturing and distribution of healthcare products

Pecca Aviation Services Sdn Bhd (PAviation) 100%

- Manufacturing, repair, refurbishment, distribution and installation of aircraft leather seat covers and other related products

Pecca Leather (Thailand) Limited (PThai) 49%

- Supply of leather upholstery for automotive industry

Pecca Plus Sdn Bhd (fka Everest Empire Sdn Bhd) (PPlus) 100%

- Supply of car seat covers and other products for after sales market

BOARD OF DIRECTORS

From left to right :

TEOH ZI YI
Executive Director

TEOH ZI YUEN
Executive Director

DATUK TEOH HWA CHENG
Group Managing Director

DATO' MOHAMED SUFFIAN BIN AWANG
Independent Non-Executive Chairman

Continue from left to right :

DATIN SAM YIN THING
Executive Director

DATUK LEONG KAM WENG
Independent Non-Executive Director

CHEW KIAN SENG
Executive Director

LEONG CHEE TONG
Independent Non-Executive Director

PROFILE OF DIRECTORS

DATO' MOHAMED SUFFIAN BIN AWANG

Independent Non-Executive Chairman

Male 49 Malaysia

Dato' Mohamed Suffian bin Awang was appointed as the Independent Non-Executive Director of Pecca Group Berhad on 3 December 2014. Subsequently he was re-designated as the Independent Non-Executive Chairman on 4 February 2015. He obtained his Diploma in Public Administration and Bachelor of Law Degree from Universiti Teknologi Mara Shah Alam in 1992 and 1996 respectively. He has 14 years of legal practice and 6 years of civil service working experience.

Dato' Mohamed Suffian had attended all the 5 board meetings held in financial year 2020.

He is the Chairman of our Nomination Committee and a member of our Audit and Risk Management Committee.

DATUK TEOH HWA CHENG

Group Managing Director

Male 52 Malaysia

Datuk Teoh Hwa Cheng is the Group Managing Director and founder of Pecca Group. He was appointed to the Board of Pecca Group Berhad on 27 July 2010. He brings with him more than 27 years of business experience in the leather goods industry. He established Pecca Leather Sdn Bhd (PLeather) in 2000 to focus on the automotive leather upholstery industry. He was instrumental in our continual expansion in the leather seat covers business, both locally and internationally. He is responsible for leading the overall strategic planning and the charting of long term objectives of Pecca Group.

He does not hold any directorship in other public companies or listed issuers.

Datuk Teoh Hwa Cheng had attended all the 5 board meetings held in financial year 2020. He is a member of our Remuneration Committee.

PROFILE OF DIRECTORS

DATIN SAM YIN THING
Executive Director

Female 49 Malaysia

Datin Sam Yin Thing is the Executive Director of Pecca Group Berhad. She was appointed to the Board on 31 October 2011. She is currently responsible for overseeing the purchasing functions of our Pecca Group, especially those in relation to vendor development for key raw materials. These include leather and PVC raw materials, where she has extensive knowledge from her involvement in the leather industry for the past 22 years.

She does not hold any directorship in other public companies or listed issuers.

Datin Sam Yin Thing had attended 5 out of 5 board meetings held in financial year 2020.

DATUK LEONG KAM WENG
Independent Non-Executive Director

Male 56 Malaysia

Datuk Leong Kam Weng is our Independent Non–Executive Director. He was appointed to our Board on 11 September 2014. He graduated with a Bachelor of Economics Degree and a Bachelor of Laws Degree, both from Monash University, Australia. He is a Fellow of CPA Australia and a Chartered Accountant of the Malaysian Institute of Accountants. He is a certified mediator on the panel of the Malaysian Mediation Centre. He was called to the Malaysian Bar in 1989 and was in legal practice for 3 years before he joined TA Enterprise Berhad in 1992. Since 1999, he has been a Partner of the law firm, Messrs Iza Ng Yeoh & Kit.

He sits on the Board of Directors of TA Enterprise Berhad, TA Global Berhad and Xin Hwa Holdings Berhad, all of which are listed on Bursa Malaysia Securities Berhad. He is also a director of several non-listed public companies namely, Tokio Marine Life Insurance Malaysia Berhad, Asian Outreach (M) Berhad and Pusat Penyayang KSKA.

Datuk Leong Kam Weng had attended all the 5 board meetings held in the financial year 2020.

He is the Chairman of our Audit and Risk Management Committee and Remuneration Committee and a member of our Nomination Committee.

PROFILE OF DIRECTORS

LEONG CHEE TONG
Independent Non-Executive Director

Male 55 Singaporean

Leong Chee Tong is the Independent Non-Executive Director of Pecca Group Berhad. He was appointed to our board on 16 October 2020.

Mr Leong has a degree in Accountancy from the National University of Singapore.

Mr Leong was formally the Group CEO and Executive Director of GD Express Carrier Bhd, where he had held various positions over a span of more than 13 years until 2013. From 2005 to 2019, he served as a director of GD Express (Singapore) Pte Ltd and GD Regional Development Pte Ltd, which are subsidiaries of GD Express Carrier Bhd.

He does not hold any directorship in other public companies or listed issuers.

He is a member of our Audit and Risk Management Committee and Remuneration Committee and a member of our Nomination Committee.

CHEW KIAN SENG
Executive Director

Male 49 Malaysia

Chew Kian Seng was first appointed as an Non-Independent Director on 30th April 2020 and recently re-appointed on 16th October 2020 as our Executive Director.

He started his career in 1996 as a researcher in a pilot cellular telecommunication project collaboration between National University of Singapore and NTT DoCoMo, Japan's largest mobile telecommunication operator. He joined Lityan Holdings Berhad in 1997 and was involved in IT project implementation and project management. He was appointed as a negotiator in 1998 in a project investment in Shanghai with China United Network Communications Corporation Limited. Subsequently, he joined Sacel Madagascar S.A., the first GSM cellular operator in Madagascar in 1999 as a System Engineer and was promoted to acting CEO several months later before he left in 2000. From 2000 to 2003, he ventured into Internet portal business and provided web design and online advertisement services to clients. In 2003, he also invested in logistics business as providing shipping and port handling services. From 2004 to 2009, he worked as a business development director in several private companies to provide quality management consultancy services to manufacturing clients. From 2009 to present, he has also been providing advisory services in strategy planning and business growth. He is also involved in mergers and acquisitions activity primarily by providing advice and analysis for clients on negotiation. From 2012 to 2013, he served as a director in Asia Prominent Capital Network Sdn Bhd (formerly known as Foreland Realty Network Malaysia Sdn Bhd), a Japanese real estate investment company, assisting in identifying and negotiation investment targets for Japanese clients. He was appointed by the Minister in the Prime Minister Department as an advisor to a unit of SMEs Development and Micro Credit under Prime Minister Department from 2014 to 2018. His role was to provide advises on the enhancement of the development for SMEs. He was also appointed as a member in the Approval Committee of KOJADI SME Loan funded by Ministry of Finance from 2014 to 2018.

He does not hold any directorship in other public companies or listed issuers.

Chew Kian Seng had attended 1 board meetings held in the financial year 2020.

PROFILE OF DIRECTORS

TEOH ZI YI
Executive Director

Male 27 Malaysia

Teoh Zi Yi is the Executive Director of Pecca Group Berhad. He was appointed to the Board on 16 October 2020. He is currently responsible for overseeing the new project of Pecca Group, on new business development, diversification strategy and planning, and research and development of new car accessories product.

Mr. Teoh Zi Yi graduated with a Bachelor of Business Management Degree from University of East Anglia in Norwich, England.

He does not hold any directorship in other public companies or listed issuers.

Mr. Teoh Zi Yi did not attend any board meetings held in financial year 2020 as he is newly appointed.

TEOH ZI YUEN
Executive Director

Female 25 Malaysia

Teoh Zi Yuen is the Executive Director of Pecca Group Berhad. She was appointed to the Board on 16 October 2020. She is currently responsible for Corporate Affairs and Investor relations of Pecca Group.

Ms. Teoh Zi Yuen hold a Bachelor of Economic Degree from Pepperdine University in Los Angeles, California, USA.

She does not hold any directorship in other public companies or listed issuers.

Ms. Teoh Zi Yuen did not attend any board meetings held in financial year 2020 as she is newly appointed.

PROFILE OF KEY MANAGEMENT

FOO KEN NEE
Chief Financial Officer

Male 43 Malaysian

Foo Ken Nee was appointed as the Chief Financial Officer of Pecca Leather Sdn Bhd on 4 January 2019 and is responsible for finance, investor relations, legal and IT functions. Mr Foo is a qualified Chartered Accountant and a member of the Malaysian Institute of Accountants and CPA Australia. He obtained his Bachelor of Commerce from Murdoch University, Western Australia, majoring in Accounting and Finance.

Mr Foo has a wealth of experience of over 20 years in several key industries namely pharmaceutical and consumer healthcare, audit and corporate advisory, manufacturing and supply chain distribution. He has previously held senior leadership positions as a Country Manager; Finance Director; Marketing Director; Strategic Planning and Business Operations Director; Head of Business Development in his past employments with several Multinational Corporations. He specialises in the areas of financial and operational management; corporate strategic planning; business development; sales and marketing management; corporate restructuring; audit advisory services; and mergers and acquisitions.

He does not hold any directorship in public companies or listed issuers.

CHU SHU LIP
Chief Marketing Officer

Male 52 Malaysian

Chu Shu Lip was appointed as the Chief Marketing Officer of Pecca Leather on 11 July 2016.

He obtained his Bachelor Degree in Business Administration from University of Arkansas, USA. Mr. Chu has over 20 years of sales experience in the automotive industry.

He does not hold any directorship in public companies or listed issuers.

K.KARUNAKARAN A/L KARUPPANNAN
Chief Operating Officer

Male 53 Malaysian

Mr K. Karunakaran was appointed as the Factory Manager on 4 August 2003 and has advanced through the ranks progressively where he was promoted to Chief Operating Officer on 1 October 2019.

Mr K. Karunakaran has over 27 years of working experience gained from the manufacturing industries making latex thread, power transformers for medical, scientific and electronics applications. He has extensive experience in occupational safety, quality assurance, good manufacturing practices. He is also familiar with implementation of Standards and ISO certifications.

He was instrumental in setting up of lean management, to support the penetration into OEM (OE Fit), PDI (Smart Fit) and REM export businesses. He also led our team to obtain the IS09001:2000, ISO/TS 16949, EMS IS014001:2004, OSHAS 18001:2007 and VDA6.3 certifications. He now oversees the overall plant operations, including the supply chain management of our Group.

He does not hold any directorship in public companies or listed issuers.

PROFILE OF
KEY MANAGEMENT

SAM CHEE KENG
Technical Director

Male 41 Malaysian

Sam Chee Keng was appointed as the Factory Manager of Pecca Group Berhad on 1 December 2000. He was subsequently promoted to Technical Director on 1 December 2012. He has more than 20 years of working experience specialising in research and development of car seat covers.

He does not hold any directorship in other public companies or listed issuers.

MAT NIZAM BIN MAT DARON
General Manager Sales

Male 50 Malaysian

Mat Nizam Bin Mat Daron was appointed as the General Manager of Sales of Pecca Leather on 1 July 2016.

He obtained his Executive Masters in Entrepreneurship from Asia e-University.

Mat Nizam has over 27 years of working experience gained from the manufacturing industries making plastic injection mould, rubber components and automotive body kits. He has extensive experience in quality assurance, quality systems audit and production process improvements. His forte is in sales and marketing specialising in local Original Equipment Manufacturer ("OEM") and Pre Delivery Inspection ("PDI") contracts.

He does not hold any directorship in public companies or listed issuers.

SAM CHEE SIONG
Operations Manager

Male 46 Malaysian

Sam Chee Siong was appointed as the Operations Manager of Pecca Leather in 2010. He joined Pecca Leather in 2007 as the R&D and Planning Manager.

Sam Chee Siong has over 20 years of working experience in the operations of producing small leather goods, leather car seat covers and other materials wrap and covers for components mainly in the automotive and fashion businesses. He has extensive experience in product quality, production process efficiency and improvements. He currently oversees production planning, warehousing and logistics, skill set development program, preventive maintenance, work safety and health programmes.

He does not hold any directorship in public companies or listed issuers.

PROFILE OF KEY MANAGEMENT

UVARAJASINGAM A/L KANAGASINGAM

Quality Assurance & Business Development Manager

Male 43 Malaysian

Uvarajasingam was appointed as the Quality Assurance and Business Development Manager of Aviation Services Sdn Bhd on 1 January 2020.

Uvarajasingam has been in the Aviation Industry for 25 years working with major airlines like Malaysia Airlines and Malindo in the Cabin Interior Maintenance environment. He completed his Aviation Engineering education in the United Kingdom in 1997.

He does not hold any directorship in public companies or listed issuers.

CHAIRMAN & MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS

The financial year ended 30 June 2020 (FY2020) was a challenging period for the global market with multiple changes and unprecedented circumstances. Nonetheless, we are pleased that Pecca Group Berhad (Pecca, the Group) proved resilient amidst this environment, and on that note, we hereby present the Annual Report and annual audited financial statements of FY2020 on behalf of the Board of Directors.

ECONOMIC OVERVIEW

Global economies marked a slower pace of growth in 2019, as global Gross Domestic Product (GDP) moderated to 2.5% in 2019 as compared to 3.0% in 2018, according to the World Bank. This was mainly due to escalating trade tensions between the US and China, which caused much uncertainty in demand levels, and disrupted supply chains globally.

Malaysia's economy fared similarly in 2019, as Bank Negara Malaysia factored in weaker private consumption, reduced domestic investments and supply chain disruptions as main contributors to the decline in Malaysia's GDP growth to 4.3% in 2019 from 4.7% in 2018.

The rapid escalation of the Coronavirus Disease (COVID-19) pandemic in 2020 further hindered global economic recovery, as it grounded non-essential economic activities to a halt and prompted border closures worldwide to curb the spread of the disease.

Closer to home, the Malaysian Government enforced a Movement Control Order (MCO) from 18 March 2020 to 3 May 2020 to contain the COVID-19 pandemic, followed by the Conditional MCO (CMCO) from 4 May 2020 to 9 June 2020, and Recovery MCO (RMCO) from 10 June 2020. The implementation of the various stages of the MCO had a detrimental effect on the domestic economy, as reflected in the 17.1% year-on-year contraction in Malaysia's 2nd quarter GDP.

The subdued economic sentiment overall took a toll on Malaysia's automotive industry. The Malaysia Automotive Association (MAA) noted a slight increase in Total Industrial Volume (TIV) sales to 604,287 units in 2019 as compared to 598,598 units in 2018. Nonetheless, the weaker customer sentiment coupled by the pandemic-induced economic downturn in the first half of 2020 resulted in vehicle sales reducing 41.1% to 174,675 units from 296,317 units in the same period last year.

BUSINESS OVERVIEW

With the business incorporated in the year 2000, Pecca was listed in the Main Market of Bursa Malaysia Securities Berhad since 19 April 2016, and is today the market leader of automotive leather upholstery for Original Equipment Manufacturer (OEM) passenger vehicles in Malaysia. With a clear goal in mind to be the leading leather upholstery manufacturer globally, we firmly believe in our mission of exceeding customer expectations in product design, innovation and quality.

CHAIRMAN & MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS

Pecca primarily serves in the automotive segment, where we focus on the styling, manufacturing, distribution and installation of leather upholstery for car seat covers and accessory covers to OEM segment, Pre-Delivery Inspection (PDI) segment and Replacement Equipment (REM) segment, plus the supply of leather cut pieces.

The Group's product offerings in the automotive segment are complemented by the aviation segment, which involves the provision of repair and restoration of non-structural cabin interior parts under the Part 145 Repair Station license granted by Civil Aviation Authority of Malaysia (DCA).

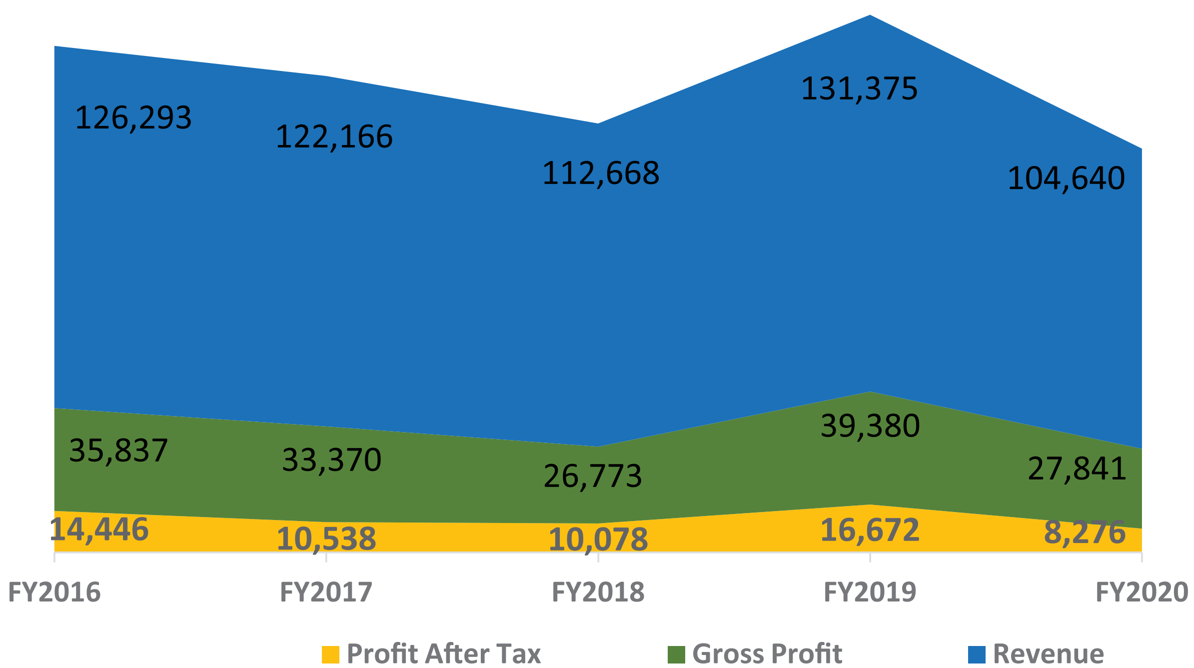
From our headquarters in Malaysia, we deliver our products to renowned customers in Malaysia, and serve export markets such as Singapore, the United States, the Netherlands, Australia, New Zealand, United Kingdom, Ireland and China.

To play our role in alleviating the impact of the COVID-19 pandemic, the Group announced in June 2020 that our wholly-owned subsidiary Pecca Leather Sdn Bhd (PLSB) would venture into developing, producing and supplying Personal Protective Equipment (PPE) including face masks, face shields, and PPE garments to both the commercial and medical communities. Further details are provided in the "Growth Strategies" section of this statement.

FINANCIAL OVERVIEW

The dampened economic sentiment and implementation of the MCO and CMCO had an adverse impact on the overall economy including the operations and financial performance of Pecca. Fortunately, the Group was permitted to resume operations on 11 May 2020 on the condition of strict adherence to Standard Operating Procedures (SOP) across the Group's premises.

Financial Performance Trend (RM '000)



CHAIRMAN & MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS

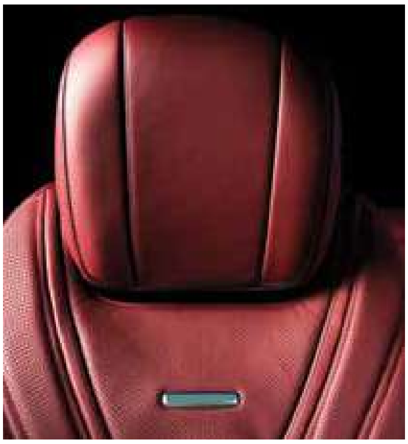
Against the challenging backdrop, the Group reported revenue of RM104.6 million in FY2020, from RM131.4 million in the previous financial year. The 20.4% reduction year-on-year was mainly due to the disruption in sales and operations during the MCO and CMCO phases.

The automotive segment remained our biggest contributor with revenue of RM104.1 million or 99.4% of total sales, while the non-reportable segment raked in RM0.5 million or the balance 0.6%.

Nonetheless, it is important to note at this juncture that the Group upheld the welfare of its employees throughout the MCO and CMCO by maintaining employment and taking the necessary measures to ensure their continued safety and wellbeing. At the same time, the Group adopted an approach of austerity on non-essential expenditure across the operations, while also leveraging on financial and incentives from the Government, such as wage subsidies and 25% rebate on the levy of foreign workers' permit renewal.

Hence, we are pleased to note that the Group stayed profitable during this tumultuous period, posting profit after tax attributed to shareholders of RM8.3 million in FY2020, from RM16.7 million in the previous year. This translates to an earnings per share of 4.62 sen from 9.05 sen a year ago.

Further expounding on our strong financial position, the Group continued its stance of funding operations internally, recording zero debts and borrowings as at 30 June 2020.



Shareholders' equity remained steady at RM155.4 million in end-June 2020 on the back of lower retained earnings, compared to RM165.6 million a year ago. Total cash and bank balances stood at RM78.4 million as at 30 June 2020 from RM92.8 million a year ago, as the Group navigated the challenging landscape.

Overall, the Group remained well positioned in financial stability to execute its expansion plans in the near future.

In appreciation to our shareholders for their belief in the Group, the Board of Directors declared an interim dividend of 3.0 sen per share in respect of FY2020, which was paid to shareholders on 10 April 2020.

The Board of Directors also declared a second interim dividend of 1.6 sen per share in respect of FY2020, which was paid on 25 September 2020.

The dividend payout of RM8.2 million represents 99.3% of total profit after tax, exceeding the Group's dividend policy of distributing 40% of annual profit after tax. The Group endeavours to uphold shareholders' value creation as a key long-term goal.

CHAIRMAN & MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS

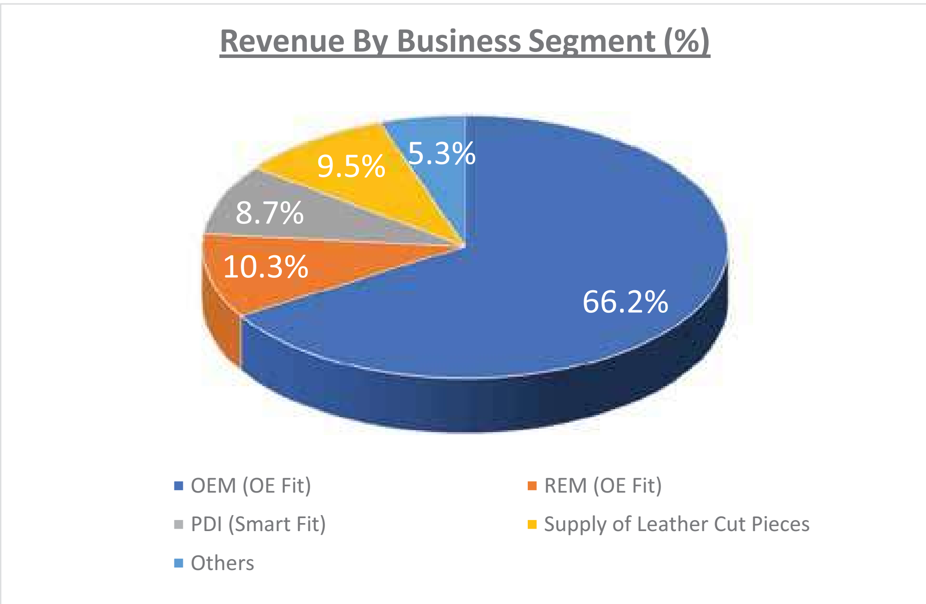
SEGMENTAL REPORTING

Automotive

The Group's main business activity is in producing automotive leather upholstery for car seat and accessories covers, as well as related services.

As its legacy business, the automotive segment made up the lion's share of FY2020 revenue, with RM104.1 million or 99.6% of group revenue. Due to the drastic TIV decrease in Malaysia, as well as two months of operational halts during the MCO and CMCO phases, this segment reported 20.0% lower revenue from RM130.1 million previously.

Total revenue derived from car seat covers stood at RM89.2 million, a 21.9% reduction from RM114.3 million in the previous year, resulting from the non-revenue generating periods of MCO and CMCO. Still, the Group's OEM segment made up RM69.3 million or 77% of the car seat cover segment revenue, followed by the PDI segment at RM10.8 million or 12.1%, and REM at RM9.1 million or 10.2%.

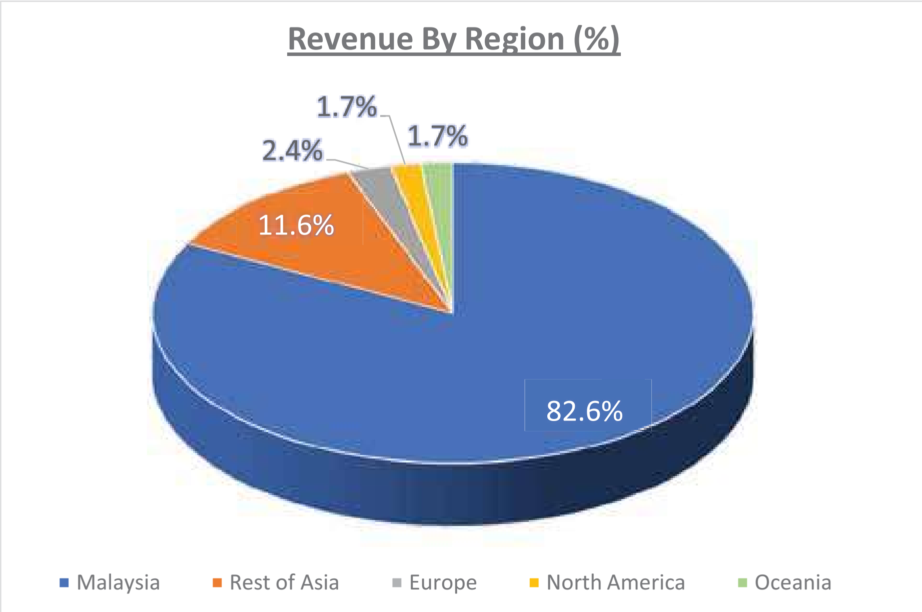


Revenue from leather cut supply pieces increased 4.9% to RM9.9 million in FY2020 compared to RM9.4 million in FY2019, as the Group added a new customer to the portfolio by supplying to a Subaru manufacturing facility in Nanjing, China.

Other services (comprising sewing of fabric car seat covers, manufacturing of leather/PVC car accessories covers miscellaneous seat covers, the provision of wrapping and stitching services and supply of raw materials) made up the remaining RM5.01million of the automotive segment's FY2020 revenue, versus RM6.4 million the year before.

