



KIM HIN INDUSTRY BERHAD

Registration No.: 197301003569 (18203-V)

2019

ANNUAL REPORT



VISION

To be a world class ceramic tile producer and distributor by providing products and services of superior values and by sustaining consistent long term growth in volume and profitability.

MISSION

We shall strive to be a leader in the ceramic industry by

- achieving responsible and balanced commercial success
- satisfying our customers' needs
- enhancing shareholders' values and to provide fair returns to shareholders
- providing rewarding careers to our employees
- having mutually beneficial relationship with our business associates
- participating and contributing effectively towards nation building

CORPORATE VALUES

- A role model and a good corporate citizen.
- Provide the highest quality products and values to our customers.
- Commitment to our employees' welfare and well being.
- To instill a culture of discipline, integrity, teamwork and proactivity amongst our people.





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NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Forty-Seventh Annual General Meeting ("47th AGM") of KIM HIN INDUSTRY BERHAD ("Kim Hin") will be held at Kim Hin Industry Berhad's Conference Room, 4 ½ Mile, Kung Phin Road, Off Penrissen Road, 93250 Kuching, Sarawak on Wednesday, 26 August 2020 at 2.00 p.m. for the following businesses:

AGENDA

As Ordinary Business:

- | | | |
|----|---|---|
| 1. | To receive the Audited Financial Statements for the financial year ended 31 December 2019 together with the Reports of Directors and Auditors thereon. | [Please refer to Explanatory Note No. 1] |
| 2. | To approve the payment of Directors' fees amounting to RM271,000.00 for the financial year ended 31 December 2019. | Resolution 1 |
| 3. | To re-elect the following Directors retiring pursuant to Clause 118 of the Constitution of the Company, and being eligible, offer themselves for re-election:
(i) Mdm. Chua Yew Lin
(ii) Mdm. Pauline Getrude Chua Hui Lin
(iii) Mr. Ong Ah Ba | Resolution 2
Resolution 3
Resolution 4 |
| 4. | To re-appoint Messrs. Ernst & Young PLT as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration. | Resolution 5 |

As Special Business

To consider and if thought fit, with or without any modification, to pass the following Ordinary Resolutions:

5. Ordinary Resolution

Authority to allot and issue shares pursuant to Section 75 and Section 76 of the Companies Act 2016

Resolution 6

"**THAT** pursuant to Sections 75 and 76 of the Companies Act 2016, the Directors be and are hereby empowered to issue and allot shares in the Company, at any time to such persons 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 (10) percent of the issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company, subject always to the Companies Act 2016, the Constitution of the Company and approval of all relevant regulatory bodies being obtained for such allotment and issue."

6. Ordinary Resolution

Proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature ("Shareholders' Mandate")

Resolution 7

"**THAT** subject always to the Listing Requirements of Bursa Malaysia Securities Berhad, approval be hereby given to the Company and/or its subsidiaries ("Kim Hin Group") to enter into any of the categories of related party transactions which are recurrent, of a revenue or trading nature and are necessary for the day-to-day operations of Kim Hin Group as outlined in Section 3.2 of the Circular to Shareholders dated 30 June 2020 ("Circular"), with the specific related parties mentioned therein subject further to the followings:

NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

"THAT approval be and is hereby given to the Company and its subsidiaries to enter into any of the category of recurrent related party transactions of a revenue or trading nature as set out in the Circular to shareholders dated 30 June 2020 with the specific related parties mentioned therein which are necessary for Kim Hin Group's day-to-day operations subject further to the following :

- (i) the transactions are in the ordinary course of business and are on normal commercial terms which are not more favourable to the related parties than those generally available to the public and not to the detriment of the minority shareholders; and
- (ii) disclosure is made in the annual report for the breakdown of the aggregate value of the transactions conducted pursuant to the Shareholders' Mandate during the financial year where the aggregate value is equal to or more than the threshold prescribed under paragraph 10.09(1) of the Main Market Listing Requirements, and amongst others, based on the following information:-
 - the type of the recurrent related parties transactions made; and
 - the names of the related parties involved in each type of the recurrent related parties transactions made and their relationship with the Company.