Geographically, the local market contributed 82.6% of total sales, with sales registering a 20.5% decline to RM86.5 million revenue in FY2020 from RM108.7 million in the previous year. Export sales were affected, reducing 19.8% to RM18.2 million in FY2020 from RM22.7 million in FY2019. This was primarily in line with the cautious sentiment worldwide as manufacturers reviewed new launches in light of COVID-19 and the tough economic prospects.

CHAIRMAN & MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS



Non-reportable segment

In FY2020, despite the effects of COVID-19 pandemic on global aviation sector, our aviation segment managed to clock in RM0.5 million in revenue for FY2020, which is lower than FY2019 contribution of RM1.2 million.

FUTURE OUTLOOK AND BUSINESS RISKS

The International Monetary Fund predicted for global GDP to post -4.9% growth in the full year of 2020, faring worse than the 2008-09 global financial crisis, as a result of the ongoing hampering effects of COVID-19.

Bank Negara Malaysia (BNM) projected a bleak GDP growth for Malaysia of between -2% and 0.5% in 2020, contingent on the widespread disruption of businesses nationwide due to COVID-19 and its adverse impact on the country's total productivity and output.

Hence, the resurgence of COVID-19 infections that may prompt further implementation of MCO will be detrimental to the Group, potentially affecting our daily operations, supply chain and sales. To mitigate the risk of COVID-19, we impose stringent health and safety SOPs for employees and visitors to observe. We have also prepared contingency plans to manage the Group's operations in the event of any MCO.

Moreover, the Group's reliance on the supply of foreign labour poses potential risks to the Group, as any changes in the Malaysian Government's policy on foreign workers could disrupt daily operations. In light of this, we have gradually installed Automated or Semi-Automated equipment through Robotics Technology to increase the degree of automation within the manufacturing process. The Group also endeavours to incorporate data analytics systems to facilitate data collection and analysis process, in order to improve operational efficiency and efficacy.

CHAIRMAN & MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS

From an operational perspective, the Group faces downtime risks in its manufacturing lines, in the unlikely events of fire, flood, power outage, machinery breakdown and movement restrictions. The Group has protocols and procedures in place for all departments to minimise the impact to the Group in case of any unwanted incidents.

Meanwhile, the Group is heartened by the buoyant outlook of Malaysia's automotive industry in tandem with the Malaysian Government's incentives to boost vehicle sales. These include a 100% sales tax exemption for Complete Knocked-Down vehicle models and 50% on Complete Build-Up vehicle models from 15 June 2020 to 31 December 2020.

In line with the announcement, MAA revised its TIV forecast upwards to 470,000 units in the full year 2020, from the earlier estimate of 400,000 units in April 2020. At the same time, vehicle manufacturers are anticipated to resume the practice of introducing vehicle face lifts in the interim to remain relevant to consumers, while evaluating the right time to unveil new vehicle models. With the automotive segment the main driver of group revenue, Pecca stands to benefit from the recovery of the automotive industry.

GROWTH STRATEGIES

In formulating our strategies for the upcoming year, the Group recognises the importance of both extending our presence in our core business, and venturing into new opportunities that would position us for future growth.

\>> ***Reinforcing leadership in the automotive leather and aviation sectors***

Pecca intends to continue being a preferred partner to leading domestic and international automotive brands to expand our presence in the automotive leather upholstery sector. Hence, we will increase our product range with new designs and materials to suit customers' vehicle face lifts or incoming new vehicle models, thus placing us in prime position to ride the eventual growth in automotive demand.

CHAIRMAN & MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS

In the aviation segment, the Group is also awaiting final approvals from the European Aviation Safety Agency (EASA) to supply aviation leather seat covers to the aviation sector, as the certification process failed to take off due to border closures. Upon receiving the EASA license, the Group will be able to pursue leather seat cover contracts for commercial airlines, hence opening up a new market for Pecca.

>> *Enhancing operational efficiency*

While seeking to expand our revenue base, the Group also constantly enhances its operational efficiency as a key competitive advantage. Consequently, the Group is integrating Industry 4.0 systems into its operations such as Enterprise Resource Planning (ERP) System, Human Resource Management System and Warehouse Management System to improve the management and movement of goods, services, and human capital.

>> *Venturing into manufacturing medical face masks*

Subsequent to PLSB's announcement in June 2020 to manufacture PPE, the Group had earmarked RM2.2 million in capital expenditure for the purchase of machineries and the setup of cleanroom facilities to produce 3-ply face masks, with expected commencement in the first quarter of financial year ending 30 June 2021 (FY2021). The Group also plans to venture into N95 masks production and distribution as an expansion product in the PPE segment.

In total, the Group has invested RM10 million to acquire seven lines of face mask production machines to be fully commissioned by end-2020, which would provide total production capacity of up to 50 million units of face masks per month. The Group endeavours to fulfil face mask demand in the domestic market and seek opportunities to export overseas. Correspondingly, PLSB is registered with the U.S. Food and Drug Administration (FDA) and obtained the CE marking from European Union which shall enable us to gain access into those huge markets.

APPRECIATION

I would like to convey my utmost gratitude to the Board, management team and our employees for your contributions and efforts in demonstrating Pecca's resilience. I would also like to thank all our clients, suppliers and shareholders for their unwavering support. We will remain fully committed in delivering stronger performance and generating long term value for our stakeholders.

Sincerely,

Dato' Mohamed Suffian bin Awang, Independent Non-Executive Chairman
Datuk Teoh Hwa Cheng, Group Managing Director

SUSTAINABILITY STATEMENT

Pecca is committed to instilling sustainable practices across all levels of our operations, in order to achieve steady growth while upholding the best interests of our stakeholders. This FY2020 sustainability statement outlines our sustainability framework established based on the pillars of economic, environmental, and social ("EES") considerations. The Group's sustainability pursuits are integral to our efforts to enhance our operational capabilities, towards achieving our vision of becoming the leading upholstery manufacturer globally, and our mission of exceeding customers' expectation in design, quality and innovation.

The scope of the FY2020 sustainability statement covers the business activities of the Group's subsidiaries, namely in the automotive segment involving the production of car seat covers for the OEM, REM and PDI categories, and the supply of leather cut pieces and related services, as well as the aviation segment.

CORPORATE VISION

To be the leading upholstery manufacturer globally.

CORPORATE MISSION

To Keep Exceeding Our Customers' Expectation in Design, Quality and Innovation.

ECONOMIC PILLAR

- Establish high performing business operations to ensure sustainable growth
- To provide value added services and products to customers and to ensure fair and transparent procurement practices

ENVIRONMENTAL PILLAR

- To maintain responsible use of natural resources and reduce negative impacts on the environment
- To inculcate environmental awareness and responsibility amongst our employees within our operations

SOCIAL PILLAR

- To encourage continuous employee skills and knowledge development and also to maintain workplace health and safety performance
- To promote fair practices and equal treatment amongst employees and to contribute to the community through donations and corporate social responsibility

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

The United Nations (UN) Member States adopted the Sustainable Development Goals (SDGs) in 2015. The UN SDGs are part of the UN 2030 Agenda for Sustainable Development, and comprises a set of 17 goals that provide a blueprint to address pressing global challenges. The SDGs are aimed at promoting improved quality of life for all, while attaining economic prosperity, environmental preservation and global peace.

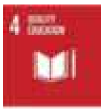
SUSTAINABILITY STATEMENT

We have adopted 4 out of 17 of the SDGs that are relevant to our business operations, and are undertaking the following efforts:

- Achieving greater economic productivity through diversification of business activities, technological enhancements, innovation, and a focus on high value-added sectors (SDG 8)

- Implementing green practices in our operations towards supporting environmental conservation, as well as responsible and sustainable business growth (SDG 12)

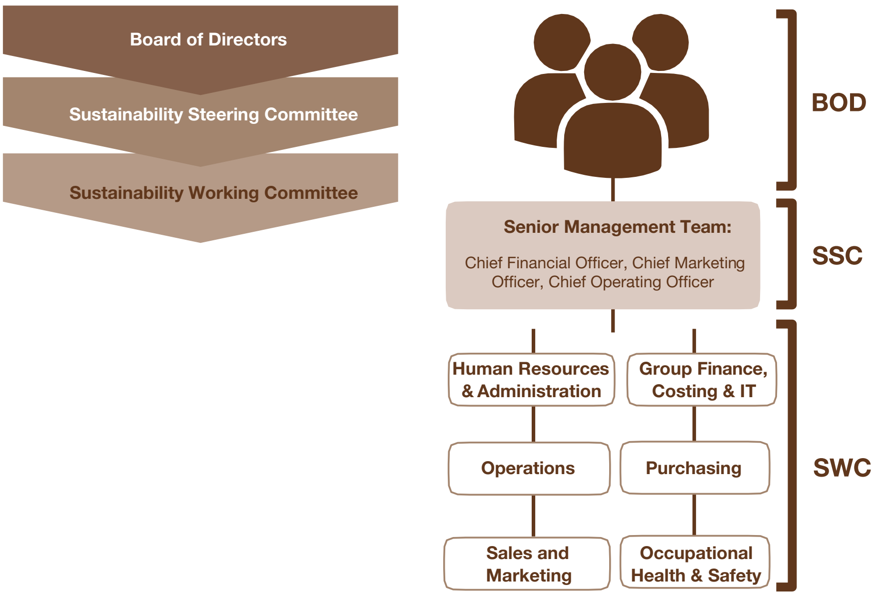
- Promoting a safe and conducive work environment, and continuous training and education opportunities for all levels of the organisation (SDG 3, 4)

SUSTAINABILITY GOVERNANCE

The Group has established a sustainability governance structure to manage matters related to carbon-neutrality in the Group.

This comprises a three-tiered sustainability governance structure led by the Board of Directors ("Board"), which is responsible for overseeing the strategic direction of the Group and its sustainability commitments. The Board is assisted by the Sustainability Steering Committee ("SSC") that develops relevant policies to embed sustainability within the Group's value chain, as well as guides and oversees the implementation of sustainability initiatives by the Sustainability Working Committee ("SWC"). The SWC consists key senior representatives from six cross-functional departments, and is responsible for the implementation of sustainability initiatives and monitoring of sustainability performance.



SUSTAINABILITY STATEMENT

Committee	Roles and Responsibilities
The Board	• Oversees the progress of the Group's sustainability strategy and initiatives • Gives final approval on sustainability policies, strategies, initiatives and other relevant matters as presented by the SSC
SSC	• Recommends sustainability policies, strategies, initiatives and other relevant matters to the Board • Monitors sustainability initiatives implementation by the SWC • Finalises and approves material sustainability issues identified by the SWC
SWC	• Formulates appropriate sustainability initiatives that are in line with the Group's business values and aspirations • Implements sustainability initiatives • Monitors sustainability performance and recommends improvements • Identifies and presents material issues relevant to the Group's business operations

STAKEHOLDER ENGAGEMENT

It is imperative to engage with our stakeholders on a regular basis, as this allows us to more effectively keep abreast of our stakeholders' latest needs and developments, formulate sound strategies, and implement informed business decisions. We engage with different stakeholders to determine material sustainability matters:

Stakeholder	Material Issues	Engagement	Frequency
Investors	• Return on investment • Transparent reporting	• Investor conference earnings communications	• Quarterly
		• Shareholder meeting	• Yearly
		• Annual report	• Yearly
		• Corporate website	• Linked to Bursa
		• Bursa announcement	• Ad hoc
Customers	• Reliable service and on-time delivery • Customer convenience • Competitive pricing • Operational efficiency	• Customer feedback and surveys	• Monthly/Yearly
		• Market research	• Monthly
		• E-fulfilment of transportation and storage transactions	• Monthly
		• https://www.peccaleather.com/	• Constantly available

SUSTAINABILITY STATEMENT

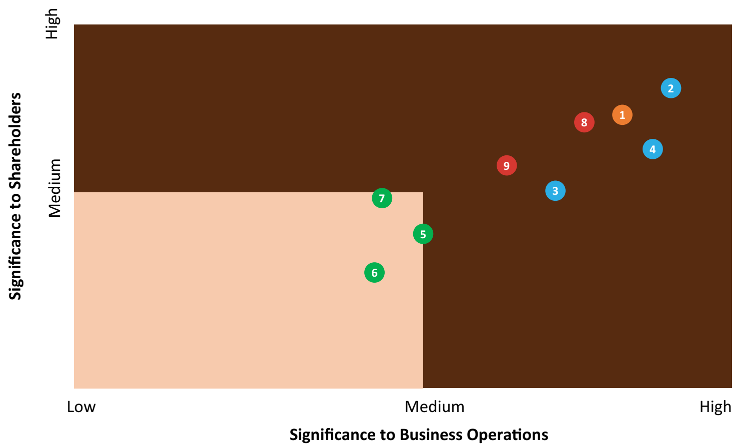
Stakeholder	Material Issues	Engagement	Frequency
Employees	• Competitive pay and benefits • Clear communication • Work-life balance • Career growth and opportunities	• Training programmes and workshops	• Ad-hoc & per training plan
		• Employee engagement survey	• Yearly
		• Town hall meetings	• Monthly
		• Company intranet	• Ad-hoc
		• Recreational events and activities	• Monthly
Regulatory Authorities and Statutory Bodies	• Regulatory compliance • Corporate governance • Standards and certifications • Risk management	• Facility visits	• Ad-hoc
		• Collaborative partnerships	• Monthly
		• Regular audits and inspections	• Ad-hoc
Suppliers	• Timely payments • Procurement practices • Supplier Code of Conduct	• Supplier assessment	• Yearly
		• Supplier registration	• Ad-hoc
Local Communities	• Impact of operations on surrounding environment • Economic opportunities	• Community engagement programmes	• Yearly

MATERIALITY ASSESSMENT

Similar to the previous year, the SWC identified a total of 9 material issues categorised under the EES pillars, through a materiality assessment using a weighted ranking method. The weighted ranking method approach involves assigning a weightage to the stakeholders according to their degree of influence on our business operations. This is followed by ranking the material sustainability matters in order of priority to the business operations. We strive to pursue performance improvements and mitigate potential risks associated with the material issues identified.

SUSTAINABILITY STATEMENT

STEP 1	Identification of material matters relevent to business operations and stakeholders.
STEP 2	Assign weightage to each stakeholder group according to its influence on Pecca's business operation. Rank the importance of each material matter to stakeholder.
STEP 3	Rank the importance of each material matter to Pecca's business operation.



Governance · Economic · Social · Environmental

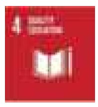
1. Regulatory Compliance
2. Economic Performance
3. Procurement and Supply Chain Management
4. Customer's Satisfaction
5. Energy Consumption
6. Water
7. Effluent and waste
8. Occupational Health and Safety
9. Training and Education

The 9 material matters fall under the 4 pillars of sustainability, in which each matter is aligned to the interest of different stakeholders. 6 of the identified material matters are categorised as high priority (top right corner) to our business operations and stakeholders, while 3 material matters are considered medium low priority.

ALIGNMENT TO SDGs

No.	Material Sustainability Matters	Applicable GRI Indicators	Relevant Stakeholders	Relevant SDGs
REGULATORY				
1	Regulatory Compliance	GRI 307: Environmental Compliance GRI 419: Socioeconomic Compliance	Investors, Regulatory Authorities and Bodies, Employees	

SUSTAINABILITY STATEMENT

No.	Material Sustainability Matters	Applicable GRI Indicators	Relevant Stakeholders	Relevant SDGs
ECONOMIC				
2	Economic Performance	GRI 201: Economic Performance	Investors	
3	Procurement and Supply Chain Management	GRI 102: General Disclosures GRI 204: Procurement Practices	Suppliers	 
4	Customer's Satisfaction	GRI 102: General Disclosures	Customers	
ENVIRONMENT				
5	Energy Consumption	GRI 302: Energy	Investors, Regulatory Authorities and Bodies, Employees	
6	Water	GRI 303: Water and Effluents	Regulatory Authorities and Bodies	
7	Effluents and Waste	GRI 103: Management Approach GRI 306: Effluents and Waste	Regulatory Authorities and Bodies and Local Communities	
SOCIAL				
8	Occupational Health and Safety	GRI 403: Occupational Health and Safety	Employees, Suppliers	
9	Training and Education	GRI 404: Training and Education	Employees	

SUSTAINABILITY STATEMENT

GOVERNANCE

Regulatory Compliance

The Group emphasises on strict compliance to relevant laws and regulations, including economic, environmental, and social aspects in Malaysia. The pertinent laws and regulations that govern our operations in the table below:

- Restriction of Hazardous Substances (Customer Requirements)
- Employment act 1955
- Minimum Wage Order 2016
- Malaysian Code on Corporate Governance 2017
- Companies act 2016
- Environmental Noise Limits and Control
- Electric Passenger and Goods Lift Regulation 1970
- Environmental Quality Act 1974
- Environmental Quality (Sewage and Industrial Effluents)
- Environmental Quality (Scheduled Wastes) Regulation 2005
- Environmental Quality (Clean Air) Regulations 2014
- Environmental Quality (Control of Emission from Diesel Engines) Regulations 1996
- Noise Exposure Regulations 2019
- Fire Service Act and Regulations
- Occupational Safety and Health Act 1994
- Factories and Machineries Act 1967
- Occupational Safety and Health (Use and Standards of Exposure of Chemical Hazards to Health) Regulations 2000
- Occupational Safety and Health (Notification of Accident, Dangerous Occurrence, Occupational Poisoning and Occupational Disease) Regulations 2004
- Occupational Safety and Health (Safety and Health Committee) Regulations 1996
- Factories and Machinery (Notification, Certificates of Fitness and Inspection) Regulations 1970

Ethics and Integrity

The Group is committed to upholding best practices in ensuring that all business dealings are conducted in a professional and ethical manner with the highest integrity. We do not tolerate any form of misconduct and have established relevant policies and procedures that are adhered to by all employees.

Code of Conduct

We strive to build an ethical culture shared by every employee. This code of conduct identifies and illustrates behavioural standards across the workforce. Conformity with the code of conduct helps enhance our sustainability, secures the trust and loyalty of stakeholders, and improves operational efficiency.

Disciplinary action will be taken against any employee involved in fraud. The actions constituting fraud refer to but are not limited to forgery or alteration of any document or account; misappropriation of cash, funds, stocks, supplies or other assets; impropriety in the handling of reporting of money or financial transactions; accepting or seeking anything of material value (bribes, kickback) from agents, vendors, suppliers or persons providing services or goods; profiteering as a result of insider knowledge; and disclosing to external parties especially competitors, the Group's private and confidential information for personal gains.

SUSTAINABILITY STATEMENT

Additionally, any unwanted conduct of a sexual nature in the form of verbal, non- verbal, visual, psychological, or physical harassment, including email or letters depicting unsolicited sexual content or harassment is deemed a breach of the code of conduct. The Group believes in having an alcohol-and-drug-free workplace and expects all employees to uphold and adhere strictly to this policy. Any employee found guilty violating this policy could be summarily dismissed.

All employees shall not to engage in any acts of software piracy or use any illegal copies of unlicensed software or compact disc which violates the Group's policy of strict adherence to licensed usage of software licenses. This undertaking also includes a pledge not to make unauthorised copies of software or transfer out any information through internet or by any other means belonging to the Group.

The Group has established a grievance procedure to provide employees with a formal channel to resolve work related or personal problems, aimed at resolving any complaints in an expedient and structured manner. Employees are able to submit their formal complaints to a supervisor, and if the response is deemed unsatisfactory, the employee may escalate the matter to the next senior level or to the human resource or administration manager.

The Group has also established an anti-corruption policy which governs the professional ethics and integrity among employees.

CONTRIBUTING TO ECONOMIC GROWTH

As a leading market player in the automotive leather upholstery for original equipment manufacturer (OEM) passenger vehicles in Malaysia, we are committed to providing the highest quality and services to our customers and strengthening our competitive position in the marketplace.

Simultaneously, we are also conscious of the importance of maintaining a sustainable business model that generates long-term value for our stakeholders.

Delivering Economic Value

The economic aspect is an essential component to Pecca Group as it ensures long-term growth in our business in line with the interests of our shareholders. Our efforts are also aimed at creating more work and economic opportunities for the local population.

In FY2020, the Group delivered RM104.6 million revenue and RM8.3 million net profit attributable to shareholders. Dividends declared stood at 4.6 sen per share amounting to total payout of RM8.2 million in respect of FY2020, exceeding the Group's dividend policy to distribute at least 40% of net profit attributable to shareholders.

Enhancing Market Presence

Pecca is committed to establishing a strong market presence in Malaysia. We achieve this by constantly providing high quality services that exceed the expectations of our customers, backed by our commitment towards continuous improvements and advancements in our understanding of latest market needs. We also regularly enhance our workforce through the hiring of experienced local talents, as seen in our all-Malaysian management team comprising the Chief Financial Officer (CFO), Chief Marketing Officer (CMO) and Chief Operating Officer (COO). Pecca has also adhered to the Minimum Wage Order since 2016 to ensure the economic wellbeing of our employees.

Procurement and Supply Chain Management

The Group has set in place robust procurement policies that ensure cost efficiency and strategic sourcing that would enhance the competitiveness and supply chain reliability of the Group. Our business operations act as a one-stop centre for all, from styling, manufacturing, distribution and installation of automotive leather upholstery and car interior accessories. We purchase our raw materials from both local and international suppliers. We subject our suppliers to a stringent selection procedure that determines the relevant qualification criteria including the background and experience of the supplier, where priority will be given to suppliers that are experienced in the automotive industry. The supplier is also subjected to product trial tests for quality, competitive pricing, and is required to be equipped with ISO 9001. We also require our suppliers of automotive products and services to develop and implement embedded software to maintain quality assurance of their products.

SUSTAINABILITY STATEMENT

The Group monitors our suppliers' ratings and performance in accordance to pre-determined performance indicators, such as conformity to product requirements, delivery schedule performance, and number of occurrences of premium freight.

As part of our contribution to the domestic economy, we aim to engage local suppliers in addition to foreign suppliers. For FY2020, 25% of the Group's total spending was from Malaysian suppliers.

Customer Satisfaction

At Pecca, we emphasise strict quality assurance measures, as the quality of our products are of utmost importance to secure the trust of our customers and protect the safety of end-users. Our quality assurance initiatives prevent product defects and unnecessary complications in the delivery of quality products to our customers.

To maintain consistent high-quality production and also implement further quality improvements of Pecca car seat covers and interior finishing, the Group has obtained and maintained the following certifications for quality management systems

Certification Code	Description Validity Period	
ISO 9001:2015 – **Quality Management Systems**	Specifies requirements for quality management Demonstrate the ability to consistently provide products and services that meet customer and applicable statutory and regulatory requirements Enhance customer satisfaction through the effective application of the system	Until 2021
International Automotive Task Force (IATF) ISO / TS 16949	An ISO technical specification aimed at the development of a quality management system that promotes continual improvement, emphasizing on defect prevention and the reduction of variation and waste in the automotive industry supply chain Based on the ISO 9001 standard	Until 2021

Pecca also conducts customer satisfaction surveys upon onboarding new customers, as well as annual customer satisfaction surveys to ensure our products and services meet our customers' expectations. The customer satisfaction surveys address three key areas namely Our Product, Our Service and Our People. Details of the survey are outlined below.

SUSTAINABILITY STATEMENT

CUSTOMER SATISFACTION SURVEY			
A	**OUR PRODUCT (40 Points)**	**7**	After sales support service
1	Product Quality	**8**	Customer disruptions including field returns
2	Quality of our product in comparison with others	**9**	Notification on quality & delivery issues
3	Cost of our product compare to others	**C**	**OUR PEOPLE (15 Points)**
4	Compliance to your requirement	**10**	Technical support
		11	Satisfaction level toward our sales staff
B	**OUR SERVICE (25 Points)**	**12**	Knowledge & service quality of supports staff
5	Delivery schedule performance	**D**	**Overall satisfaction level on products & services (20 points)**
6	Response to urgent request		

The scoring results of the survey are recorded and tabulated for future performance improvement. In FY2020, the overall score obtained from our customer satisfaction survey is 85%, with the majority of the evaluated criteria ranked as near excellent by our customers. By categories, Our Product received a score of 85%, with 87% given for Our Service and a 92% score for Our People. These ratings are evident of our high-quality products and services rendered to our customers.

ENVIRONMENTAL CONSERVATION

As a responsible corporate citizen, the Group recognizes the importance of environmental conservation and sustainability to the quality of life of the communities around us. We are thus committed to minimising our environmental footprint via responsible resource management.

Energy Management

Our manufacturing operations rely on the use of electricity. Hence, electricity consumption is a key environmental risk that is addressed under the Group's sustainability maters. To ensure energy efficiency, we record and monitor our electricity consumption at our manufacturing facility and offices, in addition to employing the use of notices and signages at power outlets and switches.

The Group is also assessing plans for implementation of energy efficient LED lighting fixtures and sensors to improve energy efficiency. Our electricity consumption stood at an average of 1,639 kWh per month for FY2020.

SUSTAINABILITY STATEMENT

Water Management

Water is also a precious resource that is used in our business operations. Hence, adequate water management practices are required to prevent wastage of water and its impact on operating costs. The Group monitors water consumption for future improvements.

Currently, signages and notices on proper water usage practices are placed at common water fixtures and faucets, toilets, and pantries, in order to increase employee awareness.

Effluents and Waste

We also emphasise on proper management of effluents and waste products of our operations to uphold the protection of the environment. Our operations generate both scheduled (hazardous) and non-scheduled wastes (municipal wastes). With respect to the scheduled wastes, the Group employs third-party contractors licensed by the Department of Environment (DOE) for the collection, recycling and disposal of our scheduled wastes on a half-yearly basis. The types of scheduled waste we generated are illustrated below:

- SW109: Used fluorescent lamps
- SW409: Used contaminated containers
- SW410: Contaminated Rags/Gloves

For non-scheduled waste such as paper waste and plastics, these wastes do not exhibit significant toxic characteristics and are sent for recycling or disposed as general waste as appropriate.

In addition, the Group ensures effluents produced by our operations are below permissible limits prescribed by DOE. In compliance with regulatory requirements, we carry out monitoring every three years on key parameters such as pH, Chemical Oxygen Demand (COD), Biological Oxygen Demand (BOD), Total Suspended Solids (TSS) and others. In FY2020, effluents generated by our manufacturing facility were below the permissible limit required by DOE.

Materials Consumption

Supply of materials is crucial for Pecca's manufacturing business as our production line uses raw materials to produce our main products. Pecca manages its materials consumption to ensure efficient use of raw material for production at manufacturing plant by using the accounting software system (SAP). A bill of material (BOM) is used to record usage of resources as well as a measure to ensure efficient consumption of raw materials.

With increasing business acquired by the Group, the amount of material needed to supply for demand will also increase. The amount of materials used is also recorded to ensure no wastage and the correct amount of materials is used accordingly to the job specification.

Unwanted leather cuts generated from our processes are used to make car accessories to avoid wastage and reduce material consumption.

- Total leather consumption: 6,000,000 square feet
- Total PVC consumption: 420,000 meter

SOCIAL

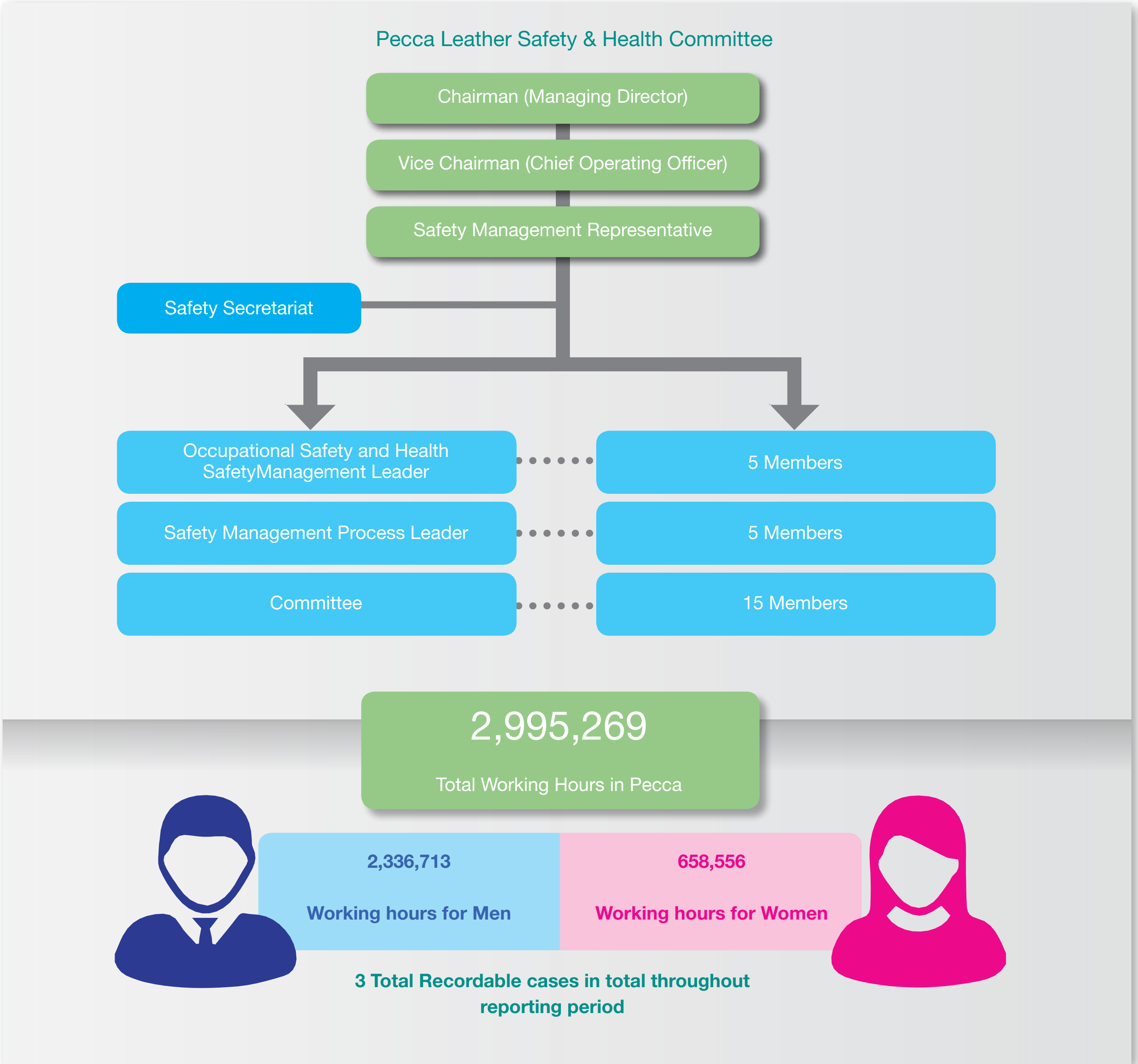
Occupational Health and Safety

We are committed to protecting the health and safety of all our employees. In this regard, we preserve our standards through strict compliance and regular monitoring to ensure that the interests of all employees are always prioritised.

SUSTAINABILITY STATEMENT

We provide our employees a safe and conducive working environment, and comply to the Factories and Machineries Act, 1967 and the Occupational Safety and Health Act 1994 enforced by the Department of Occupational, Safety and Health. Our Safety and Health Committee is tasked to ensure that the Group's health and safety performance complies with regulatory requirements and industry best practices.

We also monitor the total working hours of our employees, in addition to all workplace incidents or accidents. In FY2020, our workforce recorded a total of 2,995,269 working hours for our workforce, of which 78.0% were recorded by men and the balance 22.0% recorded by women, in line with the gender distribution of our workforce. The Group registered 3 total recordable injury cases in FY2020, all of which were classified as incidents, and subsequent remedial actions to enhance the safety of the associated processes have been undertaken.



SUSTAINABILITY STATEMENT

Training and Education

We strive to provide regular training to provide career growth opportunities to our employees, equip them with the latest knowledge on our products, as well as enable the development of specialized skill sets and greater productivity. In FY2020, our employees attended various training programmes and workshops as outlined below:

Selected education and training programmes in FY2020

- Understanding about the Digital Marketing
- Safety & Health Officer
- Refreshening and Updating about the SAP system
- Foreign Worker Management
- Industry 4.0 Conference'19 and Hand on Training
- Interactive Visual Reporting and Analytics
- IATF 16949:2016 Awareness & Clauses Interpretation
- Mandatory Accreditation Program (MAP)

For FY2020, our employees were involved in a total of 409 hours of training. The trainings conducted involved all levels of the organisation spanning management, executive and non-executive employees. The majority of the training was attended by men as compared to women due to the nature of their work-related tasks. The average for each employee was 2.28 training hours.

COMMUNITY ENGAGEMENT

Pecca actively contributes to the well-being and development of the local communities.

We strive to foster a positive community environment and sense of belonging within our workforce. The Group organised a gift exchange for the management and all employees in December 2019 in conjunction with the Christmas season, as a token of appreciation and goodwill.

With the advent of COVID-19 in Malaysia, we established the Pecca CSR Covid-19 program to help alleviate hardships among local communities and play a role in helping the country contain the pandemic.

Since the imposition of the Movement Control Order on 18 March 2020, we have sourced for essential items such as foods, face masks, and hand sanitizers, and delivered them to medical frontliners and public sector workers, as well as the needy and vulnerable. The value of monetary and in-kind assistances amounted to RM430,000.

EVENT HIGHLIGHTS

PECCA CSR COVID – 19

"Pecca prihatin, bersama-sama kita harungi"

We started the Pecca CSR Covid-19 program and put together a team to help the underprivileged families in various locations. Since the MCO announcement on 18th March, we've been sourcing for essential food, face masks and hand sanitizers to deliver to the frontliners, as well as the needy and vulnerables.

We pledged up to RM430,000 to fight COVID-19, providing hand sanitizers, face masks, food items and delivering them personally since March.

As the coronavirus continues to rapidly spread around the world, it has already wreaked havoc on everybody's life, we are actively taking part in supporting communities through various projects such as providing essential food items to the most vulnerable families in Malaysia. The CSR team is working hard to deliver the essential items to families' door step.

We are very pleased to be part of the Ministry of Health Malaysia (MOH) Medical Donation Fund at Putrajaya during the MCO period.

The heroes representing Pecca Group are our COO - K Karunakaran Karuppannan, CFO – Ken Nee Foo, Retail Marketing – Ron Low.

CHINESE NEW YEAR 2020

Chinese Lunar New Year has been an integral part of Malaysia among the Chinese communities.

Pecca Group Berhad hosted a Chinese New Year celebration and invited staff for this special occasion.

Chinese New Year 2020

Greetings from our Managing Director Datuk Teoh and family. They would like to take this opportunity to express their appreciation to all staff, business associates, and customers for the trust and support offered to the Group.

Embracing Diversity

Pecca Group Berhad creates a multicultural workforce and fosters an inclusive environment where there is mutual respect for diversities in ethnicity, culture, custom and religion.

SPORT EVENT

PGB BOWLING COMPETITION 2020

CORPORATE GOVERNANCE STATEMENT

The Board of Directors ("the Board") of Pecca Group Berhad ("the Company") is pleased to present its statement on corporate governance ("CG") practices of the Company during the financial year 2020. The Board in leading the Company in its CG practices is guided by the principles as set out in the Malaysian Code on Corporate Governance 2017 ("MCCG").

This statement is prepared in compliance with Paragraph 15.25(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR") and guided by Practice Note 9 of the MMLR and the Corporate Governance Guide (3rd edition) issued by Bursa Malaysia Securities Berhad ("Bursa Securities").

Detailed application of each practice of the MCCG during the financial year ended 30 June 2020 is disclosed in the Company's Corporate Governance Report which is available on the Company's website at www.peccaleather.com as well as via announcement on the website of Bursa Securities.

This Corporate Governance Overview Statement should also be read in combination with the other statements in the Annual Report (e.g. Statement on Risk Management and Internal Control, Audit and Risk Management Committee Report and Sustainability Statement) as the application of certain governance standards may be more evidently expressed in the context of the respective statements.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

I Board Responsibilities

1. Establishing clear roles and responsibilities of the Board

The Group is headed by an experienced and effective Board. The Board assumes overall responsibility in leading the strategic direction, future expansion, CG, risk management, human resource planning and development, investments made by the Company and overseeing the proper conduct of business of the Group.

The Board discharges its responsibilities in the best interest of the Group and assumes the following key responsibilities in discharging its fiduciary duties:-

(a) Reviews, adopts and monitors the implementation of Management's strategic plans;
(b) oversees and evaluates the conduct and sustainability of the Group;
(c) ensures implementation of appropriate internal controls and mitigating measures to address the risks identified;
(d) carries out periodic reviews of the Group's financial performance and operating results and major capital commitments;
(e) reviews the adequacy and integrity of the Group's internal control system; and
(f) committed to acting professionally, fairly and with integrity in all our business dealings and relationships.

In order to ensure effective discharge of its stewardship role, the Board delegates some of its responsibilities to the Board Committees, namely Audit and Risk Management Committee ("ARMC"), Nomination Committee ("NC") and Remuneration Committee ("RC") which operate within defined Terms of Reference. The Chairman of the respective Board Committees report to the Board on key matters deliberated at the respective Board Committee meetings and makes recommendations to the Board for final decisions, where necessary.

Although specific powers are delegated to the Board Committees, the Board keeps itself abreast of the key issues and/or decisions made by each Board Committee through reports made by the Chairman or representative of each Board Committee and the tabling of Board Committee Minutes of the applicable period for notation by the Board. The ultimate responsibility for decision making, however, lies with the Board.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

I Board Responsibilities (Cont'd)

2. Separation of positions of the Chairman and Managing Director

The Board is headed by an Independent Non-Executive Chairman who is responsible for the leadership, integrity and effectiveness of the governance of the Board. The responsibilities of the Chairman are set out in the Board Charter.

There is a clear division of roles and responsibilities between the Chairman and Managing Director in ensuring balance of power and authority in the Company. The Chairman is responsible for leadership of the Board in ensuring the effectiveness of all aspects of its role whilst, the Managing Director is the conduit between the Board and Management in ensuring the success of the governance and management functions of the Company.

3. Company Secretaries

The Board is supported by qualified and competent Company Secretaries. The Board has direct access to the advice and services of the Company Secretaries. The Company Secretaries play an advisory role to the Board in relation to the Company's Constitution, Board's policies and procedures, CG and compliance with the relevant regulatory requirements and legislations. The Company Secretaries are suitably qualified, competent and capable of carrying out the duties required.

The Board recognises that the decision-making process is highly dependent on the quality of information furnished. In furtherance to this, every Director has access to all information within the Company and all meeting materials are prepared and issued to the Board of Directors and Board Committee members at least five (5) business days prior to the meetings to enable them to receive the information in a timely manner.

4. Access of Information and Advice

In ensuring the effective functioning of the Board, all Directors have individual and independent access to the advice and support services of the Company Secretaries, Internal Auditors and External Auditors and may seek advice from the Management on issues under their respective purview. The Board members have full and timely access to all information within the Group and the Board papers are distributed prior to the Board Meetings to enable the Directors to obtain relevant information and have sufficient time to deliberate on the issues to be raised at the meetings so as to discharge their duties diligently.

The Board papers which include the agenda and reports cover amongst others, areas of strategic, financial, operational and regulatory compliance matters that require the Board's approval.

All proceedings of the Board meetings are duly minuted and circulated to all Directors for their perusal prior to the confirmation of the minutes by the Chairman as a correct record. The Company Secretaries record the proceedings of all meetings including pertinent issues, the substance of inquiries, if any, and responses thereto, members' suggestion and the decisions made, as well as the rationale for those decisions. By doing so, the Company Secretaries keep the Board updated on the follow-up actions arising from the Board's decisions and/or requests at subsequent meetings. The Board is therefore able to perform its fiduciary duties and fulfil its oversight role towards instituting a culture of transparency and accountability in the Company.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

I Board Responsibilities (Cont'd)

5. Board Charter

The Board Charter adopted by the Board serves as a source of reference and primary guide to the Board as it sets out the role, functions, composition, operation and processes of the Board. There is a schedule of matters specifically reserved for the Board's decision set out in the Board Charter.

The Board Charter delineates the duties and responsibilities of the Board, Board Committees and individual Directors, including the following matters that are solely reserved for the Board's decision:-

(a) Conflict of interest issues relating to a substantial shareholder or a Director including approving related party transactions;
(b) Material acquisitions and disposition of assets not in the ordinary course of business including significant capital expenditures;
(c) Strategic investments, mergers and acquisitions and corporate exercises;
(d) Limits of authority;
(e) Treasury policies;
(f) Risk management policies;
(g) Key human resource issues; and
(h) Bribery and corruption issues.

The Board Charter also serves as a primary induction literature that guides newly appointed and existing Board members on their duties and functions of the Board and its Committees.

The Board Charter is subject to review by the Board as and when necessary to ensure it complies with all applicable laws, rules and regulations of the regulators and remain consistent with the policies and procedures of the Board.

6. Code of Ethics

The Board has formalised a Code of Ethics for the Directors and adheres to the Code of Conduct expected for Directors as set out in the Company's Directors' Code of Ethics promulgated by the Companies Commission of Malaysia which governs the underlying core ethical values and commitment to lay standards of integrity, transparency, accountability and corporate social responsibility. The Code of Ethics of Directors are available at the Company's website at www.peccaleather.com.

7. Whistle-blower Policy

The Company has put in place a Whistleblowing Policy to strive to conduct its business relationships and dealings with the highest level of integrity and accountability and adopt zero-tolerance approach towards any misconduct that would jeopardise its good standing and reputation. This policy is intended to encourage and enable the directors, employees and Stakeholders of the Group to raise concerns about suspected and/or known malpractices, misconduct or wrongdoings.

8. Anti-Bribery and Anti-Corruption Policy

The Company has adopted an Anti-Bribery and Anti-Corruption Policy ("ABAC Policy"), which is made available at the Company's website at www.peccaleather.com.

The Board has adopted a zero-tolerance approach against all forms of Bribery and Corruption, as defined in the ABAC Policy, and takes a strong stance against such acts. The ABAC Policy leverages on the core principles of the Company as set out in the Company's Code of Ethics and Conduct. The ABAC Policy serves as a guideline on how to deal with Bribery and Corruption which may arise in the course of business.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

II Board Composition

1. Board Composition and Balance

The Board is well balanced, comprising experienced businessmen and qualified professionals of diverse age and ethnicity. The Directors collectively bring with them diverse knowledge, skill, extensive experience and expertise in areas such as strategic planning, business development, finance, corporate affairs, information technology marketing and operations.

The Board has eight (8) members, comprising of three (3) Independent Non-Executive Directors, four (4) Executive Directors and one (1) Group Managing Director. This complies with Paragraph 15.02 of the MMLR which requires at least two (2) or one-third (1/3) of the Board of the Company, whichever is higher, are Independent Directors.

A brief profile of each Directors is presented in the Profile of Directors section of the Annual Report.

2. Board Independence

The Board recognises that the independence and objective judgement are crucial and imperative in decision making process. The Independent Non-Executive Directors play a significant role in providing unbiased and independent view, advice and judgement taking into account the interest of relevant stakeholders including minority shareholders of the Group.

The Company has also applied the recommended Practice 4.1 of the MCCG where at least half of the Board comprises Independent Directors. As to-date, the tenure of all Independent Directors is less than nine (9) years of service. The Board will justify and seek shareholders' approval in the event it retains an Independent Director who has served in that capacity for a cumulative period of more than nine (9) years.

It is also set out in the Board Charter that if the tenure of an Independent Director exceeds a cumulative term of twelve (12) years, the retention of such Independent Director shall be subject to the shareholders' approval through a two-tier voting process in line with the MCCG.

3. Boardroom Diversity

The Board acknowledged the importance of boardroom diversity and recognises the importance of providing fair and equal opportunities and fostering diversity within the Group. The Company endeavours to have a balanced representation in terms of mixture of skills, knowledge and experience, background, expertise, age, gender and ethnicity. The Board acknowledges the diverse Board as an essential element in maintaining competitive advantage in leveraging different perspective to various issues raised and quality decision making, which in return contribute to the development and sustainability of the Company.

At present, the Board has two (2) female Directors. The Board has adopted the Diversity Policy in May 2018. The Board with the Head of Human Resource will monitor the scope and applicability of the Diversity Policy, from time to time.

4. Appointment of Directors

The NC is entrusted to develop the policies and procedures in formalising the approach in the recruitment process and annual assessment of Directors, which serve as guides for the NC in discharging its duties in the aspects of nomination, evaluation, selection and appointment process of new Directors.

The appointment of any additional Director is made as and when it is deemed necessary by the existing Board upon recommendation from the NC. All nominees and candidates to the Board are first considered by the NC taking into consideration, inter-alia, the competency, knowledge, expertise and experience, professionalism, integrity, time commitment of the candidates, including, where appropriate, the criteria on assessing the independence of candidates' appointment as Independent Non-Executive Directors.

In identifying candidates for appointment as Directors, the NC would use a variety of approaches and sources to ensure that it identifies the most suitable candidates and will not limit themselves by solely relying on the recommendations from existing Board members, management or major shareholders.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

II Board Composition (Cont'd)

5. Re-election of Directors

In accordance with the Company's Constitution, an election of Directors shall take place each year at an AGM and one-third (1/3) of the Directors are subject to retirement by rotation, in any event, each Director shall retire from office once in every three (3) years. The Directors to retire in each year are the Directors who have been longest in office since their last appointment or re-election. The Directors appointed by the Board during the financial year are subject to retirement at the next AGM held following their appointments in accordance with the Company's Constitution. All retiring Directors are eligible for re-election. The re-election of each Director is voted on separate resolutions during the AGM of the Company.

Based on the schedule of rotation, the following Directors are subject to retirement by rotation pursuant to the Company's Constitution at the forthcoming Tenth AGM:-

(a) Datin Sam Yin Thing (Clause 97)
(b) Chew Kian Seng (Clause 105)
(c) Leong Chee Tong (Clause 105)
(d) Teoh Zi Yi (Clause 105)
(e) Teoh Zi Yuen (Clause 105)

At the forthcoming AGM, the aforesaid Directors have expressed their intention to seek for re-election. The NC had made recommendations to the Board on re-election of Datin Sam Yin Thing, Mr Chew Kian Seng, Mr Leong Chee Tong, Mr Teoh Zi Yi and Ms Teoh Zi Yuen. The Board is satisfied with the skills and contributions of these retiring Directors and recommends their re-election as Directors of the Company which is to be tabled at the forthcoming AGM.

6. Directors' Commitment

The Board meets on a quarterly basis with additional meetings convened where necessary to deal with urgent and important matters that require the attention of the Board. All pertinent issues discussed at the Board meetings in arriving at the decisions and conclusions are properly recorded by the Company Secretaries. The Board is satisfied with the level of commitment given by the Directors towards fulfilling their roles and responsibilities as Directors of the Company as most of the Directors had attended all the Board Meetings during the financial year under review.

The Board met five (5) times during the financial year under review. The details of the Directors' attendance at the Board and Board Committee meetings during the financial year under review is set out below:-

Name	Board	ARMC	NC	RC
Dato' Mohamed Suffian Bin Awang *Independent Non-Executive Chairman*	5/5	5/5	1/1	–
Datuk Teoh Hwa Cheng *Group Managing Director*	5/5	–	–	1/1
Datin Sam Yin Thing *Executive Director*	5/5	–	–	–
Datuk Leong Kam Weng *Independent Non-Executive Director*	5/5	5/5	1/1	1/1
Kong Kam Seong[a] *Independent Non-Executive Director*	3/4	4/4	1/1	1/1
Chew Kian Seng[b] *Independent Non-Executive Director*	1/1	1/1	–	–

Remarks:
(a) - Resigned on 30 April 2020
(b) - Appointed on 30 April 2020

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

II Board Composition (Cont'd)

7. Directors' Training

The Board acknowledges that continuous education is vital for the Board members to keep abreast with the latest developments in the industry and business environment as well as changes to statutory requirement and regulatory guidelines.

All Directors of the Company have attended the Mandatory Accreditation Programme as prescribed in the Listing Requirements. The Directors will continue to identify and attend other training courses to equip themselves effectively to discharge their duties as Directors on a continuous basis.

During the financial year under reviews, the Directors have attended the following training programmes:

Directors	Name of Seminar and Training Programmes
Dato' Mohamed Suffian Bin Awang	• Audit Oversight Board Conversation with Audit Committees • Corporate Liability Provision on Corruption under the MACC Act 2009
Datuk Teoh Hwa Cheng	• Corporate Liability Provision on Corruption under the MACC Act 2009
Datin Sam Yin Thing	• Corporate Liability Provision on Corruption under the MACC Act 2009
Datuk Leong Kam Weng	• United States Foreign Corrupt Practices Act and Anti-Corruption Laws Training (participated as speaker) • Artificial Intelligence and Its Role in Financial Institutions • MFRS 17: Understanding its impact and consequences • Understanding Fintech and its Implications for Insurance Companies • MIA International Accountants Conference 2019 • Audit Oversight Board Conversation with Audit Committees • Corporate Liability Provision on Corruption under the MACC Act 2009 • Covid-19 & Current Economic Reality: Implications for Financial Stability • Audit Committee Institute Virtual Roundtable 2020: Staying Resilient during an economic downturn • Return to work, reimagined – insights from across Asia-Pacific • 3rd Distinguished Board Leadership Series - Challenging Times: What Role Must the Board Play • Preservation of cash and creation of liquidity • Impact of COVID-19 on Financial Reporting • Asia Pacific after COVID-19: new forces, new dynamics, new era • Section 17A MACC Act: A New Horizon in Malaysian Corporate Accountability • Anti-Corruption Laws of Malaysia (participated as speaker) • Digital Banking: Malaysia's Game Changer
Chew Kian Seng	• Mandatory Accreditation Programme for Directors of Public Listed Companies

The Company Secretaries circulated the relevant guidelines on statutory and regulatory requirements from time to time and update the Board on the same at Board meeting. The External Auditors also briefed the Board members on any current and future changes to the Malaysian Financial Reporting Standards that affect the Group's financial statements.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

II Board Composition (Cont'd)

8. Board Committees

In discharging its fiduciary duties, the Board has delegated specific tasks to Board Committees. These Board Committees have the authority to examine particular issues and report to the Board on their proceedings and deliberations together with its recommendations. However, the ultimate responsibility for the final decision on all matters lies with the entire Board as a whole.

(a) Audit and Risk Management Committee ("ARMC")

The ARMC assists the Board in its oversight of the Company's financial statements and reporting in fulfilling its fiduciary responsibilities relating to the internal controls, financial and accounting records and policies as well as financial reporting practices of the Group.

A copy of the Terms of Reference of the ARMC is available for viewing at the Company's website at www.peccaleather.com.

The composition and activities of the ARMC during the financial year under review are set out in the Audit and Risk Management Committee Report of this Annual Report.

(b) Nomination Committee ("NC")

The NC comprises exclusively of Independent Non-Executive Directors and the composition is as follows:-

Dato' Mohamed Suffian Bin Awang (Chairman)
Independent Non-Executive Director

Datuk Leong Kam Weng (Member)
Independent Non-Executive Director

Leong Chee Tong (Member) (Appointed on 16 October 2020)
Independent Non-Executive Director

Chew Kian Seng (Member) (Appointed on 30 April 2020 and Resigned on 16 October 2020)
Executive Director

Kong Kam Seong (Member) (Resigned on 30 April 2020)
Independent Non-Executive Director

The Board is of the view that all the Independent Directors of the Company are always within reach of the shareholders and issues are discussed openly at meetings, thus, shareholders may approach any of the Independent Directors of the Company. In view thereof, the Board has not nominated a Senior Independent Non-Executive Director at this juncture.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

II Board Composition (Cont'd)

8. Board Committees (Cont'd)

(b) Nomination Committee ("NC") (Cont'd)

The NC assists the Board in carrying out the annual assessment of the effectiveness of the Board as a whole, the Board Committees and the contribution or performance of each individual Director. The NC also assists the Board in assessing the level of independence of the Independent Directors annually. The principal duties and responsibilities of the NC as defined in the Terms of Reference of the NC, include but are not limited to the following:-

(i) To recommend to the Board, candidates for all directorships. The NC should consider the candidates' skills, knowledge, expertise, experience, professionalism, integrity, time commitment, character, competence and number of directorships, and in the case of candidates for the position of Independent Non-Executive Director, the NC should ensure the candidate meets the requirements as an Independent Non-Executive Director.

(ii) To assist the Board in carrying out an annual assessment on the effectiveness of the Board and Board Committees and the performance of each Director.

(iii) To carry out an annual review assessment on the independence of the Independent Directors.

(iv) To carry out an annual review on the mix of skills, experience and other qualities of the Board, including core competencies which Non-Executive Directors should bring to the Board. This activity shall be disclosed in the Annual Report.

(v) To make recommendations to the Board concerning the re-election and re-appointment of directors at each AGM.

The duties and responsibilities of the NC are set out in the Terms of Reference of the NC, which is published and available for viewing at the Company's website at www.peccaleather.com.

Summary of Works

During the financial year under review, the activities undertaken by the NC include: -

(i) Assessed and was satisfied with the effectiveness of the Board as a whole and the Board Committees as a whole, and the contributions of each Director.
(ii) Reviewed and was satisfied with the mix of skills, knowledge, expertise and experience, composition and size of the Board in terms of gender, ethnicity and age.
(iii) Assessed the independence of the Independent Directors and concluded that the Independent Directors are independent and have complied with the criteria of independence as set out in the MMLR.
(iv) Assessed and was satisfied with the character, experience, integrity, competence and time commitment of the Directors and Chief Financial Officer.
(v) Discussed the training programmes for the Directors to enhance their skills and knowledge.
(vi) Evaluated the performance of the retiring Directors and recommended their re-election at the AGM of the Company to the Board.
(vii) Reviewed the Terms of Reference.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

II Board Composition (Cont'd)

8. Board Committees (Cont'd)

(c) Remuneration Committee ("RC")

The RC of the Company comprises two (2) Non-Executive Directors and one (1) Managing Director and the composition is as follows:-

Datuk Leong Kam Weng (Chairman)
Independent Non-Executive Director

Datuk Teoh Hwa Cheng (Member)
Group Managing Director

Leong Chee Tong (Member) (Appointed on 16 October 2020)
Independent Non-Executive Director

Chew Kian Seng (Member) (Appointed on 30 April 2020 and Resigned on 16 October 2020)
Executive Director

Kong Kam Seong (Member) (Resigned on 30 April 2020)
Independent Non-Executive Director

The Board is of the view that remuneration is intrinsically linked to the Group's day to day operations and has included the Group Managing Director as a member of the RC.

The RC is governed by the Terms of References of the RC which outlines its remit, duties and responsibilities. The principal duties and responsibilities of the RC as defined in the Terms of References of RC, include but are not limited to the following:-

(i) To ensure that remuneration for Directors is set at a competitive level to recruit, attract, retain and motivate high calibre individuals;
(ii) To recommend to the Board the appropriate remuneration packages for the Executive Directors, Non-Executive Directors and key management;
(iii) To review the performance of the Executive Directors and the Managing Director and recommend to the Board specific adjustments in remuneration and/or reward payments, if any, reflecting their contribution for the year;
(iv) To ensure that the level of remuneration be aligned with the business strategy and long-term objectives of the Company, complexity of the Company's activities and reflects the experience and level of responsibilities undertaken by the Directors and key senior management; and
(v) To review the fees of the Directors and benefits payable to Directors including any compensation for loss of employment of the Director or former Director and recommend to the Board of Directors and thereafter to be approved at a general meeting of the Company.

The Terms of Reference of the RC is published and available for viewing at the Company's website at www.peccaleather.com.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

II Board Composition (Cont'd)

8. Board Committees (Cont'd)

(c) Remuneration Committee ("RC") (Cont'd)

Summary of Works

Below is a summary of key activities undertaken by the RC:-

(a) Reviewed the Directors' Fees and benefits payable to the Directors from 1 July 2019 until the financial year ended 30 June 2020 and recommended the same to the Board of Directors for approval;
(b) Reviewed the remuneration package of the Executive Directors and Senior Management of the Company and recommended the same to the Board for approval;
(c) Reviewed the Terms of Reference of the RC; and
(d) Reviewed the Directors and Senior Management's Remuneration Policy.

9. Annual Assessment on effectiveness of the Board and Individual Directors

The NC has put in place a formal evaluation process to assess the effectiveness of the Board as a whole, the effectiveness of the Board Committees, contribution and performance of each director and performance of audit committee members on an annual basis.

The evaluation process is led by the NC Chairman who is an Independent Non-Executive Director and supported by the Company Secretaries. The evaluation process is conducted via questionnaires to review the effectiveness of the Board and its Committees and based on self-review and peer assessment. The NC reviews the outcome of the assessment and reports to the Board, in particular, areas for improvement, and is also used as the basis of recommending relevant Director(s) for re-election at the AGM.

The NC reviews the effectiveness of the Board by taking into account the composition of the Board, time commitment, boardroom activities and the overall performance of the Board.

The NC undertakes annual assessment on the independence of directors. When assessing independence, the NC focuses on whether the Independent Directors are able to bring independent and objective judgement and act in the best interest of the Group.

Upon its annual assessment conducted on effectiveness of the Board and Board Committees; character, experience, integrity, competence and time commitment of each Director and Chief Financial Officer; mix of skills and experience of the Board; level of independence of the Directors; and term of office and performance of the ARMC and each of its members, the NC had concluded that the Directors have discharged their duties more than satisfactory. The NC was also satisfied with the performance of the Board and Board Committees. As for the balance and composition of the Board, the NC concluded that the Directors have the appropriate mix of skills, experience, knowledge and professional qualifications which will contribute positively to the Board Committees and the Board as a whole.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

III Remuneration

1. Directors' Remuneration Policy and Procedures

The RC has established a Remuneration Policy for Directors and Senior Management which is linked to the strategic performance or long term objectives of the Company to ensure that the Company is able to attract and retain capable Directors and Senior Management to run the Group successfully. The Executive Directors' remuneration is structured to link rewards to corporate and individual performances. In the case of Non-Executive directors, the level of remuneration reflects the experience and level of responsibilities undertaken.

In determining the remuneration of the Directors and Senior Management, the Company's objective is to provide fair and competitive remuneration to its Board and/or Senior Management in order for the Company to benefit by attracting and retaining a high quality team. The RC is authorised by the Board to seek appropriate professional advice within and outside the Group as and when it considers necessary.

The annual salaries, incentive arrangements, service arrangements and other employment conditions for the Executive Directors and/or Senior Management are reviewed by the RC and recommend to the Board for approval and where necessary, will be subject to shareholders' approval. Senior Management(s) who report directly to the Executive Directors are evaluated annually premised on annual measurements and targets set. Thereafter, the Executive Directors approve the remuneration of the Senior Management(s) based on their performance.

The determination of the remuneration for Non-Executive Directors is a matter for the Board to decide as a whole. The Senior Management and Executive Directors are not present during the discussions when matters affecting their own remuneration arrangements are being considered.

2. Remuneration of Directors

Details of the remuneration of Directors (paid by both the Company and the Group) who served during the financial year ended 30 June 2020 are as follows:

The Group

Name	Fees (RM)	Allowance (RM)	Salaries (RM)	Bonus (RM)	Other emoluments (RM)	Total (RM)
Dato' Mohamed Suffian Bin Awang	88,000	11,000	–	–	–	99,000
Datuk Teoh Hwa Cheng	55,000	1,500	583,770	128,535	86,405	855,210
Datin Sam Yin Thing	–	24,600	260,595	65,835	42,887	393,917
Datuk Leong Kam Weng	88,000	10,500	–	–	–	98,500
Kong Kam Seong	24,500	8,000	–	–	–	32,500
Chew Kian Seng	7,500	1,000	–	–	–	8,500
Sam Chee Keng	55,000	20,900	231,200	55,485	37,849	400,434
TOTAL	318,000	77,500	1,075,565	249,855	167,141	1,888,061

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

III Remuneration (Cont'd)

2. Remuneration of Directors (Cont'd)

The Company

Name	Fees (RM)	Allowance (RM)	Salaries (RM)	Bonus (RM)	Other emoluments (RM)	Total (RM)
Dato' Mohamed Suffian Bin Awang	88,000	11,000	–	–	–	99,000
Datuk Teoh Hwa Cheng	–	1,500	–	–	–	1,500
Datin Sam Yin Thing	–	1,500	–	–	–	1,500
Datuk Leong Kam Weng	88,000	10,500	–	–	–	98,500
Kong Kam Seong	24,500	8,000	–	–	–	32,500
Chew Kian Seng	7,500	1,000	–	–	–	8,500
TOTAL	208,000	33,500	–	–	–	241,500

3. Remuneration of Key Senior Management

In determining the remuneration packages of the Group's Senior Management, factors that were taken into consideration included individual responsibilities, skills, expertise and contributions to the Group's performance and whether the remuneration package is competitive and sufficient to ensure that the Group is able to attract and retain executive talents.

Although the Code has stipulated that the Company should disclose on a named basis the top five (5) senior management's detailed remuneration including salary, bonus, benefits-in-kind and other emoluments in bands of RM50,000, the Board would like to provide for an advocacy period in the interim.

The Board has not disclosed on a named basis the top five senior management's remuneration in bands of RM50,000 as the Board is of the opinion that such disclosure may cause tension and unhealthy competition among senior management. In addition, such disclosure would not be in the best interest of the Group, given the highly possibility of these employees being poached.

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

I ARMC

1. Composition

The ARMC is responsible for assisting the Board in fulfilling its statutory and fiduciary responsibilities of monitoring the Group's management of its financial risk processes, accounting and financial reporting practices, ensuring the efficacy of the Group's system of internal control and in maintaining oversight of both the internal and external audit functions.

The ARMC comprises three (3) members, all of whom are Independent Non-Executive Directors. The ARMC Chairman, Datuk Leong Kam Weng, is the Independent Non-Executive Director and is not the Chairman of the Board. Datuk Leong Kam Weng is a Fellow of CPA Australia and a Chartered Accountant of the Malaysian Institute of Accountants.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT (CONT'D)

I ARMC (Cont'd)

1. Composition (Cont'd)

The independence, objectivity and integrity of the members of the ARMC are the key requirements which the Board of the Company recognises as essential for an effective and independent ARMC. None of the members of the ARMC is a former key audit partner. The ARMC has instituted a policy by way of inclusion in the Terms of Reference of the ARMC that requires a former key audit partner to observe a cooling-off period of at least two (2) years before being appointed as a member of the ARMC.

More information on the ARMC and its activities during the financial year is set out in the Audit and Risk Management Committee Report of this Annual Report.

2. Financial Reporting

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group, and ensuring that the financial statements of the Group comply with the Companies Act 2016 and applicable approved financial reporting standards in Malaysia.

The ARMC assists the Board in discharging its fiduciary duties by ensuring that the audited financial statements and quarterly financial reports are prepared in accordance with the Malaysian Financial Reporting Standards and Main Market Listing Requirements of Bursa Securities. In presenting the annual audited financial statements and quarterly announcements of results to shareholders, the Board aims to present a balance and fair assessment of the Company's financial position and prospects. The ARMC reviews the Company's quarterly financial results and annual audited financial statements to ensure accuracy adequacy and completeness prior to presentation to the Board for its approval.

3. Suitability and Independence of External Auditors

The Board maintains a good professional relationship with the external and internal auditors through the ARMC in discussing with them their audit plans, audit findings and financial statements. The ARMC invites the external auditors at least twice a year to discuss their findings and audited financial statements of the Group. In addition, the ARMC also met with the external auditors during the financial year ended 30 June 2020 without the presence of the Executive Directors, Group Managing Director and Senior Management of the Company.

The ARMC is responsible for the recommendation on the appointment and re-appointment of the Company's external auditors and the audit fees. The ARMC carried out an assessment of the performance and suitability of the external auditors based on the quality of services, sufficiency of resources, communication and interaction and independence and objectivity.

Messrs KPMG PLT, the External Auditors of the Company have confirmed to the ARMC that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the independence criteria set out by the Malaysian Institute of Accountants.

The ARMC is satisfied with the suitability and independence of Messrs KPMG PLT based on the quality and competency of services delivered, sufficiency of the firm and professional staff assigned to the annual audit as well as the non-audit services performed for the financial year ended 30 June 2020 and has recommended their re-appointment for the financial year ending 30 June 2021.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT (CONT'D)

I ARMC (Cont'd)

3. Suitability and Independence of External Auditors (Cont'd)

For the financial year ended 30 June 2020, fees paid to the external auditors, KPMG PLT and its affiliated firms by the Company and the Group are stated in the table below:-

Nature of Services	Company (RM)	Group (RM)
Audit - KPMG PLT	50,000	155,000
Non-Audit: - KPMG PLT - Local affiliates of KPMG PLT	6,000 5,000	6,000 26,000
Total	61,000	187,000

II Risk Management and Internal Control Framework

1. Risk Management and Internal Controls

The Board assumes its overall responsibility in establishing a risk management framework and maintaining a sound system of risk management and internal control throughout the Group which provides reasonable assurance in ensuring the effectiveness and efficiency of the Group's operations that not limiting to financial aspects of the business but also operational and regulatory compliance. The ARMC has been entrusted by the Board to ensure effectiveness of the Group's internal control systems. The ultimate objectives are to protect the Group's assets and safeguard shareholders' investments.

The Board acknowledges that while the internal control system is devised to cater for particular needs of the Company and risk management to provide reasonable assurance against material misstatements or loss.

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

2. Internal Audit Function

The Board acknowledges the significance of a sound system of risk management and internal control to manage the overall risk exposure of the Group.

The Group has an internal audit function which is outsourced to GovernAce Advisory & Solutions Sdn Bhd and reports directly to the ARMC. The resources and scope of work covered by the internal audit function during the financial year under review, including its observation and recommendations, is provided in the Audit and Risk Management Committee Report of thi s Annual Report. Details on the person responsible for the internal audit are set out below:-

Name	:	Chong Chee Seng
Qualification	:	Member of Institute of Internal Auditors Malaysia (IIAM) and Malaysian Institute of Accountants (MIA).
Independence	:	Does not have any family relationship with any director and/or major shareholder of the Company
Public Sanction or penalty	:	Has no convictions for any offences within the past 5 years, other than traffic offences, if any and has not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT (CONT'D)

II Risk Management and Internal Control Framework (Cont'd)

2. Internal Audit Function (Cont'd)

The ARMC meets regularly to review the risks identified, discuss on mitigation actions in place and report to the Board on a quarterly basis. Details of the internal audit function are set out in the Statement on Risk Management and Internal Control and ARMC Report of this Annual Report.

The Board affirms its overall responsibility with established and clear functional responsibilities and accountabilities which are carried out and monitored by the ARMC. The adequacy and effectiveness of the internal controls and risk management framework were reviewed by the ARMC.

Further information may be found in the Statement of Risk Management and Internal Control.

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

I Communication with Stakeholders

The Board has formalised corporate disclosure policies and procedures to enable comprehensive, accurate and timely disclosures of the Group to the regulators, shareholders and stakeholders not only to comply with the disclosure requirements as stipulated in the MMLR, but also setting out the persons authorised and responsible to approve and disclose material information to shareholders and stakeholders in compliance with the MMLR.

The Board has established a dedicated section for corporate information on the Company's website at www.peccaleather.com, where information on the Company's announcements, financial information, share prices and the Company's annual report may be accessed. It also contains all announcements made to Bursa Securities as well as the contact details of a designated person to address any queries.

It has always been the Group's practice to maintain good relationship with its shareholders. Major corporate developments and happenings in the Group have always been duly and promptly announced to all shareholders, in line with Bursa Securities' objectives of ensuring transparency and good corporate governance practices.

The Group's financial performance, major corporate developments and other relevant information are promptly disseminated to shareholders and investors via announcements of its quarterly results, annual report, corporate announcements to Bursa Securities and press conferences. Further updates of the Group's activities and operations are also disseminated to shareholders and investors through dialogue with analysts, fund managers, investor relations roadshows and the media.

II Conduct of General Meetings

During the meeting, shareholders have the opportunity to enquire and comment on the Group's performance and operations.

Before the Ninth AGM, the Notice of AGM was circulated at least twenty eight (28) days before the date of the meeting to enable shareholders to go through the Annual Report and papers supporting the resolutions proposed. This is in line with Practice 12.1 of the MCCG which call for a 28-days' notice period for public companies. The Company will continue the practice to circulate the Notice of AGM at least twenty eight (28) days prior to the upcoming AGM.

In addition to being dispatched individually to shareholders, the Notice of AGM was also advertised in a nationally circulated newspaper alongside an announcement on the website of Bursa Securities. This allowed the shareholders to have immediate access of the notice of AGM and make the necessary preparations for the AGM.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS (CONT'D)

II Conduct of General Meetings (Cont'd)

The shareholders who were unable to attend the AGM, were allowed to appoint up to two (2) proxies to attend, participate, speak and vote on their behalf at the AGM.

During the AGM, the shareholders were informed on the Group's performance and major activities which were carried out during the financial year under review. The Board also encourages participation from the shareholders by having a question and answer session during the AGM which the Directors (inclusive of the Chairman of ARMC, NC and RC) were present and available to provide meaningful responses to the questions raised by the shareholders.

All the resolutions set out in the Notice of the AGM were put to vote by poll voting in accordance with Paragraph 8.29A of the MMLR. The Company had appointed one (1) independent scrutineer to verify the poll results. The outcome of the AGM was announced to Bursa Securities on the same meeting day.

A summary of the key matters discussed at the AGM, as soon as practicable after the conclusion of the AGM is published on the Company's website upon being reviewed by the Board members and approved by the Chairman.

This CG Overview Statement was approved by the Board of Directors of the Company on 22 October 2020.

ADDITIONAL COMPLIANCE INFORMATION

1. UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSAL

Pecca Group Berhad was listed on the Main Market of Bursa Malaysia on 19 April 2017. In conjunction with the Listing, the Company undertook a public issue of 47,796,000 new ordinary shares of RM0.50 each at an issue price of RM1.42 per share, raising gross proceeds of RM67.87 million.

As announced on 23 April 2018, the Board of Directors has approved the variation of the utilisation of IPO proceeds amounting to RM6.60 million and the extension of time for utilisation of IPO proceeds amounting to RM2.62 million for another 24 months from 19 April 2018. After due deliberation, the Board intends to undertake the variations to vary the utilization of proceed for working capital and extend the frame to another 24 months from 19 April 2020 to 19 April 2022.

The status of the utilization of the gross proceeds as at 30 June 2020c is as follows:

Purposes	Revised Expected Timeframe for Utilization (from 19 April 2018)	Revised Amount (RM'000)	Actual Utilisation (RM'000)	Utilised (%)
Working capital	–	27,859	(27,859)	100
Repayment of bank borrowings	–	17,100	(17,100)	100
Purchase of new machineries for the production of car leather seat covers	Within 24 months	4,871	(4,392)	90
Construction of an additional storey of production floor area on the existing factory building	–	5,000	(5,000)	100
Opening of retail outlets	–	0	0	0
Establishment of market presence in Thailand	Within 24 months	0	0	0
Expansion of aviation business	Within 24 months	834	(834)	100
Estimated listing expenses	–	4,111	(4,111)	100
Purchase of raw material	–	5,350	(5,350)	62
Selling and distribution expenses of:				
- Retail	–	2,000	(40)	2
- Thailand	–	0	0	0
- Aviation	–	745	(63)	8
Total Public Issue Proceeds		67,870	(64,749)	95

2. MATERIAL CONTRACTS

There were no material contracts subsisting or entered into by the Company or its subsidiaries involving the interests of any Directors, chief executive, or substantial shareholders of the Company or any persons connected to a Director, chief executive or major shareholder of the Company during the financial year ended 30 June 2020.

ADDITIONAL COMPLIANCE INFORMATION

3. RECURRING RELATED PARTY TRANSACTIONS

The below transaction entered into were in the ordinary course of business and are on terms and conditions not more favourable to the related party than those generally available to public. The details of the RRPT for FYE 2020 are as follows:

Related Party	Interested Director/ Substantial Shareholder	Interest in our Group	Nature of Transaction	Actual Value (RM)
Tint Auto (M) Sdn Bhd	Datuk Teoh Hwa Cheng Datin Sam Yin Thing	Director and substantial shareholder Director and substantial shareholder	Rental of partial production area located at 3rd Floor, No.1, Jalan Perindustrian Desa Aman 1A, Industri Desa Aman, Kepong, 52200 Kuala Lumpur from Pecca Leather Sdn Bhd to Tint Auto (M) Sdn Bhd.	216,000
Rentas Health Sdn Bhd	Teoh Zi Yuen	Director of Pecca Daughter of Datuk Teoh Hwa Cheng And Datin Sam Yin Thing	Supply of PPE produtcs	37,975

4. ALLOCATION OF SHARE SCHEME FOR EMPLOYEES

The Employees' Share Option Scheme ("ESOS") was approved by shareholders during the Extraordinary General Meeting held on 28 June 2019. The ESOS committee was established on 23 August 2019.

AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

1. CONSTITUTION

The Audit and Risk Management Committee comprises of the following Independent Non-Executive Directors: -

• Leong Kam Weng	-	Chairman of ARMC, is a Fellow of CPA Australia and a Chartered Accountant of the Malaysian Institute of Accountants.
• Dato' Mohamed Suffian Bin Awang	-	Member of ARMC
• Kong Kam Seong	-	Member of ARMC *(Resigned 30 April 2020)*
• Chew Kian Seng	-	Member of ARMC *(Appointed on 30 April 2020)* *(Resigned 16 October 2020)*
• Leong Chee Tong	-	Member of ARMC *(Appointed 16 October 2020)*

2. MEETINGS OF THE COMMITTEE

During the financial year ended 30th June 2020, five (5) ARMC meetings were held and the details of attendance of the meetings are as follows:-

Name	Total Meeting Attended	Percentage
• Leong Kam Weng	5/5	100%
• Dato' Mohamed Suffian Bin Awang	5/5	100%
• Kong Kam Seong	4/4	100%
• Chew Kian Seng	1/1	100%

The representatives of the external auditors, internal auditors and other officers of the Group were also invited to attend and brief the members on specific issues during the ARMC Meeting.

3. TERMS OF REFERENCE OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

3.1 Objectives

The primary function of the ARMC is to assist the Board to:

- oversee financial reporting; and
- evaluate the internal and external audit processes, including issues pertaining to the system of internal control and risk management within the Group.

3.2 Composition

The Committee shall comprise of no fewer than three (3) Directors (none of whom shall be Executive) and the majority shall be Independent Non-Executive Directors. All the members shall be financially literate and at least one (1) member of the Committee shall be:

- a member of the Malaysian Institute of Accountants ("MIA"); or
- if not a member of MIA, must have at least three (3) years of working experience and:
- must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
- must be a member of the associations of accountants specified in Part II of the Accountants Act 1967; or
- fulfils such other requirements as prescribed or approved by Bursa Securities.

The Chairman of the Committee shall be an Independent Non-Executive Director. No alternate Director of the Board shall be appointed as a member of the Committee.

AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

3. TERMS OF REFERENCE OF THE AUDIT AND RISK MANAGEMENT COMMITTEE (CONT'D)

3.3 Quorum and Meeting Procedures

Meetings shall be conducted at least four (4) times annually. The Chairman may call for a meeting of the Committee if a request is made by any Committee member, the Group Managing Director or the internal or external auditors.

In order to form a quorum for the meeting, at least two (2) members must be present and the majority of the members present must be Independent Non-Executive Directors.

The Company Secretary shall be appointed Secretary of the Committee (the "Secretary") who shall keep all the minutes of meetings of the ARMC.

The Committee may, as and when deemed necessary, invite other Board members and Senior Management members to attend the meetings.

The Committee shall meet at least twice annually with the external and internal auditors without the presence of any executive Board members, Management or employees.

3.4 Authority

The Committee is authorised by the Board to investigate any activity within its terms of reference. It is also authorised to seek any information it requires from any employee and such employees are directed to co-operate with any request made by the Committee. The Committee can obtain, at the expense of the Company, outside legal or other independent professional advice it considers necessary in the discharge of its responsibilities.

The Committee shall have full and unlimited access to any information pertaining to the Group. The Committee shall have direct communication channels with the internal and external auditors and shall be able to convene meetings with the external auditors, the internal auditors or both excluding the attendance of other directors and employees of the Group, whenever deemed necessary. The Committee shall have the resources that are required to perform its duties.

Where the Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Securities, the Committee shall promptly report such matter to Bursa Securities.

3.5 Responsibilities and duties

In fulfilling its primary objectives, the Committee shall undertake the following responsibilities and duties:

i. review the Committee's terms of reference.

ii. review with the external auditors, the audit scope and plan.

iii. ensure the internal audit function is independent of the activities it audits and the reports functionally to the ARMC directly.

iv. take cognisance of resignations of internal audit staff members and the reasons for resigning.

v. review the adequacy of the internal audit scope and plan.

vi. review the external and internal audit reports to ensure that appropriate and prompt remedial action is taken.

vii. review major audit findings.

AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

3. TERMS OF REFERENCE OF THE AUDIT AND RISK MANAGEMENT COMMITTEE (CONT'D)

3.5 Responsibilities and duties (Cont'd)

viii. review the non-audit services provided by the external auditors.

ix. review the appointment and resignation of external auditors.

x. review the risk profile of the Group and the Risk Management team's plans to mitigate business risks.

xi. review the adequacy and integrity of risk management systems, internal control systems and management information system.

xii. review investigation reports on any major defalcations, frauds and theft.

xiii. review the quarterly results and the year-end financial statements, prior to approval by the Board.

xiv. review procedures in place to ensure that the Group is in compliance with the Companies Act, 2016 and MMLR and other legislative and reporting requirements.

xv. review and identify the action needed, including but not limited to briefing, guidance and training. To explain the Management's expectation on the awareness of its directors, employees and business associates' behaviors and the business dealing are free from bribery and corruption, as stipulated in the Malaysian Anti-Corruption Act 2009 (MACC Act 2009) (Act 694).

xvi. review any related party transaction and conflict of interest situation.

4. SUMMARY OF ACTIVITIES OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

The main activities carried out by the ARMC during the financial year ended 30 June 2020 were as follows: -

i. Reviewed the unaudited fourth Quarter ended 30 June 2019, First Quarter ended 30 September 2019, Second Quarter ended 31 December 2019 and Third Quarter ended 31 March 2020 financial results of the Company and Group and to recommend to the Board of Directors for their approval.

ii. Reviewed the proposed declaration of Interim Dividend in respect of financial year ended 30 June 2020.

iii. Reviewed with the Internal Auditors (GovernAce Advisory & Solutions Sdn Bhd) the internal audit plans, their evaluation of the internal control system and the follow-up on the audit findings.

iv. Reviewed with the external auditors' (Messrs KPMG PLT their audit findings in respect of FYE 2020 and held a meeting with the external auditors without the presence of Executive Board members and Management of the Company.

v. Reviewed the Risk Profile Report dated 26 February 2020 and the update on 28 August 2020.

vi. Risk Management Policy and Procedures Manual.

vii. Reviewed the Statement of Risk Management and Internal Control and Corporate Governance Statement for inclusion in Annual Report 2020.

viii. Reviewed with the external auditors' (Messrs KPMG PLT), their scope of work and audit planning memorandum for FYE 2020 and held a meeting with the external auditors without the presence of Executive Board members and Management of the Company.

ix. Reviewed related party transactions entered into by the Group and the Company.

AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

5. SUMMARY OF THE ACTIVITIES OF INTERNAL AUDIT FUNCTIONS

The Group's internal audit function is outsourced to a professional internal audit service provider which reports directly to the ARMC. The main role of the internal auditor is to provide assurance on the adequacy and effectiveness of the internal control system to the ARMC.

The summary of activities carried out by the outsourced internal auditor during the FYE 2020 include: -
- Performed internal audit reviews and report findings on Human Resource Management.
- Performed internal audit reviews on report findings on Research and Development.
- Follow up on Research and Development.
- Follow up on Production and Quality Control.

The total cost incurred by the internal audit function of the Group during the financial year ended 30 June 2020 amounted to RM50,000.

During financial year 2020, there were six personnel with relevant qualification in internal auditing assigned to carried out the internal audit review of the Group.

The independent internal audit function plays a pivotal role in improving the Group's operations and is guided by the International Professional Practices Framework ("IPPF") issued by the Institue of Internal Auditors Inc.

The ARMC and the Board were satisfied with the performance of the Internal Auditors for the financial year ended 30 June 2020.

The Committee is pleased to disclose that there were no significant weaknesses identified that would have resulted in any material losses, contingencies or uncertainties to the Group which would require a separate disclosure in the financial statement.

	Audit Related Fees (RM)	**Non-Audit Related Fees (RM)**
Company	0	0
Group	50,000	0

6. EXTERNAL AUDIT FUNCTIONS

The Company's independent external auditors, Messrs KPMG PLT, plays an essential role in enhancing the Company's reliability in its financial reporting. The external auditors have an obligation to highlight any significant weakness in the Company's control and compliance systems and bring the same to the attention of Management, ARMC and the Board.

The ARMC is pleased to report that there was no significant matter significant matter of disagreement that arose between the external auditors and the Management. During the financial year under review, the external auditors provided both audit and non-audit related services as follows:-

	Audit Related Fees (RM)	**Non-Audit Related Fees (RM)**
Company	50,000	11,000
Group	155,000	32,000

7. ESTABLISHMENT OF THE ANTI BRIBERY AND CORRUPTION POLICY.

Pursuant to the latest Bursa Malaysia Main Market Listing Requirement and S.17A of the Malaysian Anti-Corruption Commission (Amendment) Act 2018, during the FYE 2020, the group has identified and included the anti-bribery and corruption risk into the Group's risk profile. The Group had established the anti-bribery and corruption policy to manage the Group's exposure to corruption risk by applying and emphasizing good corporate governance, business ethics and transparency.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility to establish a sound risk management framework and internal controls which are fundamental for good corporate governance. This includes the establishment of an appropriate control environment and risk management processes and structures and continually reviewing the adequacy and integrity of the said systems to safeguard shareholders' investment and the Group's assets.

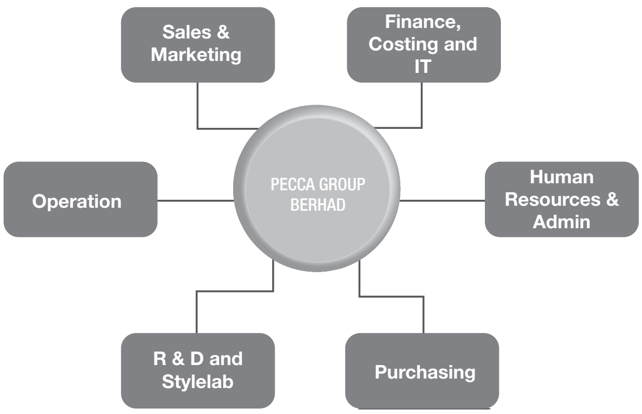
Whilst acknowledging its responsibilities, the Board is aware of the limitations that are inherent in any systems of internal control and risk management where such systems being designed to manage, rather than eliminate, the risks that may impede the achievement of the Group's business objectives. Accordingly, it can only provide a reasonable, but not absolute assurance against material misstatement or losses, fraud or breaches of laws or regulations.

The Board is responsible for setting the business direction and for overseeing the conduct of the Group's operations through various Board Committees and this represents the main platform by which the Group's performance, risks and conduct are monitored. The Board is assisted by the ARMC to oversee the implementation of a system of risk management and internal controls whilst the Management is responsible for assisting the Board in implementing the processes for identifying, evaluating, monitoring and reporting risks and internal controls throughout the period.

Risk Management

The Board recognises that an effective risk management framework will allow the Group to identify, evaluate and manage risks that affect the achievement of the Group's business objectives. As such, the ARMC has been entrusted to assist the Board in overseeing the risk management issues of the Group and to report directly to the Board on matters related to risk management.

The Group's risk management framework is based on the guidelines in ISO 31000 Risk Management and have been applied across the following function/operating units:



The Board conducts an annual review of its the group risk profile and its existing risk management framework to ensure that it is appropriate and continues to remain relevant to the Group's operations.

All employees of the Group are responsible for managing risks within their respective areas of responsibilities and formalised risk registers have been put in place for ongoing process to identify, assess, monitor and report significant risks that may affect the achievement of the Group's business objectives.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The risks identified are broadly categorised as follows:

Strategic Risk	Operational Risk	Financial Risk	Compliance Risk
• Risks that affects the Department or Company from meeting its overall vision, mission and strategic objectives	• Risks that affects the effectiveness & efficiency of the operational conditions in the Department or Company to meet its objectives	• Risks that affects the financial position of the Department or Company	• Risks that affects the Department's or Company's processes and effort in ensuring all applicable regulatory requirements are complied with

Key risks affecting the operations of the Group have been presented to the Audit & Risk Management Committee in the meeting held on 21 February 2020 and further update on 21 August 2020 and mitigating actions proposed by Management were also deliberated.

Internal Control System

In striving to operate a sound system of risk management and internal control that drives the Group towards achieving its goals, the Board has put in place numerous processes for identifying, evaluating and managing risks faced by the Group. The Group has continuously been undertaking efforts to enhance its internal control system within the Group and the key elements of the Group's internal control system in place for the financial year ended 30 June 2020 are as follows:

1. Organisation Structure

   The organisation structure sets out a clear segregation of roles and responsibilities, lines of accountability and levels of authority to ensure effective and independent stewardship. The Board, which is responsible for the overall direction, strategy, performance and management of the Group, is governed by its Board Charter. In providing direction and oversight, the Board is supported by a number of Board committees, namely the Audit and Risk Management Committee, Nomination Committee and Remuneration Committee. Each Committee has clearly defined terms of reference and responsibilities.

2. Code of Ethics

   The Group is committed to conduct business fairly, impartially and ethically and in full compliance with all laws and regulations. In order to inculcate a standard of ethical behaviour for directors, a Code of Ethics for Directors was established and this Code is intended to focus the Board and each Director on areas of ethical risk, provide guidance to Directors to help them recognise and deal with ethical issues, provide mechanisms to report unethical conduct and help foster a culture of honesty and accountability.

3. Policies and Procedures

   Standard operating procedures are established to ensure operations undertaken by staff are properly guided for complete and accurate reporting. These policies and procedures cover Sales, Procurement, Production, Human Resource and Finance.

4. Annual Surveillance and Process Audit

   The Group's subsidiary Pecca Leather Sdn Bhd is an IATF16949:2016 certified manufacturer and also holds the ISO9001:2015, ISO14001:2015 and ISO14001:2018 certification. As such, the Company is subjected to annual surveillance audits performed by certifying bodies, Kiwa Cerment Italia to ensure that the Company continues to meet the quality standards requirements.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Internal Control System (Cont'd)

5. Internal Audit

   The Group has engaged an external service provider, GovernAce Advisory & Solutions Sdn. Bhd. as the Internal Auditor to carry out the internal audit function in the Group by providing independent advice and assurance on the effectiveness of the Group's system of internal controls. The findings by the internal auditors are reported to the ARMC. The ARMC considers reports from the internal audit and from the Management, before reporting and making recommendations to the Board in strengthening the risk management, internal control and governance systems. The Committee presents its findings to the Board on a quarterly basis or earlier as appropriate.

   Based on the internal audit review conducted, none of the weakness noted have resulted in any material losses, contingencies or uncertainties that would require separate disclosure in this Annual Report.

   Further activities of the internal audit function are set out in the ARMC Report on page 61 of this Annual Report.

6. Whistle-blower Policy

   As the Group expects the highest standards of integrity, probity, transparency and accountability from all employees to preserve and protect the Group's interests and reputation, the Group takes a serious view of any acts of wrong doing by any of its employees.

   The Board has approved a Whistle-blower Policy to allow employees to raise concerns without fear of reprisals on possible improprieties in matters of financial reporting, compliance and other malpractices at the earliest opportunity, and in an appropriate way.

7. Management Representation

   The Board has received assurance from the Group Managing Director and the Chief Financial Officer that the Group's risk management and internal control system are operating adequately and effectively, in all material respects during the financial year ended 30 June 2020.

Board Conclusion

Based on the processes taken through the Board and its Committees during the financial year under review and up to the date of issuance of the financial statements and assurance provided by the Group's Managing Director and Chief Financial Officer, the Board is of the view that the risk management and internal control system as described in this Statement is operating adequately and effectively, in all material aspects, to mitigate the Group's major risks. There were no material losses that have arisen from any inadequacy or failure of the Group's system of internal control which required additional disclosure in the financial statements. The Board will continue to ensure proper management of risks and take adequate measures to ensure ongoing adequacy and effectiveness of internal controls.

The above Statement is made in accordance with the approval given by the Directors during the Board Meeting held on 22 October 2020.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Review of the Statement by External Auditors

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Audit and Assurance Practice Guide ("AAPG") 3, Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the annual report of the Group for the year ended 30 June 2020, and reported to the Board that nothing has come to their attention that causes them to believe that the statement intended to be included in the annual report of the Group, in all material respects:

a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or

b) is factually inaccurate.

AAPG 3 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

DIRECTORS' RESPONSIBILITY STATEMENT

In Respect of Financial Statements

The Directors of the Company are responsible for ensuring that the annual financial statements of the Group and of the Company are prepared in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 30 June 2020 and of their financial performance and cash flows for the financial year then ended.

In preparing the financial statements, the Directors have taken the necessary steps and actions as follows: -

- Adopted appropriate accounting policies and applied them consistently;
- Made judgments and estimates that are prudent and reasonable;
- Prepared the audited financial statements on a going concern basis.

The Directors are also responsible in ensuring that the Group keeps accounting records which discloses with reasonable accuracy, to ensure that the financial statements comply with the Companies Act, 2016, Bursa Malaysia's Main Market Listing Requirements and applicable approved accounting standard, to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Board is satisfied that in preparing the financial statements of the Company and the Group for the financial year ended 30 June 2020.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

For the year ended 30 June 2020

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 30 June 2020.

PRINCIPAL ACTIVITIES

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

SUBSIDIARIES

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

RESULTS

	Group RM'000	Company RM'000
Profit for the year attributable to:		
Owners of the Company	8,387	3,062
Non-controlling interests	(111)	–
	8,276	3,062

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year under review.

DIVIDENDS

Since the end of the previous financial year, the amount of dividends paid by the Company were as follows:

i) In respect of the financial year ended 30 June 2019:

- a single tier interim dividend of 3.5 sen per ordinary share totalling RM6,417,877 declared on 23 October 2019 and paid on 29 November 2019.

ii) In respect of the financial year ended 30 June 2020:

- a single tier interim dividend of 3.0 sen per ordinary share totalling RM5,375,946 declared on 13 March 2020 and paid on 10 April 2020.

On 28 August 2020, the Directors declared a single tier second interim dividend of 1.64 sen per ordinary share in respect of the financial year ended 30 June 2020 and paid on 25 September 2020. Based on the total number of issued shares (excluding treasury shares) of the Company at the end of the reporting period, the single tier second interim dividend amounted to RM2,843,430.

The Directors do not recommend any final dividend to be paid for the financial year ended 30 June 2020.

DIRECTORS' REPORT

For the year ended 30 June 2020

DIRECTORS OF THE COMPANY

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

Dato' Mohamed Suffian Bin Awang
Datuk Teoh Hwa Cheng
Datin Sam Yin Thing
Datuk Leong Kam Weng
Chew Kian Seng (appointed on 30 April 2020)
Leong Chee Tong (appointed on 16 October 2020)
Teoh Zi Yi (appointed on 16 October 2020)
Teoh Zi Yuen (appointed on 16 October 2020)
Kong Kam Seong (resigned on 30 April 2020)

LIST OF DIRECTORS OF SUBSIDIARIES

Pursuant to Section 253 of the Companies Act 2016 in Malaysia, the list of Directors of the subsidiaries (excluding Directors who are also Directors of the Company) during the financial year and up to the date of this report is as follows:

Ooi Eng Huat (resigned on 30 November 2019)
Tsng Fuh Shen (resigned on 15 December 2019)
Sam Chee Keng
Mudhieng Sae-tan

DIRECTORS' INTERESTS IN SHARES

The interests and deemed interests in the shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares			
	At 1.7.2019	Bought	Sold	At 30.6.2020
Shareholdings in the Company which Directors have direct interests:				
Datuk Teoh Hwa Cheng	10,302,853	–	–	10,302,853
Dato' Mohamed Suffian Bin Awang	100,000	–	–	100,000
Datuk Leong Kam Weng	100,000	–	–	100,000
Datin Sam Yin Thing	4,080,002	–	–	4,080,002
Shareholdings in the Company which Directors have indirect interests:				
Datuk Teoh Hwa Cheng				
- own	85,692,420	–	–	85,692,420
- others	297,000	–	–	297,000
Datin Sam Yin Thing				
- own	85,692,420	–	–	85,692,420
- others	297,000	–	–	297,000

By virtue of their interest in the shares of the Company, Datuk Teoh Hwa Cheng and Datin Sam Yin Thing are also deemed interested in the shares of all subsidiaries disclosed in Note 5 to these financial statements to the extent that the Company has an interest. Details of their deemed shareholdings in non-wholly-owned subsidiaries are shown in Note 5.1 to these financial statements.

The other Director, Chew Kian Seng, holding office at 30 June 2020 did not have any interest in the ordinary shares of the Company and of its related corporations during the financial year.

DIRECTORS' REPORT

For the year ended 30 June 2020

DIRECTORS' BENEFITS

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

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

ISSUE OF SHARES AND DEBENTURES

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

OPTIONS GRANTED OVER UNISSUED SHARES

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

INDEMNITY AND INSURANCE COSTS

The following disclosure on particulars of indemnity given to, or insurance effected for, any Director or officer of the Group and of the Company is made pursuant to Section 289(7) of the Companies Act 2016:

	Group and Company	
	Amount paid RM'000	Sum insured RM'000
Directors and Officers Liability Insurance	7	5,000

There was no indemnity given to, or insurance effected for the auditors of the Group and of the Company during the financial year.

OTHER STATUTORY INFORMATION

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

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

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

DIRECTORS' REPORT

For the year ended 30 June 2020

OTHER STATUTORY INFORMATION (CONT'D)

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

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

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

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

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

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

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

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

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 30 June 2020 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

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

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

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

....
Datuk Teoh Hwa Cheng
Director

....
Datin Sam Yin Thing
Director

Kuala Lumpur

Date: 22 October 2020

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2020

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Assets					
Property, plant and equipment	3	37,490	50,295	–	–
Right-of-use assets	4	11,474	–	–	–
Investments in subsidiaries	5	–	–	76,461	76,261
Other investments	6	418	232	–	–
Total non-current assets		49,382	50,527	76,461	76,261
Inventories	7	22,945	16,917	–	–
Current tax assets		1,702	–	16	27
Trade and other receivables	8	17,504	28,994	2,250	424
Prepayments		1,686	1,173	–	–
Cash and cash equivalents	9	78,394	92,847	45,057	62,290
Total current assets		122,231	139,931	47,323	62,741
Total assets		171,613	190,458	123,784	139,002
Equity					
Share capital		135,702	135,702	135,702	135,702
Reserves		19,707	29,871	(12,044)	2,967
Total equity attributable to owners of the Company	10	155,409	165,573	123,658	138,669
Non-controlling interests		(59)	(223)	–	–
Total equity		155,350	165,350	123,658	138,669
Liabilities					
Deferred tax liabilities	11	5,261	5,868	–	–
Total non-current liabilities		5,261	5,868	–	–
Trade and other payables	12	10,724	18,534	126	333
Lease liability		28	–	–	–
Current tax liabilities		–	706	–	–
Contract liabilities	13	250	–	–	–
Total current liabilities		11,002	19,240	126	333
Total liabilities		16,263	25,108	126	333
Total equity and liabilities		171,613	190,458	123,784	139,002

The notes on pages 79 to 126 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Revenue	14	104,640	131,375	2,000	–
Cost of sales		(76,799)	(91,995)	–	–
Gross profit		27,841	39,380	2,000	–
Other income		509	602	–	599
Selling and distribution expenses		(6,203)	(6,660)	–	–
Administrative expenses		(11,406)	(12,497)	(480)	(888)
Net loss on impairment of financial instruments		(1,955)	(840)	(187)	–
Other expenses		–	(77)	–	–
Results from operating activities		8,786	19,908	1,333	(289)
Finance income	15	2,538	2,271	1,734	1,638
Profit before tax	16	11,324	22,179	3,067	1,349
Tax expense	17	(3,048)	(5,507)	(5)	(15)
Profit for the year		8,276	16,672	3,062	1,334
Other comprehensive income, net of tax					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operations		(3)	(10)	–	–
Total comprehensive income for the year		8,273	16,662	3,062	1,334
Profit attributable to:					
Owners of the Company		8,387	16,616	3,062	1,334
Non-controlling interests		(111)	56	–	–
Profit for the year		8,276	16,672	3,062	1,334
Total comprehensive income attributable to:					
Owners of the Company		8,386	16,611	3,062	1,334
Non-controlling interests		(113)	51	–	–
Total comprehensive income for the year		8,273	16,662	3,062	1,334
Basic and diluted earnings per ordinary share (sen)	18				
- basic		4.62	9.05		
- diluted		4.62	9.05		

The notes on pages 79 to 126 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

Group	Note	Share capital RM'000	Treasury shares RM'000	Merger deficit RM'000	Translation reserve RM'000	Revaluation reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
		Attributable to owners of the Company								
		Non-distributable					Distributable			
At 1 July 2018		135,702	(5,637)	(60,822)	2	10,899	79,243	159,387	(274)	159,113
Foreign currency translation differences for foreign operations		–	–	–	(5)	–	–	(5)	(5)	(10)
Total other comprehensive loss for the year		–	–	–	(5)	–	–	(5)	(5)	(10)
Profit for the year		–	–	–	–	–	16,616	16,616	56	16,672
Total comprehensive income for the year		–	–	–	(5)	–	16,616	16,611	51	16,662
Contributions by and distributions to owners of the Company										
- Repurchase of treasury shares		–	(326)	–	–	–	–	(326)	–	(326)
- Dividends to owners of the Company	19	–	–	–	–	–	(10,099)	(10,099)	–	(10,099)
Total transactions with owners of the Company		–	(326)	–	–	–	(10,099)	(10,425)	–	(10,425)
At 30 June 2019		135,702	(5,963)	(60,822)	(3)	10,899	85,760	165,573	(223)	165,350

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

Group	Note	Share capital RM'000	Treasury shares RM'000	Merger deficit RM'000	Translation reserve RM'000	Revaluation reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
		← Attributable to owners of the Company						→		
		← Non-distributable				→	Distributable			
At 1 July 2019		135,702	(5,963)	(60,822)	(3)	10,899	85,760	165,573	(223)	165,350
Foreign currency translation differences for foreign operations		–	–	–	(1)	–	–	(1)	(2)	(3)
Total other comprehensive loss for the year		–	–	–	(1)	–	–	(1)	(2)	(3)
Profit for the year		–	–	–	–	–	8,387	8,387	(111)	8,276
Total comprehensive income for the year		–	–	–	(1)	–	8,387	8,386	(113)	8,273
Contributions by and distributions to owners of the Company										
- Repurchase of treasury shares		–	(6,279)	–	–	–	–	(6,279)	–	(6,279)
- Dividends to owners of the Company	19	–	–	–	–	–	(11,794)	(11,794)	–	(11,794)
		–	(6,279)	–	–	–	(11,794)	(18,073)	–	(18,073)
Change in ownership interest in a subsidiary	27	–	–	–	–	–	(477)	(477)	277	(200)
Total transactions with owners of the Company		–	(6,279)	–	–	–	(12,271)	(18,550)	277	(18,273)
At 30 June 2020		135,702	(12,242)	(60,822)	(4)	10,899	81,876	155,409	(59)	155,350

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

Company	Note	Share capital RM'000	Treasury shares RM'000	Retained earnings RM'000	Total equity RM'000
		← Attributable to owners of the Company →			
		← Non-distributable →		Distributable	
At 1 July 2018		135,702	(5,637)	17,695	147,760
Profit and total comprehensive income for the year		–	–	1,334	1,334
Contributions by and distributions to owners of the Company					
- Repurchase of treasury shares		–	(326)	–	(326)
- Dividends to owners of the Company	19	–	–	(10,099)	(10,099)
Total transactions with owners of the Company		–	(326)	(10,099)	(10,425)
At 30 June 2019/1 July 2019		135,702	(5,963)	8,930	138,669
Profit and total comprehensive income for the year		–	–	3,062	3,062
Contributions by and distributions to owners of the Company					
- Repurchase of treasury shares		–	(6,279)	–	(6,279)
- Dividends to owners of the Company	19	–	–	(11,794)	(11,794)
Total transactions with owners of the Company		–	(6,279)	(11,794)	(18,073)
At 30 June 2020		135,702	(12,242)	198	123,658

The notes on pages 79 to 126 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2020

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Cash flows from operating activities					
Profit before tax		11,324	22,179	3,067	1,349
Adjustments for:					
Depreciation of:					
- property, plant and equipment	3	3,588	3,864	–	–
- right-of-use assets	4	213	–	–	–
Dividend income	14	–	–	(2,000)	–
Fair value (gain)/loss on other investments	16	(186)	164	–	158
Finance income	15	(2,538)	(2,271)	(1,734)	(1,638)
Gain on disposal of property, plant and equipment	16	(36)	(188)	–	–
Impairment loss on:	16				
- amount due from a subsidiary		–	–	187	–
- trade receivables		1,955	840	–	–
Property, plant and equipment written off	16	–	520	–	–
Unrealised gain on foreign exchange	16	(262)	(302)	–	–
Operating profit/(loss) before changes in working capital		14,058	24,806	(480)	(131)
Change in inventories		(6,028)	1,970	–	–
Change in trade and other receivables		9,658	(9,877)	–	–
Change in prepayments		(513)	(307)	–	–
Change in trade and other payables		(7,789)	(819)	(207)	205
Change in contract liabilities		250	–	–	–
Cash generated from/(used in) operations		9,636	15,773	(687)	74
Income tax (paid)/refund		(6,063)	(4,106)	6	5
Dividend received		–	–	–	13,340
Net cash from/(used in) operating activities		3,573	11,667	(681)	13,419
Cash flows from investing activities					
Acquisition of property, plant and equipment	3	(2,364)	(1,805)	–	–
Acquisition of other investments		–	(65)	–	–
Increase in investment in a subsidiary	27	(200)	–	(200)	–
Advances to a subsidiary		–	–	(13)	(13)
Repayments to non-controlling interests		(30)	–	–	–
Proceeds from disposal of property, plant and equipment		39	188	–	–
Interest received		2,538	2,271	1,734	1,638
Redemption of other investments in licensed financial institutions		–	43,700	-	37,200
Net cash (used in)/from investing activities		(17)	44,289	1,521	38,825

STATEMENTS OF CASH FLOWS
for the year ended 30 June 2020

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Cash flows from financing activities					
Dividends paid	19	(11,794)	(10,099)	(11,794)	(10,099)
Payment of lease liability		(81)	–	–	–
Repurchase of treasury shares		(6,279)	(326)	(6,279)	(326)
Net cash used in financing activities		(18,154)	(10,425)	(18,073)	(10,425)
Net (decrease)/increase in cash and cash equivalents		(14,598)	45,531	(17,233)	41,819
Effect of exchange rate fluctuations on cash held		145	88	–	–
Cash and cash equivalents at 1 July 2019/2018		92,847	47,228	62,290	20,471
Cash and cash equivalents at 30 June	9	78,394	92,847	45,057	62,290

(i) Cash outflows for leases as a lessee

Group	2020 RM'000	2019 RM'000
Included in net cash from operating activities:		
Interest paid in relation to lease liability	2	–
Rent concession	(2)	–
Included in net cash from financing activities:		
Payment of lease liability	81	–
Total cash outflows for leases	81	–

(ii) Reconciliation of movement of liabilities to cash flows arising from financing activities:

Group	At 1 July 2018/ 30 June 2019 RM'000	Adjustment on initial application of MFRS 16 RM'000	At 1 July 2019 RM'000	Net changes from financing cash flows RM'000	At 30 June 2020 RM'000
Lease liability	–	109	109	(81)	28

The notes on pages 79 to 126 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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

Principal place of business
No. 1, Jalan Perindustrian Desa Aman 1A
Industri Desa Aman, Kepong
52200 Kuala Lumpur

Registered office
12th Floor, Menara Symphony
No. 5, Jalan Professor Khoo Kay Kim
Seksyen 13
46200 Petaling Jaya
Selangor Darul Ehsan

The consolidated financial statements of the Company as at and for the financial year ended 30 June 2020 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities"). The financial statements of the Company as at and for the financial year ended 30 June 2020 do not include other entities.

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

These financial statements were authorised for issue by the Board of Directors on 22 October 2020.

1. BASIS OF PREPARATION

(a) Statement of compliance

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

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

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108*, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*
- Amendments to MFRS 9, *Financial Instruments,* MFRS 139*, Financial Instruments: Recognition and Measurement* and MFRS 7*, Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

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

- Amendments to MFRS 9, *Financial Instruments,* MFRS 139, *Financial Instruments: Recognition and Measurement*, MFRS 7, *Financial Instruments: Disclosures*, MFRS 4, *Insurance Contracts* and MFRS 16, *Leases - Interest Rate Benchmark Reform - Phase 2*

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (cont'd)

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2022

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 3, *Business Combinations – Reference to the Conceptual Framework*
- Amendments to MFRS 9, *Financial Instruments (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to Illustrative Examples accompanying MFRS 16, *Leases (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 116, *Property, Plant and Equipment – Proceeds before Intended Use*
- Amendments to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*
- Amendments to MFRS 141, *Agriculture (Annual Improvements to MFRS Standards 2018–2020)*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2023

- MFRS 17, *Insurance Contracts*
- Amendments to MFRS 101, *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*

MFRSs, interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

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

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

- from the annual period beginning on 1 July 2020 for the amendments that are effective for annual periods beginning on or after 1 January 2020;

- from the annual periods beginning on 1 July 2021 for the amendments that are effective for annual periods beginning on or after 1 January 2021;

- from the annual period beginning on 1 July 2022 for the amendments that are effective for annual periods beginning on or after 1 January 2022; and

- from the annual period beginning on 1 July 2023 for the amendment that are effective for annual periods beginning on or after 1 January 2023.

The initial application of the abovementioned accounting standards, interpretations and amendments are not expected to have any material financial impact to the current period and prior period financial statements of the Group and of the Company.

The Group and the Company have early adopted Amendment to MFRS 16, *Leases – Covid-19-Related Rent Concessions* for the financial year ended 30 June 2020, which is effective for annual periods beginning on or after 1 June 2020. The early adoption does not have a material effect on the Group's and the Company's financial statements.

(b) Basis of measurement

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

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION (CONT'D)

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

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

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

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than disclosed in the following notes:

Note 3 & 4 – Revaluation of properties and leasehold land

Certain properties of the Group are reported at valuation which is based on valuations performed by independent professional valuers.

The independent professional valuers have exercised judgement in determining the factors used in the valuation process. Also, judgement has been applied in estimating prices for less readily observable external parameters. Other factors such as model assumptions, market dislocations and unexpected correlations can also materially affect these estimates and the resulting valuation estimates.

Note 7 – Inventories written down to net realisable value

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

Note 21 – Measurement of expected credit losses

Allowance for doubtful debts is made by an allowance matrix to measure expected credit losses of trade receivables. A considerable amount of judgement is required in assessing the loss rates, which are based on actual credit loss experience. The Group also considers differences between (a) economic conditions during the period over which the historic data has been collected, (b) current conditions and (c) the Group's view of economic conditions over the expected lives of the receivables. If the financial conditions of the customers with which the Group deals were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES

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

Arising from the adoption of MFRS 16, *Leases*, there are changes to the accounting policies applied to lease contracts entered into by the Group entities as compared to those applied in previous financial statements. The impacts arising from the changes are disclosed in Note 28.

(a) Basis of consolidation

(i) Subsidiaries

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

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

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

(ii) Business combinations

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

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

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

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

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

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

(iii) Acquisitions of non-controlling interests

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

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of consolidation (cont'd)

(iv) Acquisitions from entities under common controls

Business combinations arising from transfers of interests in entities that are under the control by the same parties both before and after the combination are accounted for using book value accounting. The assets and liabilities acquired are recognised in the consolidated financial statements at their respective carrying amounts without restatement. The differences between the cost of acquisition and the nominal value of the shares acquired are taken to merger reserve (or adjusted against any suitable reserve in the case of debit differences). The other components of equity of the acquired entities are added to the same components within Group entity.

(v) Loss of control

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

(vi) Non-controlling interests

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

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

(vii) Transactions eliminated on consolidation

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

(b) Foreign currencies

(i) Foreign currency transactions

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

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

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

Foreign currency differences arising on retranslation are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Foreign currencies (cont'd)

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

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period. The income and expenses of foreign operations, are translated to RM at exchange rates at the dates of the transactions.

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

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

(c) Financial instruments

(i) Recognition and initial measurement

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

A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Financial instrument categories and subsequent measurement

Financial assets

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Group or the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

(a) Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 2(i)(i)) where the effective interest rate is applied to the amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Financial instruments (cont'd)

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

Financial assets (cont'd)

(b) Fair value through profit or loss

All financial assets not measured at amortised cost are measured at fair value through profit or loss. This includes derivative financial assets. On initial recognition, the Group or the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value. Net gains or losses, including any interest or dividend income, are recognised in profit or loss.

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gains or losses on derecognition are also recognised in profit or loss.

(iii) Regular way purchase or sales of financial assets

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date or settlement date accounting in the current financial year.

Trade date accounting refers to:

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

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

Settlement date accounting refers to:

(a) the recognition of an asset on the day it is received by the Group or the Company; and

(b) derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Group or the Company.

Any change in the fair value of the asset to be received during the period between the trade date and the settlement date is accounted in the same way as it accounts for the acquired asset.

Generally, the Group or the Company applies settlement date accounting unless otherwise stated for the specific class of asset.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Financial instruments (cont'd)

(iv) Derecognition

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

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group or the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and liability simultaneously.

(d) Property, plant and equipment

(i) Recognition and measurement

Buildings are measured at valuation less any accumulated depreciation and any accumulated impairment losses. Other items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

The Group revalues its buildings every five (5) years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value. Additions subsequent to their revaluation are stated in the financial statements at costs until the next revaluation exercise.

Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is recognised in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

(ii) Subsequent costs

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

(iii) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment from the date that they are available for use. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

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

• Buildings	50 years
• Plant and machineries	10 years
• Motor vehicles	5 years
• Office equipment	5 – 10 years
• Furniture and fittings	10 years
• Computers	2 – 5 years
• Renovation	10 years

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

(e) Leases

The Group has applied MFRS 16 using the modified retrospective approach, with the initial application that the right-of-use asset is equivalent to the lease liability as at 1 July 2019. Accordingly, the comparative information presented for 2019 has not been restated – i.e. it is presented, as previously reported under MFRS 117, *Leases* and related interpretations.

Current financial year

(i) Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Leases (cont'd)

Current financial year (cont'd)

(i) Definition of a lease (cont'd)

- the customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Group is a lessee, it has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(ii) Recognition and initial measurement

As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the respective Group entities' incremental borrowing rate. Generally, the Group entities use its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the fixed payments, including in-substance fixed payments less any incentives receivable.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

If an arrangement contains lease and non-lease components, the Group applies MFRS 15 to allocate the consideration in the contract based on the stand-alone selling prices.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sublease as an operating lease.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Leases (cont'd)

Current financial year (cont'd)

(iii) Subsequent measurement

As a lessee

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a revision of in-substance fixed lease payments, or if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

COVID-19-related rent concessions

The Group has applied Amendment to MFRS 16, *Leases – COVID-19-Related Rent Concessions*. The Group applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications.

The changes in lease payments arising from rent concessions to which the Group has applied the practical expedient for COVID-19-related rent concessions are recognised in profit or loss.

As a lessor

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of "other income".

Previous financial year

As a lessee

(i) Finance lease

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

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

Leasehold land which in substance was a finance lease was classified as property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Leases (cont'd)

Previous financial year (cont'd)

As a lessee (cont'd)

(ii) Operating lease

Leases, where the Group or the Company does not assume substantially all the risks and rewards of the ownership are classified as operating leases and the leased assets are not recognised on the statement of financial position.

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

(f) Inventories

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

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

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

(g) Contract liability

A contract liability is stated at cost and represents the obligation of the Group to transfer goods or services to a customer for which consideration has been received (or the amount is due) from the customers.

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Group and the Company in the management of its short-term commitments.

(i) Impairment

(i) Financial assets

The Group and the Company recognise loss allowances for expected credit losses on financial assets measured at amortised cost. Expected credit losses are a probability-weighted estimate of credit losses.

The Group and the Company measure loss allowances at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, cash and bank balances and other debt securities for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss. Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit loss.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Impairment (cont'd)

(i) Financial assets (cont'd)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's and the Company's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company are exposed to credit risk.

The Group and the Company estimate the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost and debt securities at fair value through other comprehensive income are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's or the Company's procedures for recovery of amounts due.

(ii) Other assets

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Impairment (cont'd)

(ii) Other assets (cont'd)

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

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

(j) Equity instruments

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

(i) Ordinary shares

Ordinary shares are classified as equity.

(ii) Repurchase, disposal and reissue of share capital (treasury shares)

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

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

(k) Employee benefits

(i) Short-term employee benefits

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

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

(ii) State plans

The Group's and the Company's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Revenue and other income

(i) Revenue

Revenue is measured based on the consideration specified in a contract with a customer in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. The Group recognises revenue when (or as) it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

The Group transfers control of a good or service at a point in time unless one of the following over time criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided as the Group performs;

(b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

(c) the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

(ii) Dividend income

Dividend income is recognised in profit or loss on the date that the Group's or the Company's right to receive payment is established.

(iii) Rental income

Rental income is recognised in profit or loss on a straight-line basis over the term of the lease.

(iv) Interest income

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

(m) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Income tax (cont'd)

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

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

Unutilised reinvestment allowance, being a tax incentive that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against which the unutilised tax incentive can be utilised.

(n) Earnings per ordinary share

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

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

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(o) Operating segments

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

(p) Contingent liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Fair value measurements

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT

Group	leasehold land RM'000	Buildings RM'000	Plant and machineries RM'000	Motor vehicles RM'000	Office equipment RM'000	Furniture and fittings RM'000	Computers RM'000	Renovation RM'000	Construction work-in-progress RM'000	Total RM'000
Cost/Valuation										
At 1 July 2018	12,327	23,669	20,289	4,040	1,399	3,310	3,569	4,334	5,950	78,887
Additions	–	–	74	614	6	167	77	146	721	1,805
Disposals	–	–	–	(1,212)	–	–	–	–	–	(1,212)
Write-off	–	–	(1,823)	–	–	–	–	–	–	(1,823)
At 30 June 2019	12,327	23,669	18,540	3,442	1,405	3,477	3,646	4,480	6,671	77,657
Adjustment on initial application of MFRS 16	(12,327)	–	–	–	–	–	–	–	–	(12,327)
At 1 July 2019	–	23,669	18,540	3,442	1,405	3,477	3,646	4,480	6,671	65,330
Additions	–	–	464	338	135	160	78	236	953	2,364
Disposals	–	–	(394)	(122)	(8)	–	(62)	–	–	(586)
At 30 June 2020	–	23,669	18,610	3,658	1,532	3,637	3,662	4,716	7,624	67,108

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Group	leasehold land RM'000	Buildings RM'000	Plant and machineries RM'000	Motor vehicles RM'000	Office equipment RM'000	Furniture and fittings RM'000	Computers RM'000	Renovation RM'000	Construction work-in-progress RM'000	Total RM'000
Depreciation										
At 1 July 2018	618	2,872	10,642	3,124	1,133	1,950	2,790	2,884	–	26,013
Depreciation for the year	131	473	1,693	387	120	317	324	419	–	3,864
Disposals	–	–	–	(1,212)	–	–	–	–	–	(1,212)
Write-off	–	–	(1,303)	–	–	–	–	–	–	(1,303)
At 30 June 2019	749	3,345	11,032	2,299	1,253	2,267	3,114	3,303	–	27,362
Adjustment on initial application of MFRS 16	(749)	–	–	–	–	–	–	–	–	(749)
At 1 July 2019	–	3,345	11,032	2,299	1,253	2,267	3,114	3,303	–	26,613
Depreciation for the year	–	473	1,551	486	110	327	239	402	–	3,588
Disposals	–	–	(392)	(122)	(7)	–	(62)	–	–	(583)
At 30 June 2020	–	3,818	12,191	2,663	1,356	2,594	3,291	3,705	–	29,618
Carrying amounts										
At 1 July 2018	11,709	20,797	9,647	916	266	1,360	779	1,450	5,950	52,874
At 30 June 2019	11,578	20,324	7,508	1,143	152	1,210	532	1,177	6,671	50,295
At 1 July 2019	–	20,324	7,508	1,143	152	1,210	532	1,177	6,671	38,717
At 30 June 2020	–	19,851	6,419	995	176	1,043	371	1,011	7,624	37,490

The leasehold land which in substance was a finance lease was classified as property, plant and equipment in previous year. The leasehold land was reclassified to right-of-use asset on adoption of MFRS 16 on 1 July 2019.

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The leasehold land and buildings have been revalued by an independent professional valuer in February 2016. The market values of these properties were determined by the valuer using the comparison and depreciated replacement cost approach based on the nature of the properties and the availability of suitable evidence. The surplus arising from the revaluation, net of deferred tax expense, has been credited to other comprehensive income and accumulated in equity under the revaluation reserve.

Had the leasehold land and buildings been carried at historical cost less accumulated depreciation, the carrying amount of the leasehold land and buildings that would have been included in the financial statements at the end of the financial year would be as follows:

Group	Leasehold land (Note 4) RM'000	Buildings RM'000	Total RM'000
2020			
At cost	4,903	16,752	21,655
Accumulated depreciation	(554)	(3,265)	(3,819)
	4,349	13,487	17,836
2019			
At cost	4,903	16,752	21,655
Accumulated depreciation	(504)	(2,930)	(3,434)
	4,399	13,822	18,221

Fair value information

Fair value of the leasehold land and buildings are categorised as follows:

	Level 3	
Group	2020 RM'000	2019 RM'000
Leasehold land	12,000	12,000
Buildings	24,350	24,350
	36,350	36,350

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer. As of the financial year end, there has been no transfer between all levels of fair value.

Valuation process applied by the Group

Level 3 fair value

Level 3 fair value is estimated using inputs with significant adjustments for the land and buildings. Fair values of land and buildings have been generally derived using the comparison and depreciated replacement cost approach.

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Valuation process applied by the Group (cont'd)

Level 3 fair value (cont'd)

Under the comparison approach, sales price of comparable properties in close proximity are adjusted for differences in key attributes such as property size and location. The most significant unobservable input into this valuation approach is price per square foot of comparable properties.

Under the depreciated replacement cost approach, the building value is taken to be equal the cost of replacing the building in its existing condition. This is determined by taking the current replacement cost of the building as new and allowing for depreciation for physical, functional and economic obsolescence.

4. RIGHT-OF-USE ASSETS

Group	Leasehold land RM'000	Office building RM'000	Total RM'000
At 1 July 2019	11,578	109	11,687
Depreciation for the year	(131)	(82)	(213)
At 31 June 2020	11,447	27	11,474

The Group leases buildings that run between one year and two years. Lease payments remain constant throughout the lease terms. The leasehold land is reclassified as right-of-use asset following the adoption of MFRS 16, *Leases*. The leasehold land has a lease term of 99 years.

The Group negotiated rent concessions with its landlord for the office building leases as a result of the COVID-19 pandemic during the financial year.

The amount recognised in profit or loss for the reporting period to reflect changes in lease payments arising from rent concessions to which the Group has applied the practical expedient for COVID-19 related rent concessions is RM2,000 (2019: nil).

The leasehold land has been revalued by an independent professional valuer in February 2016. The carrying amount of the leasehold land had it been carried at historical cost less accumulated depreciation and its fair value information are disclosed in Note 3 to the financial statements.

5. INVESTMENTS IN SUBSIDIARIES

Company	2020 RM'000	2019 RM'000
At cost		
Unquoted shares in Malaysia	76,461	76,261

In December 2019, the Group acquired an additional 40% interest in Pecca Aviation Services Sdn. Bhd. for RM200,000 in cash, increasing its ownership from 60% to 100%. The information of this acquisition is disclosed in Note 27 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

5. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Details of the subsidiaries are as follows:

Name of subsidiaries	Principal place of business/ Country of incorporation	Principal activities	Effective ownership interest and voting interest 2020 %	2019 %
Pecca Leather Sdn. Bhd. ("PLeather")	Malaysia	Styling, manufacturing, distribution and installation of leather car seat covers, supply of leather cut pieces to the automotive upholstery industry and other services related to the automotive upholstery industry and manufacturing and distribution of healthcare products.	100	100
Pecca Aviation Services Sdn. Bhd. ("PAviation")	Malaysia	Manufacturing, repair, refurbishment, distribution and installation of aircraft leather seat covers and other leather related products for commercial and private aircrafts	100	60
Pecca Plus Sdn. Bhd.	Malaysia	Dormant	100	100
Pecca Leather (Thailand) Limited ("PThailand")*#	Thailand	Dormant	49/ 83	49/ 83

* Audited by a firm other than KPMG.

\# Although the Group owns less than half of the ownership interest in PThailand, the Directors have determined that the Group controls the entity on the basis that the Group:

i) possesses 2,450 Class A shares with 5 voting rights per share which translates to a majority voting rights of 83% over PThailand;

ii) is exposed, or has rights, to variable return from its involvement with the entity and has the ability to affect those returns through its power over the entity; and

iii) has current ability to direct the activities of the entity that significantly affect the investee's return.

Summarised financial information of the non-controlling interest in PThailand has not been presented as the related information is not individually material to the Group.

5.1 The Company's shareholdings in non-wholly owned subsidiaries are as follows:

	Number of ordinary shares			
	At 1.7.2019	Bought	Sold	At 30.6.2020
Interest in non-wholly owned subsidiaries:				
PThailand	2,450	–	–	2,450

NOTES TO THE FINANCIAL STATEMENTS

6. OTHER INVESTMENTS

	Note	Group 2020 RM'000	Group 2019 RM'000
Non-current			
Financial assets at fair value through profit or loss:			
- club memberships	6.1	418	232

6.1 Included in club memberships is a club membership amounting to RM367,500 (2019 : RM167,000) register in the name of a Director of the Company.

7. INVENTORIES

	Note	Group 2020 RM'000	Group 2019 RM'000
At cost:			
- Raw materials		19,560	13,578
- Finished goods		1,292	2,167
- Work-in-progress		871	776
At net realisable value:			
- Raw materials		1,222	396
		22,945	16,917
Recognised in profit or loss:			
Inventories recognised as cost of sales		63,785	79,293
Inventories written down to net realisable value	7.1	991	203

7.1 There is judgement involved in assessing the level of inventory write down required in respect of slow-moving and obsolete raw materials. The write down is included in cost of sales.

8. TRADE AND OTHER RECEIVABLES

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Trade					
Trade receivables	8.1	17,408	28,900	–	–
Non-trade					
Amounts due from subsidiaries	8.2	–	–	250	424
Dividend receivable		–	–	2,000	–
Other receivables and deposits		96	94	–	–
		96	94	2,250	424
		17,504	28,994	2,250	424

NOTES TO THE FINANCIAL STATEMENTS

8. TRADE AND OTHER RECEIVABLES (CONT'D)

8.1 Included in trade receivables of the Group is an amount due from a related party amounting to RM42,000 (2019: nil). Related party refers to a company substantially owned by certain Directors. The amount due from a related party is subject to normal trade terms.

8.2 The non-trade amounts due from subsidiaries are unsecured, subject to interest at 4.0% (2019: 4.0%) per annum and repayable on demand.

9. CASH AND CASH EQUIVALENTS

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Cash and bank balances		23,849	21,590	297	417
Liquid investments	9.1	54,545	71,257	44,760	61,873
		78,394	92,847	45,057	62,290

9.1 The liquid investments represent investments in unit trust funds which primarily invest in money market instruments and have insignificant risks of changes in the value of the investments.

10. CAPITAL AND RESERVES

Share capital

	Group and Company 2020 Amount RM'000	2020 Number of shares '000	2019 Amount RM'000	2019 Number of shares '000
Issued and fully paid shares with no par value classified as equity instruments:				
Ordinary shares At 1 July/30 June	135,702	188,000	135,702	188,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

Treasury shares

The shareholders of the Company, by a special resolution passed in a general meeting held on 29 November 2019, approved the Company's plan to repurchase its own shares. The Directors of the Company are committed to enhancing the value of the Company to its shareholders and believe that the repurchase plan can be applied in the best interests of the Company and its shareholders.

The Company repurchased a total of 6,606,100 (2019: 308,800) of its issued share capital from the open market. The average price paid for the shares repurchased was RM0.95 (2019: RM1.05) per share including transaction costs, and the repurchase transactions were financed by internally generated funds. The shares repurchased are held as treasury shares.

At 30 June 2020, the Group held 11,238,200 (2019: 4,632,100) of the Company's shares.

NOTES TO THE FINANCIAL STATEMENTS

10. CAPITAL AND RESERVES (CONT'D)

Merger deficit

The merger deficit represents the difference between the cost of acquisition and the nominal value of the shares of subsidiaries acquired in previous years.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of the Group entities with functional currencies other than RM.

Revaluation reserve

The revaluation reserve represents the surplus on revaluation of leasehold land and buildings of the Group, net of deferred tax.

11. DEFERRED TAX LIABILITIES

Recognised deferred tax assets/(liabilities)

Deferred tax assets/(liabilities) are attributable to the following:

	Assets		Liabilities		Net	
Group	**2020 RM'000**	**2019 RM'000**	**2020 RM'000**	**2019 RM'000**	**2020 RM'000**	**2019 RM'000**
Revaluation surplus of leasehold land and buildings	–	–	(3,231)	(3,283)	(3,231)	(3,283)
Property, plant and equipment	–	–	(3,349)	(3,313)	(3,349)	(3,313)
Provisions	1,382	801	–	–	1,382	801
Other temporary differences	–	–	(63)	(73)	(63)	(73)
Tax assets/(liabilities)	1,382	801	(6,643)	(6,669)	(5,261)	(5,868)
Set off of tax	(1,382)	(801)	1,382	801	–	–
Net tax liabilities	–	–	(5,261)	(5,868)	(5,261)	(5,868)

Movement in temporary differences during the financial year

	At 1.7.2018 RM'000	Recognised in profit or loss (Note 17) RM'000	At 30.6.2019/ 1.7.2019 RM'000	Recognised in profit or loss (Note 17) RM'000	At 30.6.2020 RM'000
Revaluation surplus of leasehold land and buildings	(3,336)	53	(3,283)	52	(3,231)
Property, plant and equipment	(2,992)	(321)	(3,313)	(36)	(3,349)
Provisions	69	732	801	581	1,382
Others	139	(212)	(73)	10	(63)
	(6,120)	252	(5,868)	607	(5,261)

NOTES TO THE FINANCIAL STATEMENTS

11. DEFERRED TAX LIABILITIES (CONT'D)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items (stated at gross):

	2020 RM'000	2019 RM'000
Group		
Unabsorbed capital allowances	19	–
Unutilised tax losses	1,201	572
Taxable temporary differences	(41)	(33)
	1,179	539

Effective from Year of Assessment ("YA") 2019, the unutilised tax losses from a YA can only be carried forward up to 7 YA's whilst, the unabsorbed capital allowances and other temporary differences do not expire under the current tax legislation. The unutilised tax losses of RM1,201,000 (2019: RM572,000) expire between 2026 to 2027 (2019: expire by 2026). The deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the subsidiary can utilise the benefits therefrom.

12. TRADE AND OTHER PAYABLES

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Trade					
Trade payables	12.1	5,557	9,325	–	–
Non-trade					
Amount due to a Director	12.2	270	270	–	–
Amount due to non-controlling interests	12.3	–	30	–	–
Other payables and accruals		4,897	8,909	126	333
		5,167	9,209	126	333
		10,724	18,534	126	333

12.1 Included in trade payables of the Group is an amount due to a related party amounting to RM340,000 (2019: nil). Related party refers to a company substantially owned by certain Directors. The amount due to a related party is subject to normal trade terms.

12.2 The non-trade amount due to a Director is unsecured, interest-free and repayable on demand.

12.3 The non-trade amount due to non-controlling interests was unsecured, interest-free and repayable on demand.

13. CONTRACT LIABILITIES

The contract liability relates to the advance consideration received from a customer for refurbishment contract. The contract liabilities are expected to be recognised as revenue in next twelve months.

NOTES TO THE FINANCIAL STATEMENTS

14. REVENUE

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Revenue from contracts with customers				
Sales of goods	91,790	117,979	–	–
Service income	12,850	13,396	–	–
Other revenue				
Dividend income	–	–	2,000	–
	104,640	131,375	2,000	–

14.1 Disaggregation of revenue

Group	Reportable segment Automotive		Other non-reportable segment		Total	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Primary geographical markets						
Malaysia	85,969	107,449	496	1,249	86,465	108,698
Asia Pacific	12,133	14,919	–	–	12,133	14,919
Europe	2,456	3,856	–	–	2,456	3,856
North America	1,727	1,940	–	–	1,727	1,940
Oceania	1,859	1,962	–	–	1,859	1,962
	104,144	130,126	496	1,249	104,640	131,375
Major product lines						
Revenue from car seat covers:						
Original Equipment Manufacturer	69,308	78,512	–	–	69,308	78,512
Replacement Equipment Manufacturer	10,771	21,010	–	–	10,771	21,010
Pre-Delivery Inspection	9,144	14,741	–	–	9,144	14,741
Other sales	2,567	3,716	–	–	2,567	3,716
Total sales of goods	91,790	117,979	–	–	91,790	117,979
Major service lines						
Leather cut pieces supply	9,905	9,441	–	–	9,905	9,441
Other services	2,449	2,706	496	1,249	2,945	3,955
Total service income	12,354	12,147	496	1,249	12,850	13,396
	104,144	130,126	496	1,249	104,640	131,375
Timing and recognition						
At a point in time	104,144	130,126	496	1,249	104,640	131,375

NOTES TO THE FINANCIAL STATEMENTS

14. REVENUE (CONT'D)

14.2 Nature of goods and services

The following information reflects the typical transactions of the Group:

Nature of goods or services	Timing of recognition or method used to recognised revenue	Significant payment terms	Variable element in consideration	Warranty
Car seat covers	Revenue is recognised at a point in time when the goods are delivered and accepted by the customer.	Credit period ranges from 30 to 90 days (2019: 30 to 90 days) from invoice date.	Not applicable.	Assurance warranties of 3 to 5 years are given to customers.
Other sales	Revenue is recognised at a point in time when the goods are delivered and accepted by the customer.	Credit period ranges from 30 to 90 days (2019: 30 to 90 days) from invoice date.	Not applicable.	Assurance warranties of 3 to 5 years are given to customers.
Leather cut pieces supply	Revenue is recognised at a point in time when the services are rendered.	Credit period ranges from 30 to 90 days (2019: 30 to 90 days) from invoice date.	Not applicable.	Not applicable.
Other services	Revenue is recognised at a point in time when the services are rendered.	Credit period ranges from 30 to 90 days (2019: 30 to 90 days) from invoice date.	Not applicable.	Not applicable.

15. FINANCE INCOME

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Interest income of financial assets calculated using the effective interest method that are at amortised costs	512	236	9	52
Other finance income	2,026	2,035	1,725	1,586
	2,538	2,271	1,734	1,638

NOTES TO THE FINANCIAL STATEMENTS

16. PROFIT BEFORE TAX

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Profit before tax is arrived at after charging:				
Auditors' remuneration				
- Audit fees				
KPMG PLT	155	155	50	50
Other auditors	6	7	–	–
- Non-audit fees				
KPMG PLT	6	6	6	6
Local affiliates of KPMG PLT	26	26	5	5
Material expenses:				
Depreciation of:				
- Property, plant and equipment	3,588	3,864	–	–
- Right-of-use assets	213	–	–	–
Fair value loss on other investments	–	164	–	158
Impairment loss on:				
- amount due from a subsidiary	–	–	187	–
- trade receivables	1,955	840	–	–
Inventories written down to net realisable value	991	203	–	–
Property, plant and equipment written off	–	520	–	–
Realised loss on foreign exchange	13	262	–	–
Rental of premises	–	84	–	–
Staff costs:				
- Contributions to state plans	1,883	1,720	–	–
- Wages, salaries and others	22,079	20,952	10	11
Material income:				
Fair value gain on other investments	186	–	–	–
Gain on disposal of property, plant and equipment	36	188	–	–
Gross dividend from a subsidiary (unquoted)	–	–	2,000	–
Rental income	220	216	–	–
Unrealised gain on foreign exchange	262	302	–	–

NOTES TO THE FINANCIAL STATEMENTS

17. TAX EXPENSE

Recognised in profit or loss

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Current tax expense				
Current year	3,430	5,663	3	10
Under provision in prior year	225	96	2	5
	3,655	5,759	5	15
Deferred tax expense				
Reversal of temporary differences	(526)	(382)	–	–
(Over)/Under provision in prior year	(81)	130	–	–
	(607)	(252)	–	–
	3,048	5,507	5	15
Reconciliation of tax expense				
Profit before tax	11,324	22,179	3,067	1,349
Income tax calculated using Malaysian tax rate of 24% (2019: 24%)	2,718	5,323	736	324
Non-deductible expenses	584	681	159	210
Utilisation of reinvestment allowances	(66)	(10)	–	–
Non-taxable income	(485)	(677)	(892)	(524)
Effect of deferred tax assets not recognised	153	3	–	–
Recognition of previously unrecognised tax losses	–	(39)	–	–
Under/(Over) provision of tax expense in prior year				
- Current tax expense	225	96	2	5
- Deferred tax expense	(81)	130	–	–
	3,048	5,507	5	15

18. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share at 30 June 2020 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

	Group	
	2020 RM'000	2019 RM'000
Profit attributable to ordinary shareholders		
Continuing operations	8,387	16,616

NOTES TO THE FINANCIAL STATEMENTS

18. EARNINGS PER ORDINARY SHARE (CONT'D)

Weighted average number of ordinary shares outstanding

	Group	
	2020 '000	2019 '000
Issued ordinary shares at the beginning of the year	188,000	188,000
Effect of treasury shares held	(6,518)	(4,375)
Weighted average number of shares (basic)	181,482	183,625

	Group	
	2020	2019
Basic earnings per ordinary share	Sen	Sen
From continuing operations	4.62	9.05

Diluted earnings per ordinary share

The Group has no dilution in its earnings per ordinary shares at 30 June 2020 and 30 June 2019.

19. DIVIDENDS

Dividends recognised by the Company are:

	RM per share	Total amount RM'000	Date of payment
2020			
Interim 2019 ordinary (single tier)	0.035	6,418	29 November 2019
Interim 2020 ordinary (single tier)	0.030	5,376	10 April 2020
		11,794	
2019			
Final 2018 ordinary (single tier)	0.030	5,510	14 December 2018
Interim 2019 ordinary (single tier)	0.025	4,589	10 May 2019
		10,099	

On 28 August 2020, the following dividend was declared by the Directors and paid on 25 September 2020. This dividend will be recognised in the subsequent financial period.

	RM amount per share	Total RM'000
Second interim 2020 ordinary (single tier)	0.016	2,843

The Directors do not recommend any final dividend to be paid for the financial year ended 30 June 2020.

NOTES TO THE FINANCIAL STATEMENTS

20. OPERATING SEGMENT

The Group's resources allocation is assessed on a quarterly basis in accordance to the business performance and requirements of the respective business segments as reviewed and determined by the Group's Chief Operating Decision Maker ("CODM") whom is also the Managing Director of the Group. Hence, segment information is presented by business segment that the Group operates in. The format of the business segment is based on the Group's operation management and internal reporting structure.

Other non-reportable segment comprises operations related to the aviation and furniture industry, manufacture and distribution of helthcare products and the Company's operation. This segment does not meet the quantitative thresholds for reporting segments in 2020 and 2019.

Segment assets and liabilities information are neither included in the internal management reports nor provided regularly to the CODM. Hence, no disclosure is made on segment asset and liability.

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

Business segment

The Group comprises the following business segment:

Automotive industry	Styling, manufacturing, distribution and installation of automotive leather upholstery for car seat covers and accessories covers.

	Automotive 2020 RM'000	Automotive 2019 RM'000
Revenue from car seat covers:		
Original Equipment Manufacturer	69,308	78,512
Replacement Equipment Manufacturer	10,771	21,010
Pre-Delivery Inspection	9,144	14,741
	89,223	114,263
Leather cut pieces supply	9,905	9,441
Others	5,016	6,422
	104,144	130,126
Segment profit before tax	10,604	20,527
Included in the measurement of segment profit before tax are:		
Finance income	811	642
Depreciation and amortisation	3,699	3,848
Not included in the measurement of segment profit before tax but provided to Managing Director:		
Tax expense	(3,043)	(5,492)

NOTES TO THE FINANCIAL STATEMENTS

20. OPERATING SEGMENT (CONT'D)

Geographical segments

The Group operates primarily in Malaysia. In presenting information on the basis of geographical segments, segment revenue is based on geographical location of customers.

	Automotive	
	2020 RM'000	2019 RM'000
Malaysia	85,969	107,449
Asia Pacific	12,133	14,919
Europe	2,456	3,856
North America	1,727	1,940
Oceania	1,859	1,962
	104,144	130,126

Major customers

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

	Automotive	
	2020 RM'000	2019 RM'000
Customer A	59,934	63,479
Customer B	8,369	14,366
Customer C	7,014	11,270
	75,317	89,115

Reconciliations of reportable segment revenues and profit or loss

	Group	
	2020 RM'000	2019 RM'000
Revenue		
Total revenue for reportable segment	104,144	130,126
Other non-reportable segment	496	1,249
Consolidated revenue	104,640	131,375
Profit or loss		
Total profit or loss for reportable segment	10,604	20,527
Other non-reportable segment	720	1,652
Consolidated profit before tax	11,324	22,179

NOTES TO THE FINANCIAL STATEMENTS

21. FINANCIAL INSTRUMENTS

21.1 Categories of financial instruments

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

(a) Fair value through profit or loss ("FVTPL")
- Mandatorily required by MFRS 9

(b) Amortised cost ("AC")

2020 Financial assets	Carrying amount RM'000	FVTPL RM'000	AC RM'000
Group			
Other investments	418	418	–
Trade and other receivables	17,504	–	17,504
Liquid investments	54,545	54,545	–
Cash and bank balances	23,849	–	23,849
	96,316	54,963	41,353
Company			
Trade and other receivables	2,250	–	2,250
Liquid investments	44,760	44,760	–
Cash and bank balances	297	–	297
	47,307	44,760	2,547
Financial liabilities			
Group			
Trade and other payables	(10,724)	–	(10,724)
Company			
Trade and other payables	(126)	–	(126)
2019			
Financial assets			
Group			
Other investments	232	232	–
Trade and other receivables	28,994	–	28,994
Liquid investments	71,257	71,257	–
Cash and bank balances	21,590	–	21,590
	122,073	71,489	50,584
Company			
Trade and other receivables	424	–	424
Liquid investments	61,873	61,873	–
Cash and bank balances	417	–	417
	62,714	61,873	841

NOTES TO THE FINANCIAL STATEMENTS

21. FINANCIAL INSTRUMENTS (CONT'D)

21.1 Categories of financial instruments (cont'd)

2019 Financial liabilities	Carrying amount RM'000	FVTPL RM'000	AC RM'000
Group			
Trade and other payables	(18,534)	–	(18,534)
Company			
Trade and other payables	(333)	–	(333)

21.2 Net gains and losses arising from financial instruments

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Net gains/(losses) on:				
Financial assets at fair value through profit or loss:				
- Mandatorily required by MFRS 9	2,212	2,471	1,725	2,027
Financial assets at amortised cost	(1,061)	(481)	(178)	52
Financial liabilities at amortised cost	(133)	(85)	–	–
	1,018	1,905	1,547	2,079

21.3 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

21.4 Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers, liquid investments and deposits placed with approved financial institutions. The Company's exposure to credit risk arises principally from advances to subsidiaries, liquid investments and deposits placed with approved financial institutions.

NOTES TO THE FINANCIAL STATEMENTS

21. FINANCIAL INSTRUMENTS (CONT'D)

21.4 Credit risk (cont'd)

Trade receivables

Risk management objectives, policies and processes for managing the risk

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

The Group adopts the policy of dealing only with customers of appropriate credit history to mitigate credit risk.

At each reporting date, the Group assesses whether any of the trade receivables are credit impaired.

The gross carrying amounts of credit impaired trade receivables are written off (either partially or full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, trade receivables that are written off could still be subject to enforcement activities.

Exposure to credit risk, credit quality and collateral

The Group does not hold any collateral from its customers.

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

Concentration of credit risk

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

	Group	
	2020 RM'000	2019 RM'000
Malaysia	13,709	22,962
Asia Pacific	4,109	2,042
Europe	1,507	1,569
North America	842	2,982
Oceania	216	365
	20,383	29,920

NOTES TO THE FINANCIAL STATEMENTS

21. FINANCIAL INSTRUMENTS (CONT'D)

21.4 Credit risk (cont'd)

Trade receivables (cont'd)

Recognition and measurement of impairment loss

In managing credit risk of trade receivables, the Group takes appropriate actions (including but not limited to legal actions) to recover long overdue balances. Generally, trade receivables will pay within 90 days.

The Group uses an allowance matrix to measure expected credit losses ("ECLs") of trade receivables. Invoices will be considered as credit impaired when one or more events that have a detrimental impact on the recovery of the trade receivables have occurred.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency.

Loss rates are based on actual credit loss experience over the past two years. The Group also considers differences between (a) economic conditions during the period over which the historic data has been collected, (b) current conditions and (c) the Group's view of economic conditions over the expected lives of the receivables. Nevertheless, the Group believes that these factors are immaterial for the purpose of impairment calculation for the financial year.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 30 June 2020 which are grouped together as they are expected to have similar risk nature.

Group	Gross carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
2020			
Current (not past due)	14,036	(2)	14,034
1 - 30 days past due	712	(2)	710
31 - 60 days past due	193	(7)	186
61 - 90 days past due	729	(6)	723
More than 90 days past due	2,207	(452)	1,755
	17,877	(469)	17,408
Credit impaired			
Individually impaired	2,506	(2,506)	–
	20,383	(2,975)	17,408

NOTES TO THE FINANCIAL STATEMENTS

21. FINANCIAL INSTRUMENTS (CONT'D)

21.4 Credit risk (cont'd)

Trade receivables (cont'd)

Recognition and measurement of impairment loss (cont'd)

Group	Gross carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
2019			
Current (not past due)	21,253	(1)	21,252
1 - 30 days past due	3,884	(3)	3,881
31 - 60 days past due	1,206	(2)	1,204
61 - 90 days past due	2,131	(40)	2,091
More than 90 days past due	499	(27)	472
	28,973	(73)	28,900
Credit impaired			
Individually impaired	947	(947)	–
	29,920	(1,020)	28,900

The movements in the allowance for impairment in respect of trade receivables during the financial year are shown below:

	Trade receivables		
Group	Lifetime ECL RM'000	Credit impaired RM'000	Total RM'000
Balance at 1 July 2018	169	11	180
Net remeasurement of loss allowance	(96)	936	840
Balance at 30 June 2019	73	947	1,020
Net remeasurement of loss allowance	396	1,559	1,955
Balance at 30 June 2020	469	2,506	2,975

Cash and cash equivalents

The cash and cash equivalents are held with banks and financial institutions. As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

These banks and financial institutions have low credit risks. Consequently, the Group and the Company are of the view that the loss allowance is not material and hence, it is not provided for.

NOTES TO THE FINANCIAL STATEMENTS

21. FINANCIAL INSTRUMENTS (CONT'D)

21.4 Credit risk (cont'd)

Cash and cash equivalents (cont'd)

Risk management objectives, policies, and processes for managing the risk

The Group and the Company only place liquid investments and deposits with approved financial institutions.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risks arising from liquid investments and deposits placed with approved financial institutions are represented by the carrying amounts in the statements of financial position.

Other receivables

Credit risk on other receivables of the Group are mainly arising from deposits paid for utilities. These deposits will be received upon the termination of the services.

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

As at the end of the reporting period, the Group did not recognise any allowance for impairment losses.

Intercompany advances

Risk management objectives, policies and processes for managing the risk

The Company provides advances to subsidiaries which are non-trade in nature, unsecured, subject to interest at 4.0% (2019: 4.0%) and repayable on demand. The Company monitors the results of the subsidiaries regularly.

Exposure to credit risk, credit quality and collateral

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

Advances provided are not secured by any collateral or supported by any other credit enhancements.

Recognition and measurement of impairment loss

Generally, the Company considers advances to subsidiaries have low credit risk. The Company assumes that there is a significant increase in credit risk when a subsidiary's financial position deteriorates significantly. As the Company is able to determine the timing of payments of the advances when they are payable, the Company considers the advances to be in default when the subsidiaries are not able to pay when demanded. The Company considers advances to subsidiary's to be credit impaired when:

- The subsidiary is unlikely to repay its advance to the Company in full; or
- The subsidiary is continuously loss making and is having a deficit shareholders' fund.

The Company determines the probability of default for these advances individually using internal information available.

NOTES TO THE FINANCIAL STATEMENTS

21. FINANCIAL INSTRUMENTS (CONT'D)

21.4 Credit risk (cont'd)

Intercompany advances (cont'd)

The following table provides information about the exposure to credit risk and ECLs for the subsidiaries' advances as at 30 June 2020.

2020	Gross carrying amount RM'000	Impairment loss allowance RM'000	Net balance RM'000
Company			
Low credit risk	437	(187)	250
2019			
Company			
Low credit risk	424	–	424

21.5 Liquidity risk

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

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

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

Maturity analysis

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

Group	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000
2020				
Non-derivative financial liabilities				
Lease liability	28	3.34	28	28
Trade and other payables	10,724	–	10,724	10,724
	10,752		10,752	10,752
2019				
Non-derivative financial liabilities				
Trade and other payables	18,534	–	18,534	18,534

NOTES TO THE FINANCIAL STATEMENTS

21. FINANCIAL INSTRUMENTS (CONT'D)

21.5 Liquidity risk (cont'd)

Maturity analysis (cont'd)

Company	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000
2020				
Non-derivative financial liabilities				
Trade and other payables	126	–	126	126
2019				
Non-derivative financial liabilities				
Trade and other payables	333	–	333	333

21.6 Market risk

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

(i) Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in foreign currencies other than Ringgit Malaysia. The currencies giving rise to this risk are primarily United States Dollar ("USD"), Singapore Dollar ("SGD") and Euro. Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level. The Group also holds cash and cash equivalents denominated in foreign currencies for working capital purposes.

Risk management objectives, policies and processes for managing the risk

The Group monitors currency movements closely to minimise exposures arising from currency movements.

Exposure to foreign currency risk

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

		Denominated in		
Group	USD RM'000	SGD RM'000	EURO RM'000	Total RM'000
2020				
Balances recognised in the statement of financial position				
Trade receivables	4,650	301	1,501	6,452
Cash and cash equivalents	4,138	134	512	4,784
Trade payables	(3,212)	–	(5)	(3,217)
Net exposure	5,576	435	2,008	8,019

NOTES TO THE FINANCIAL STATEMENTS

21. FINANCIAL INSTRUMENTS (CONT'D)

21.6 Market risk (cont'd)

(i) Currency risk (cont'd)

Exposure to foreign currency risk (cont'd)

Group	USD RM'000	SGD RM'000	EURO RM'000	Total RM'000
	Denominated in			
2019				
Balances recognised in the statement of financial position				
Trade receivables	2,982	2,042	1,563	6,587
Cash and cash equivalents	267	4	5	276
Trade payables	(5,415)	–	(3)	(5,418)
Net exposure	(2,166)	2,046	1,565	1,445

The Group's exposure to currency risk is not material in the context of the financial statements and hence, the sensitivity analysis is not presented.

(ii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate/profit yield risk or currency risk), regardless whether those changes are caused by factors specific to the individual financial instruments or its issuer or factors affecting similar financial instruments traded in the market.

The Group's and the Company's price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices.

The Group and the Company are exposed to price risk arising from investments in unit trusts and close-ended money market funds held by the Group and the Company. The Group's and the Company's exposure to price risk is immaterial. Hence, sensitivity analysis is not presented.

21.7 Fair value information

The carrying amounts of cash and cash equivalents, short-term receivables and payables reasonably approximate their fair values due to the relatively short-term nature of these financial instruments.

The tables below analyses other financial instruments at fair value.

Group	Fair value of financial instruments carried at fair value Level 1 RM'000	Level 2 RM'000	Total fair value RM'000	Carrying amount RM'000
2020				
Financial assets				
Liquid investments	54,545	–	54,545	54,545
Club memberships	–	418	418	418
	54,545	418	54,963	54,963

NOTES TO THE FINANCIAL STATEMENTS

21. FINANCIAL INSTRUMENTS (CONT'D)

21.7 Fair value information (cont'd)

Group	Fair value of financial instruments carried at fair value Level 1 RM'000	Level 2 RM'000	Total fair value RM'000	Carrying amount RM'000
2019				
Financial assets				
Liquid investments	71,257	–	71,257	71,257
Club memberships	–	232	232	232
	71,257	232	71,489	71,489
Company				
2020				
Financial asset				
Liquid investments	44,760	–	44,760	44,760
2019				
Financial asset				
Liquid investments	61,873	–	61,873	61,873

Level 1 fair value

The fair value of liquid investments, unit trusts and the close-ended money market funds are their last quoted bid price by the fund managers at the end of the reporting period.

Level 2 fair value

The fair value of club memberships are estimated by the market value as per the published price in the current club prospectus and publicly available information.

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the financial year (2019: no transfer in either direction).

22. CAPITAL MANAGEMENT

The Group and the Company define capital as the total equity and debt. The objective of the Group's and the Company's capital management is to maintain an optimal capital structure and ensuring funds availability to support business operations and maximises shareholders value. The Group and the Company monitor debts to equity ratio to ensure compliance with management policies as well as maintaining shareholders' confidence in the management.

NOTES TO THE FINANCIAL STATEMENTS

23. CAPITAL AND OTHER COMMITMENTS

Capital expenditures not provided for in the financial statements are as follows:

	2020 RM'000	2019 RM'000
Group		
Capital expenditure commitments		
Plant and equipment		
Contracted but not provided for	533	118

24. CONTINGENCIES

Malaysian Customs Audit Matter

A subsidiary of the Company, namely Pecca Leather Sdn. Bhd. ("PLSB"), has received bills of demand dated 25 August 2020 from the Royal Malaysian Customs Department ("RMCD") amounting to RM242,000 for excise duty in respect of the period from September 2017 to December 2017.

PLSB does not admit to any liability on the bills of demand made by RMCD and is in the discussion with a consultant to determine the next course of action. In view of discussions with RMCD that are still ongoing and as allowed under paragraph 92 of MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets*, the Company is not in a position to disclose any further information on grounds that it can be prejudicial to the outcome of the discussions.

25. EMPLOYEE'S SHARE OPTION SCHEME

The Employee's Share Option Scheme ("ESOS") of the Company is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 28 June 2019 and is implemented and administered by an ESOS Committee in accordance with the By-Laws. The ESOS shall be in force for a period of 5 years from the date of ESOS establishment and may be extended or renewed (as the case may be) for another five (5) years in accordance with the By-Laws.

The maximum number of the Company's shares under the ESOS should not exceed in aggregate 10% of the issued and paid-up share capital (excluding treasury shares) of the Company at any point of time during the duration of the scheme period. Other principal features of the ESOS are as follows:

(a) Eligibility to participate in the ESOS

In respect of the executive or non-executive directors and employee of the Company, the employee must fulfill the following criteria:

(i) is at least eighteen (18) years of age and is not an undischarged bankrupt nor subject to any bankruptcy proceedings;
(ii) has confirmed and in continuous employment of the Group on a full time basis (excluding dormant subsidiaries);
(iii) a contract employee who has serve for at least a period of one (1) year;
(iv) has confirmed employment following the date of a company becomes or is deemed to be a subsidiary of the Group; and
(v) has fulfilled any other criteria as may be determined by the Board/ESOS Committee at any time and from time to time at its absolute discretion.

NOTES TO THE FINANCIAL STATEMENTS

25. EMPLOYEE'S SHARE OPTION SCHEME (CONT'D)

(b) Option Price

Subject to any adjustments in accordance with the By-Laws and pursuant to the Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirement ("MMLR"), the Option Price shall be determined based on the 5-day Volume Weighted Average Price ("VWAP") of the Company Shares, as quoted on Bursa Securities, immediately preceding the date of Offer, with a discount of not more than 10%, or such other percentage of discount as may be permitted by Bursa Securities and/or any other relevant authorities from time to time during the duration of the ESOS, at the ESOS Committee's discretion.

(c) Termination of the ESOS

Subject to compliance with the MMLR of Bursa Securities and any other relevant authorities, the ESOS may be terminated by the Company at any time and no further offers shall be made by the ESOS Committee.

There were no option granted to an eligible person since the approval of ESOS by the shareholders.

26. RELATED PARTIES

Identity of related parties

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

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

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

Significant related party transactions

Related party transactions have been entered into in the normal course of business under normal trade terms. The significant related party transactions of the Group and the Company are shown below. The balances related to the transactions below as shown in Notes 8 and 12.

		Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
A.	**Subsidiaries**				
	Dividend income from a subsidiary	–	–	2,000	–
	Interest income charged to a subsidiary	–	–	8	8
B.	**With companies substantially owned by certain Directors**				
	Sales to a related party	38	–	–	–
	Purchases from a related party	(340)	–	–	–
	Rental received from a related party	216	216	–	–
	Purchase of motor vehicle	(125)	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

26. RELATED PARTIES (CONT'D)

Significant related party transactions (cont'd)

		Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
C.	**Key management personnel**				
	Directors				
	- Fees	318	352	208	232
	- Remuneration	1,570	1,455	34	32
		1,888	1,807	242	264
	Other key management personnel				
	- salaries, allowances and bonus	2,114	1,737	–	–
	- defined contribution plan	259	213	–	–
		2,373	1,950	–	–
		4,261	3,757	242	264

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

27. ACQUISITION OF NON-CONTROLLING INTERESTS

In December 2019, the Group acquired an additional 40% interest in Pecca Aviation Services Sdn. Bhd. for RM200,000 in cash, increasing its ownership form 60% to 100%. The carrying amount of Pecca Aviation Services Sdn. Bhd.'s net liabilities in the Group's financial statements on the date of acquisition was RM691,331. The Group recognised an increase in non-controlling interests of RM277,000 and a decrease in retained earning of RM477,000.

The following summaries the effect of changes in the equity interest in Pecca Aviation Services Sdn. Bhd. that is attributable to owners of the Company:

	Group RM'000
Equity interest at 1 July 2019	256
Effect of increase in Company's ownership interest	277
Share of comprehensive expenses	544
Equity interest at 30 June 2020	1,077

28. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

During the year, the Group adopted MFRS 16.

Definition of a lease

On transition to MFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied MFRS 16 only to contracts that were previously identified as leases.

NOTES TO THE FINANCIAL STATEMENTS

28. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (CONT'D)

As a lessee

Where the Group is a lessee, it applied the requirements of MFRS 16 using the modified retrospective approach, with the initial application that the right-of-use asset is equivalent to the lease liability as at 1 July 2019. Accordingly, the comparative information presented for 2019 has not been restated – i.e. it is presented, as previously reported under MFRS 117, *Leases* and related interpretations.

At 1 July 2019, for lease that was classified as operating lease under MFRS 117, lease liability was measured at the present value of the remaining lease payments, discounted at the Group entities' incremental borrowing rate as at 1 July 2019. The weighted average rate applied is 3.34%.

Right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying MFRS 16 to leases previously classified as an operating lease under MFRS 117:

i) excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and

ii) use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group did not have leases that were classified as finance lease under MFRS 117 at 1 July 2019, except for leasehold land which in substance was a finance lease and was classified as property, plant and equipment. The leasehold land was reclassified from property, plant and equipment to right-of-use asset on transition to MFRS16 on 1 July 2019.

As a lessor

The Group is not required to make any adjustment on transition to MFRS16 for leases in which it acts as a lessor. The Group accounted for its leases in accordance with MFRS16 from the date of initial application.

28.1 Impacts on financial statements

Since the Group applied the requirements of MFRS 16 retrospectively with the cumulative effect of initial application at 1 July 2019, there are no adjustments made to the prior period presented.

The following table explains the difference between operating lease commitment disclosed applying MFRS 117 at 30 June 2019, and lease liability recognised in the statements of financial position at 1 July 2019.

	Group RM'000
Operating lease commitment at 1 July 2019 as disclosed in the Group's financial statements	112
Discounted operating lease commitment using the incremental borrowing rate at 1 July 2019	109
Lease liability recognised at 1 July 2019	109

NOTES TO THE FINANCIAL STATEMENTS

29. COMPARATIVE FIGURES

The comparative figures have been restated to conform to current year's presentation.

	As restated RM'000	As previously reported RM'000
Group		
2019		
Statement of profit or loss and other comprehensive income		
Administrative expenses	(12,497)	(13,337)
Net loss on impairment of financial instruments	(840)	–

The above changes do not have any impact on the earnings per ordinary shares of the Group.

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

In the opinion of the Directors, the financial statements set out on pages 72 to 126 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 30 June 2020 and of their financial performance and cash flows for the financial year then ended.

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

....
Datuk Teoh Hwa Cheng
Director

....
Datin Sam Yin Thing
Director

Kuala Lumpur

Date: 22 October 2020

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

I, **Foo Ken Nee**, the officer primarily responsible for the financial management of Pecca Group Berhad, do solemnly and sincerely declare that the financial statements set out on pages 72 to 126 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Foo Ken Nee, NRIC: 771128-14-5141, MIA: CA 21877, at Kuala Lumpur in the Federal Territory on 22 October 2020.

....
Foo Ken Nee

Before me:

INDEPENDENT AUDITORS' REPORT

to the members of Pecca Group Berhad

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Pecca Group Berhad, which comprise the statements of financial position as at 30 June 2020 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 72 to 126.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 30 June 2020, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Key Audit Matters

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

Valuation of inventories

Refer to the accounting policy on Note 2(f) and Note 7 to the financial statements.

The key audit matter
The Group has significant raw materials balance as at 30 June 2020 of RM20,782,000 which represents 91% of the total inventory balance. There is judgement involved in assessing the level of inventory provision required in respect of slow moving and obsolete raw materials therefore, there is a risk that slow moving and obsolete raw materials have not been adequately provided for.
How the matter was addressed in our audit
Our audit procedures in this area included, amongst others: • We obtained an understanding of the Group's process for measuring the amount of write down required and evaluated the design and effectiveness of controls over identifying slow moving raw materials.
• We evaluated the past trend of raw materials utilisation based on raw material movement records of the Group to identify raw materials having indicators that they were slow moving. We have tested the accuracy of the ageing of raw materials and utilisation records used for this purpose.
• For those raw materials having indicator that they were slow moving, we have enquired the management's action plan to realise the slow moving raw materials, comparing the carrying amounts recorded against their respective net realisable value or replacement costs.
• We have also assessed the adequacy of the Group's policy on allowance of slow moving and obsolete raw materials.

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

INDEPENDENT AUDITORS' REPORT

to the members of Pecca Group Berhad

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT

to the members of Pecca Group Berhad

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, the subsidiary of which we have not acted as auditors is disclosed in Note 5 to the financial statements.

Other Matter

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

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Ooi Eng Siong
Approval Number: 03240/02/2022 J
Chartered Accountant

Petaling Jaya

Date: 22 October 2020

LIST OF PROPERTIES

	Location	Tenure	Year lease expiring	Approximate area (Sq Ft)	Description / existing use	Age / Year of Acquisition / Certificate of Completion	Net Book Value as at 30.06.2020 (RM)	Market Value / Last Revaluation Date (RM)
1.	No.1, Jalan Perindustrian Desa Aman 1A, Industri Desa Aman, Kepong, 52200 Kuala Lumpur. H.S. (M) 24691, Lot PT No. 2034, Locality of Desa Aman, Bandar Sungai Buloh, District of Gombak, State of Selangor Darul Ehsan	Leasehold 99 years	4 August 2107	72,506 SqFt (land area) 21,700 SqFt (Built-up area for 4-storey office building) 89,896 SqFt (Built-up area for 4-storey factory building) 46,046 SqFt (Built-up area for 6-storey hostel building)	1 unit of 4-storey office building with a mezzanine floor annexed to a 4-storey flatted factory building and a 6-storey hostel building together with a guardhouse/ Head office and production factory of our Group	9 years / 5 January 2011 (for 4-storey office and 4-storey factory) 21 June 2011 (for 6-storey hostel)	30,978,424	36,000,000 / 03.02.2016
2.	B-5-1, 5th Floor, Block B, Damansara Sutera Apartment, Persiaran KIP Utama, Kipark Damansara, 52200 Kuala Lumpur. Strata Title No. Geran 58055/ M2/6/178, Parcel No. 178, Storey No.6, Building No. M2, Parent Lot No. 2854, Town of Kepong, District of Gombak, State of Selangor Darul Ehsan.	Freehold	-	850 SqFt (Built-up area)	1 unit of 3-bedroom apartment / Staff accommodation	19 years/ 2 December 2010	319,332	350,000 03.02.2016

ANALYSIS OF SHAREHOLDINGS

ANALYSIS OF SHAREHOLDINGS AS AT 17 SEPTEMBER 2020

Issued Shares	:	188,000,000 (including shares held as treasury shares)
Treasury Shares	:	14,620,100
Class of Shares	:	Ordinary shares
Voting Rights	:	One vote per ordinary share

DISTRIBUTION OF SHAREHOLDINGS

Size of holdings	No. of holders	%(2)	No. of shares	%(2)
1 – 99	16	0.66	176	0.00
100 – 1,000	432	17.87	286,412	0.17
1,001 – 10,000	1,212	50.12	6,513,738	3.76
10,001 – 100,000	650	26.88	22,785,385	13.14
100,001 to less than 5% of issued shares	105	4.34	47,798,916	27.57
5% and above of issued shares	3	0.12	95,995,273	55.37
Total	2,418	100.00	173,379,900	100.00

** Excluding a total of 14,620,100 shares bought back by the Company and retained as treasury shares as per Record of Depositors as at 17 September 2020.*

SUBSTANTIAL SHAREHOLDERS

(as per Register of Substantial Shareholders as at 17 September 2020)

Name of Substantial Shareholder	No. of shares held			
	Direct	%(2)	Indirect	%(2)
MRZ Leather Holdings Sdn Bhd	85,692,420	49.42	–	–
Datuk Teoh Hwa Cheng	10,302,853	5.94	(1)85,989,420	(1)49.60
Datin Sam Yin Thing	4,080,002	2.35	(1)85,989,420	(1)49.60

Notes:

(1) Deemed interested in shares held by MRZ Leather Holdings Sdn Bhd and his/her child in the Company pursuant to Sections 8 and 59(11)(c) of the Companies Act 2016.

(2) Excluding a total of 14,620,100 shares bought back by the Company and retained as treasury shares.

ANALYSIS OF SHAREHOLDINGS

DIRECTORS' SHAREHOLDINGS

(as per Register of Directors' Shareholdings as at 17 September 2020)

Name of Directors	No. of shares held			
	Direct	%[(2)]	Indirect	%[(2)]
Dato' Mohamed Suffian bin Awang	100,000	0.06	–	–
Datuk Teoh Hwa Cheng	10,302,853	5.94	[(1)] 85,989,420	[(1)]49.60
Datin Sam Yin Thing	4,080,002	2.35	[(1)] 85,989,420	[(1)]49.60
Datuk Leong Kam Weng	100,000	0.06	–	–
Chew Kian Seng	–	–	–	–

Notes:

(1) Deemed interested in shares held by MRZ Leather Holdings Sdn Bhd and his/her child in the Company pursuant to Sections 8 and 59(11)(c) of the Companies Act 2016.

(2) Excluding a total of 14,620,100 shares bought back by the Company and retained as treasury shares.

LIST OF THIRTY LARGEST SHAREHOLDERS

as at 17 September 2020

No.	Name	No. of shares	Percentage holding (%)
1.	MRZ LEATHER HOLDINGS SDN. BHD.	45,692,420	26.35
2.	MRZ LEATHER HOLDINGS SDN. BHD.	40,000,000	23.07
3.	TEOH HWA CHENG	10,302,853	5.94
4.	SAM YIN THING	4,080,002	2.35
5.	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM CHENG LING (6000009)	3,000,000	1.73
6.	M & A NOMINEE (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHEW HUN SENG (M&A)	2,894,800	1.67
7.	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR ALLIANZ LIFE INSURANCE MALAYSIA BERHAD (ULIFE2)	2,254,400	1.30
8.	CGS-CIMB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN KIM PIAU (MY2525)	2,000,000	1.15
9.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (PHEIM)	1,983,900	1.14
10.	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB FOR NG PAIK PHENG (PB)	1,540,100	0.89
11.	AFFIN HWANG NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR LEONG KIM FONG	1,444,000	0.83
12.	TAN CHIN TEONG	1,400,000	0.81
13.	MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR DANA MAKMUR PHEIM (211901)	1,355,400	0.78
14.	CHONG NYOK YOONG	1,102,500	0.64

ANALYSIS OF SHAREHOLDINGS

LIST OF THIRTY LARGEST SHAREHOLDERS
as at 17 September 2020

No.	Name	No. of shares	Percentage holding (%)
15.	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM CHENG LING	1,006,000	0.58
16.	SAM CHEE SIONG	967,300	0.56
17.	AFFIN HWANG NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR LAI KAM MEI (LAI0576C)	800,000	0.46
18.	LOH KIAN CHONG	800,000	0.46
19.	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ONN KIM SUAN	800,000	0.46
20.	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN KIM PIAU (7007611)	750,000	0.43
21.	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR RHB PRIVATE FUND - SERIES 3	600,000	0.35
22.	N SUVENDRA A/L S NAKENDRA	572,000	0.33
23.	MAYBANK NOMINEES (TEMPATAN) SDN BHD LIE YING PING @ LEE YING PING	554,900	0.32
24.	TAN LEE HONG	503,900	0.29
25.	CHONG OI MEI	500,000	0.29
26.	UOB KAY HIAN NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TEO SIEW LAI	500,000	0.29
27.	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN CHIN TEONG	485,000	0.28
28.	CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR BARCLAYS CAPITAL SECURITIES LTD (SBL/PB)	483,700	0.28
29.	LAU YEW WON	403,000	0.23
30.	KENANGA NOMINEES (TEMPATAN) SDN BHD RAKUTEN TRADE SDN BHD FOR THIEN CHUK KUEN	400,000	0.23
	Total	129,176,175	74.51

* *Excluding a total of 14,620,100 shares bought back by the Company and retained as treasury shares as per Record of Depositors as at 17 September 2020.*

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Tenth Annual General Meeting of **PECCA GROUP BERHAD** will be held at Greens II, Main Wing, Level 1, Tropicana Golf & Country Resorts, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor, on Friday, 27 November 2020 at 9.30 a.m. for the following purposes:-

AGENDA

As Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 30 June 2020 together with the Reports of the Directors and Auditors thereon. **(Please refer to Note 1 of the Explanatory Notes)**

2. To approve the payment of Directors' fees of up to RM380,000.00 and benefits payable to the Directors of the Company and its subsidiary of up to RM41,000.00 from 1 July 2020 until the conclusion of the next Annual General Meeting of the Company. **Ordinary Resolution 1**

3. To re-elect Datin Sam Yin Thing who is to retire pursuant to Clause 97 of the Company's Constitution and being eligible, has offered herself for re-election. **Ordinary Resolution 2**

4. To re-elect Chew Kian Seng who is to retire pursuant to Clause 105 of the Company's Constitution and being eligible, has offered himself for re-election. **Ordinary Resolution 3**

5. To re-elect Leong Chee Tong who is to retire pursuant to Clause 105 of the Company's Constitution and being eligible, has offered himself for re-election. **Ordinary Resolution 4**

6. To re-elect Teoh Zi Yi who is to retire pursuant to Clause 105 of the Company's Constitution and being eligible, has offered himself for re-election. **Ordinary Resolution 5**

7. To re-elect Teoh Zi Yuen who is to retire pursuant to Clause 105 of the Company's Constitution and being eligible, has offered herself for re-election. **Ordinary Resolution 6**

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

As Special Business

To consider and, if thought fit, to pass the following resolutions:-

9. Proposed Renewal of Authority under Section 76 of the Companies Act 2016 ("the Act") for the Directors to allot and issue shares

"**THAT** pursuant to Section 76 of the Act, the Directors be and are hereby authorised to allot and issue shares in the share capital of the Company at any time until the conclusion of the next Annual General Meeting and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued does not exceed ten per centum (10%) of the total number of issued shares of the Company for the time being, subject always to the approval of all relevant regulatory bodies being obtained for such allotment and issue" **Ordinary Resolution 8**

NOTICE OF
ANNUAL GENERAL MEETING

10. Proposed Renewal of Authority to the Company to Purchase its own Ordinary Shares ("Proposed Renewal of Share Buy-Back Authority")

"**THAT** subject to the Act, the Constitution of the Company, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and any other relevant authority or approval for the time being in force or as may be amended from time to time, the Directors of the Company be and are hereby authorised to utilise an amount not exceeding the audited retained profits of the Company to purchase such amount of ordinary shares in the Company as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit, necessary and expedient in the interest of the Company, provided that:-

(a) the aggregate number of ordinary shares which may be purchased and/or held by the Company as treasury shares shall not exceed ten per centum (10%) of the total number of issued shares of the Company at any point in time of the said purchase(s);

(b) the maximum funds to be allocated by the Company for the purpose of purchasing its ordinary shares shall not exceed the total retained earnings of the Company at the time of purchase; and

(c) the authority conferred by this resolution shall continue to be in force until:-

   (i) the conclusion of the next Annual General Meeting ("AGM") of the Company following the general meeting at which such resolution was passed at which time the said authority shall lapse unless by an ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions;

   (ii) the expiration of the period within which the next AGM of the Company is required by law to be held; or

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

whichever occurs first, but not so as to prejudice the completion of the purchase(s) by the Company before the aforesaid expiry date and in any event, in accordance with the provisions of the guidelines issued by Bursa Securities and/or any other relevant governmental and/or regulatory authorities (if any).

THAT upon completion of the purchase by the Company of its own ordinary shares, the Directors of the Company be and are hereby authorised to deal with the ordinary shares purchased in their absolute discretion as defined in Section 127 of the Act in the following manner:-

(a) cancel the ordinary shares so purchased; and/or

(b) retain the ordinary shares so purchased in treasury for distribution as dividend to the shareholders and/or resell on the market of Bursa Securities; and/or

(c) retain part thereof as treasury shares and cancel the remainder.

NOTICE OF ANNUAL GENERAL MEETING

AND THAT the Directors of the Company be and are hereby authorised to take all such steps as are necessary (including executing all such documents as may be required) and enter into any agreements, arrangements and guarantees with any party or parties to implement, finalise and give full effect to the Proposed Renewal of Share Buy-Back Authority with full powers to assent to any conditions, modifications, revaluations, variations and/or amendments (if any) as may be imposed by the relevant authorities from time to time or as the Directors may in their discretion deem necessary and to do all such acts and things as the said Directors may deem fit and expedient in the best interests of the Company." **Ordinary Resolution 9**

11. Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of A Revenue or Trading Nature

"THAT subject always to the provisions of the Main Market Listing Requirements of the Bursa Securities Berhad, approval be and is hereby given to the Company and/or its subsidiary companies to give effect to the specific recurrent related party transactions of a revenue or trading nature with the Related Party as set out in Part B of the Circular to Shareholders dated 28 October 2020, provided that such arrangements and/or transactions are:

(a) recurrent transactions of a revenue or trading nature;
(b) necessary for the day-to-day operations;
(c) carried out on arm's length basis, in the ordinary course of business and on terms which are not more favourable to the related parties than those generally available to the public; and
(d) are not to the detriment of the minority shareholders.

THAT the authority conferred by this resolution shall commence immediately upon the passing of this resolution and shall continue to be in force until:

(a) the conclusion of the next Annual General Meeting of the Company at which time it will lapse, unless by a resolution passed by the shareholders of the Company in a general meeting;
(b) the expiration of the period within which the next Annual General Meeting of the Company after that date is required to be held pursuant to Section 340(2) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or
(c) revoked or varied by resolution passed by the shareholders in a general meeting,

whichever is the earlier.

AND THAT the Directors of the Company be and are hereby empowered and authorised to complete and to do all such acts, deeds and things as they may consider expedient or necessary or in the best interest of the Company to give effect to the New Proposal, with full power to assent to any condition, modification, variation and/or amendment (if any) as may be imposed or permitted by the relevant authorities." **Ordinary Resolution 10**

12. To transact any other business for which due notice shall have been given in accordance with the Act.

BY ORDER OF THE BOARD

TAI YIT CHAN (SSM PC No.: 202008001023) (MAICSA 7009143)
WONG WEI FONG (SSM PC No.: 201908001352) (MAICSA 7006751)
Company Secretaries

Selangor Darul Ehsan

Date: 28 October 2020

NOTICE OF ANNUAL GENERAL MEETING

NOTES:-

1. A member of the Company who is entitled to attend and vote at a meeting of the Company, or at a meeting of any class of members of the Company, shall be entitled to appoint not more than two (2) proxies to attend and vote in his stead at the meeting, and that a proxy may but need not be a member. There shall be no restriction as to the qualification of the proxy. Where a member appoints more than one (1) proxy, he shall specify the proportion of his holdings to be represented by each proxy, failing which the appointment shall be invalid. A proxy appointed to attend and vote at a meeting of the Company shall have the same rights as the member to speak at the meeting. However, if the appointer or representative attend and vote on a resolution, the proxy or attorney must not vote.

2. Where a member of the Company is an authorised nominee as defined under the Central Depositories Act, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.

3. Where a member of the Company is an Exempt Authorised Nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (“omnibus account”), there is no limit to the number of proxies which the Exempt Authorised Nominee may appoint in respect of each omnibus account it holds.

4. The instrument appointing a proxy shall be in writing under the hand of the Member or of his attorney duly authorised in writing or if the Member is a corporation, shall be executed under its common seal or under the hand of an officer or attorney duly authorised in writing. The instrument appointing a proxy shall be deemed to confer authority on the appointed proxy to demand or join in demanding a poll.

5. The instrument appointing a proxy, and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, shall be deposited at the Share Registrar’s Office at 11th Floor, Menara Symphony, No. 5, Jalan Professor Khoo Kay Kim, Seksyen 13, 46200 Petaling Jaya, Selangor, not less than 48 hours before the time set for holding the meeting or at any adjournment thereof.

6. In respect of deposited securities, only members whose names appear on the Record of Depositors on 17 November 2020 (General Meeting Record of Depositors) shall be eligible to attend the meeting or appoint proxy(ies) to attend and/or vote on his behalf.

7. Any Notice of Termination of Authority to act as Proxy must be received by the Company before the commencement of the meeting or at any adjournment thereof, failing which, the termination of the authority of a person to act as proxy will not affect the following in accordance with Section 338 of the Companies Act 2016:-

   (a) the constitution of the quorum at such meeting;
   (b) the validity of anything he did as chairman of such meeting;
   (c) the validity of a poll demanded by him at such meeting; or
   (d) the validity of the vote exercised by him at such meeting.

8. Pursuant to Paragraph 8.29A of the Main Market Listing Requirements of Bursa Securities, all resolutions set out in the notice of the 10th AGM will be put to vote by way of poll. Poll Administrator and independent Scrutineers will be appointed by the Company to conduct the poll process and verify the results of the poll respectively.

NOTICE OF ANNUAL GENERAL MEETING

EXPLANATORY NOTES:-

1. **To receive the Audited Financial Statements**

   Agenda item no. 1 is meant for discussion only as the provision of Section 340 of the Act does not require a formal approval of shareholders for the Audited Financial Statements. Hence, this item on the Agenda is not put forward for voting.

2. **Ordinary Resolution 8 on Proposed Renewal of Authority under Section 76 of the Act for the Directors to allot and issue shares**

   The Company had, during its Ninth Annual General Meeting held on 29 November 2019, obtained its shareholders' approval for the general mandate for issuance of shares. As at the date of this notice, the Company has not issued any shares pursuant to that mandate obtained.

   The Ordinary Resolution 8 proposed under item 9 of the Agenda is a renewal of the general mandate for issuance of shares by the Company under Section 76 of the Act. The mandate, if passed, will provide flexibility for the Company and empower the Directors to allot and issue new shares speedily in the Company up to an amount not exceeding in total ten per centum (10%) of the number of issued shares of the Company for such purposes as the Directors consider would be in the interest of the Company. This would eliminate any delay arising from and cost involved in convening a general meeting to obtain approval of the shareholders for such issuance of shares. This authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting of the Company.

   This authority will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares for purpose of funding investment project(s), working capital and/or acquisition(s).

3. **Ordinary Resolution 9 on Proposed Renewal of Share Buy-Back Authority**

   The proposed Ordinary Resolution 9, if passed, will empower the Directors to purchase the Company's shares of up to ten per centum (10%) of the total number of issued shares of the Company at any point in time, by utilising the funds allocated which shall not exceed the total retained profits of the Company. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting.

   For further information on Ordinary Resolution 9, please refer to the Statement to Shareholders dated 28 October 2020 accompanying the Annual Report of the Company for the financial year ended 30 June 2020.

4. **Ordinary Resolution 10 on Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of A Revenue or Trading Nature**

   The proposed Ordinary Resolution, if passed, will enable the Company and/ or its subsidiaries to enter into Recurrent Related Party Transactions, in accordance with paragraph 10.09 of the Main Market Listing Requirements of Bursa Securities, without the necessity to convene separate general meetings from time to time to seek shareholders' approval as and when such recurrent related party transactions occur. This would reduce substantial administrative time and expenses associated with the convening of such meetings without compromising the corporate objectives of the Group or affecting the business opportunities available to the Group. The shareholders' mandate is subject to renewal on an annual basis.

   For further information on Ordinary Resolution 10, please refer to the Circular to Shareholders dated 28 October 2020.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/ or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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PECCA GROUP BERHAD
[Registration No. 201001025617 (909531-D)]
Incorporated in Malaysia

No. of ordinary shares held	CDS account no. of holder

PROXY FORM

I/We, ____
(name of shareholder as per NRIC/Passport, in capital letters)

NRIC No./ Passport No./Company No. ___________________________ of ___________________________

____
(full address)

being a *member/members of PECCA GROUP BERHAD [201001025617 (909531-D)], hereby appoint * THE CHAIRMAN OF THE MEETING or failing him/ her

Full Name	NRIC No./Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

*And/ or (delete as appropriate)

Full Name	NRIC No./Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

as my/our proxy(ies) to vote for me/us on my/our behalf at the Tenth Annual General Meeting of the Company to be held at Greens II, Main Wing, Level 1, Tropicana Golf & Country Resorts, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor, on Friday, 27 November 2020 at 9.30 a.m. or at any adjournment thereof.

* if you wish to appoint other person(s) to be your proxy/proxies, kindly delete the words "the Chairman of the Meeting or failing him/her" and insert the name(s) of the person(s) desired.

My/our proxy/proxies is/are to vote as indicated below.

Item No.	Agenda			
1.	To receive the Audited Financial Statements for the financial year ended 30 June 2020 together with the Reports of the Directors and Auditors thereon.			
		Resolutions	**For**	**Against**
2.	To approve the payment of Directors' fees of up to RM380,000.00 and benefits payable to the Directors of the Company and its subsidiary of up to RM41,000.00 from 1 July 2020 until the conclusion of the next Annual General Meeting of the Company.	Ordinary Resolution 1		
3.	To re-elect Datin Sam Yin Thing who is to retire pursuant to Clause 97 of the Company's Constitution and being eligible, has offered herself for re-election.	Ordinary Resolution 2		
4.	To re-elect Chew Kian Seng who is to retire pursuant to Clause 105 of the Company's Constitution and being eligible, has offered himself for re-election.	Ordinary Resolution 3		
5.	To re-elect Leong Chee Tong who is to retire pursuant to Clause 105 of the Company's Constitution and being eligible, has offered himself for re-election.	Ordinary Resolution 4		
6.	To re-elect Teoh Zi Yi who is to retire pursuant to Clause 105 of the Company's Constitution and being eligible, has offered himself for re-election.	Ordinary Resolution 5		
7.	To re-elect Teoh Zi Yuen who is to retire pursuant to Clause 105 of the Company's Constitution and being eligible, has offered herself for re-election.	Ordinary Resolution 6		
8.	To re-appoint KPMG PLT as Auditors of the Company and to authorise the Directors to fix their remuneration.	Ordinary Resolution 7		
Special Business				
9.	Proposed Renewal of Authority under Section 76 of the Companies Act 2016 for the Directors to allot and issue shares.	Ordinary Resolution 8		
10.	Proposed Renewal of Share Buy-Back Authority.	Ordinary Resolution 9		
11.	Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of A Revenue or Trading Nature.	Ordinary Resolution 10		

(Please indicate with an "X" in the appropriate box against the resolutions on how you wish your proxy to vote. The proxy is to vote on the resolutions set out in the Notice of Meeting as you have indicated. If no specific instruction as to voting is given, this form will be taken to authorise the proxy to vote at his/ her discretion.)

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

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

....
Signature/Common Seal of Shareholder

Number of shares held: ....
Date:

NOTES:-

1. A member of the Company who is entitled to attend and vote at a meeting of the Company, or at a meeting of any class of members of the Company, shall be entitled to appoint not more than two (2) proxies to attend and vote in his stead at the meeting, and that a proxy may but need not be a member. There shall be no restriction as to the qualification of the proxy. Where a member appoints more than one (1) proxy, he shall specify the proportion of his holdings to be represented by each proxy, failing which the appointment shall be invalid. A proxy appointed to attend and vote at a meeting of the Company shall have the same rights as the member to speak at the meeting. However, if the appointer or representative attend and vote on a resolution, the proxy or attorney must not vote.

2. Where a member of the Company is an authorised nominee as defined under the Central Depositories Act, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.

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

4. The instrument appointing a proxy shall be in writing under the hand of the Member or of his attorney duly authorised in writing or if the Member is a corporation, shall be executed under its common seal or under the hand of an officer or attorney duly authorised in writing. The instrument appointing a proxy shall be deemed to confer authority on the appointed proxy to demand or join in demanding a poll.

5. The instrument appointing a proxy, and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, shall be deposited at the Share Registrar's Office at 11th Floor, Menara Symphony, No. 5, Jalan Professor Khoo Kay Kim, Seksyen 13, 46200 Petaling Jaya, Selangor, not less than 48 hours before the time set for holding the meeting or at any adjournment thereof.

6. In respect of deposited securities, only members whose names appear on the Record of Depositors on 17 November 2020 (General Meeting Record of Depositors) shall be eligible to attend the meeting or appoint proxy(ies) to attend and/or vote on his behalf.

7. Any Notice of Termination of Authority to act as Proxy must be received by the Company before the commencement of the meeting or at any adjournment thereof, failing which, the termination of the authority of a person to act as proxy will not affect the following in accordance with Section 338 of the Companies Act 2016:-

   (a) the constitution of the quorum at such meeting;
   (b) the validity of anything he did as chairman of such meeting;
   (c) the validity of a poll demanded by him at such meeting; or
   (d) the validity of the vote exercised by him at such meeting.

8. Pursuant to Paragraph 8.29A of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the notice of the 10th AGM will be put to vote by way of poll. Poll Administrator and independent Scrutineers will be appointed by the Company to conduct the poll process and verify the results of the poll respectively.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and /or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated

Please fold here

Affix
Stamp

Boardroom Corporate Services (KL) Sdn Bhd (3775-X)
Lot 6.05, Level 6, KPMG Tower
8, First Avenue, Bandar Utama,
47800 Petaling Jaya
Selangor Darul Ehsan

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ANNUAL REPORT 2020

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ISO 13485:2016


MDA
Establishment Licence

CE Compliance

FDA Registration