AND THAT such approval shall continue to be in force until :

- (i) the conclusion of the next annual general meeting ("AGM") of the Company, at which time it will lapse, unless by an ordinary resolution passed at the meeting, the authority is renewed;
- (ii) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 340(2) of the Companies Act 2016 ("the Act") [but must not extend to such extension as may be allowed pursuant to Section 340(4) of the Act]; or
- (iii) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier.

AND THAT the Board of Directors of the Company be and is hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the specified Proposed Shareholders' Mandate.

AND THAT the estimated value given on the recurrent related party transactions specified in Appendix 1 of the Circular being provisional in nature, the Board of Directors of the Company be hereby authorised to agree to the actual amount or amounts thereof provided always that such amount or amounts comply with the review procedures set out in Section 3.5 of the Circular.

7. Ordinary Resolution

Retention of Independent Directors

- (i) **"THAT** Mr. Fong Tshu Kwong who has served the Board as Independent Director of the Company for more than nine (9) years since 21 May 2001, be and is hereby retained as Independent Director of the Company."
- (ii) **"THAT** subject to the passing of Resolution 4, Mr. Ong Ah Ba who has served the Board as Independent Director of the Company for more than nine (9) years since 8 December 2009, be and is hereby retained as Independent Directors of the Company.

Resolution 8

Resolution 9

NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

8. To transact any other business which may properly be transacted at an annual general meeting, due notice of which shall have been previously given in accordance with the Companies Act 2016 and the Company's Constitution.

By Order of the Board of Directors,

Yeo Puay Huang [SSM PC No. 202008000727 (LS 0000577)]
Company Secretary

Kuching, Sarawak
Dated: 30 June 2020

Explanatory Notes to Ordinary Business:

- 1) The Audited Financial Statements are for discussion only as they do not require shareholders' approval pursuant to Section 340(1) of the Companies Act 2016. Hence, this Agenda item will not be put for voting.

Explanatory Notes to Special Business:**2) Ordinary Resolutions****a) Authority to allot shares pursuant to Section 75 and Section 76 of the Companies Act 2016 (Proposed Resolution 6)**

The Proposed Resolution 6, if passed, will give authority to the Directors of the Company, from the date of the above Annual General Meeting, to issue and allot shares to such persons in their absolute discretion without convening a general meeting provided the aggregate number of shares issued does not exceed 10% of the issued share capital of the Company for the time being. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

The General Mandate granted by the shareholders at the 46th Annual General Meeting of the Company had not been utilized and hence no proceed was raised therefrom.

The General Mandate sought will enable the Directors of the Company to issue and allot shares, including but not limited to further placing of shares, for purposes of funding investment(s), repayment of borrowings, working capital and/or acquisition(s).

b) Shareholder Mandate for recurrent related party transactions (Proposed Resolution 7)

Paragraph 10.09 of the Main Market Listing Requirements states that with regard to related party transactions which are recurrent, of a revenue or trading nature and which are necessary for day-to-day operations ("RRPT"), a public listed company may seek a shareholder mandate.

The proposed Resolution 7, if passed, will authorise the Company and each of its subsidiaries to enter into RRPT with the mandated related parties as identified in Section 3.2 of the Circular dated 30 June 2020 ("Circular"), which are necessary for the Kim Hin Group's day-to-day operations, provided that such transactions are in the ordinary course of business and are on normal commercial terms which are not more favourable to the related parties than those generally available to the public and not detrimental to the interest of the minority shareholders.

By obtaining the Shareholder Mandate, the necessity to convene separate meetings from time to time to seek shareholders' approval as and when such RRPT occur would not arise. This would reduce substantial administrative time and costs associated with the convening of such meetings without compromising on the corporate objectives of Kim Hin Group or adversely affecting the business opportunities available to Kim Hin Group.

NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

c) Retention of Independent Non-Executive Directors (Proposed Resolutions 8 and 9)

The Board has accessed the independence of Mr. Fong Tshu Kwong and Mr. Ong Ah Ba who have served on the Board as Independent Non-Executive Directors of the Company for a cumulative term of more than nine (9) years, and has recommended that the approval of the shareholders be sought to retain them as the Independent Non-Executive Directors, as they possess the following attributes necessary in discharging their roles and functions of an Independent Non-Executive Director:

- (i) Fulfill the criteria of an Independent Director as stated in the Bursa Malaysia Securities Berhad Main Market Listing Requirements;
- (ii) Have served the Board for more than nine (9) years and therefore possess great knowledge on the strategies, operations of the Group;
- (iii) Participate actively in Board and Board Committees deliberations and provides objective judgement and input to the Board; and
- (iv) Exercise their professional duties in the best interest of the Group.

Notes

1. *Only Depositors whose names appear in the General Meeting Record of Depositors as at 19 August 2020 be regarded as Members and shall be entitled to attend, speak and vote at the 47th AGM.*
2. *A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his/her place. A proxy need not be a member of the Company. Where a holder appoints two or more proxies, he/she shall specify the proportion of his/her shareholdings to be represented by each proxy.*
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. *A corporation which is a member may by resolution of its directors authorise such person as it thinks fit to act as its representative at the meeting pursuant to Section 333 of the Companies Act 2016 and the form of proxy must be executed under its Common Seal or under the hand of an officer or attorney duly authorised.*
5. *The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney, and the person so appointed may attend and vote at the meeting at which the appointer is entitled to vote.*
6. *The instrument appointing a proxy or representative must be deposited at the registered office at 4 ½ Mile, Kung Phin Road, Off Penrissen, 93250 Kuching, Sarawak not less than forty-eight (48) hours before the time for holding the meeting.*
7. *Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in this Notice will be put to vote by way of poll.*
8. *Registration will start at 1:00 p.m. at Kim Hin Industry Berhad's Conference Room, 4 ½ Mile, Kung Phin Road, Off Penrissen Road, 93250 Kuching, Sarawak on Wednesday, 26 August 2020.*
9. *As a precautionary measure against the spread of Covid-19, members are strongly encouraged to appoint either the Chairman of the Meeting or any of the Independent Directors as proxy to vote in his stead.*
10. *At the physical meeting, members are advised to observe the applicable directives, safety and precautionary requirements as prescribed by the Government, the Ministry of Health, the Malaysian National Securities Council, and other relevant authorities to curb the spread of Covid-19 are abided by; ensure a physical distance of at least one (1) meter between each meeting participant at all times; and all participants have to wear face masks.*
11. *The Company will continue to monitor the Covid-19 pandemic situation closely and may adopt further procedures and measures at short notice as public health situation changes. Members can check further update on the Company's website at www.kimhin.com.my.*

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chua Seng Huat
(Executive Chairman)

Dato' John Chua Seng Chai
(Group Managing Director)

Chua Seng Guan
(Group Executive Director)

Pauline Getrude Chua Hui Lin
(Executive Director)

Chua Yew Lin
(Executive Director)

Fong Tshu Kwong
(Senior Independent Non-Executive Director)

Ong Ah Ba
(Independent Non-Executive Director)

Yong Lin Lin
(Independent Non-Executive Director)

COMPANY SECRETARY

Yeo Puay Huang
[SSM PC No. 202008000727 (LS 0000577)]

SHARE REGISTRARS

Tricor Investor & Issuing House Services Sdn. Bhd.
Unit 32-01, Level 32, Tower A, Vertical Business Suite,
Avenue 3, Bangsar South, No. 8, Jalan Kerinchi,
59200 Kuala Lumpur.
Tel : 03-2783 9299
Fax : 03-2783 9222

REGISTERED OFFICE

4 1/2 Mile, Kung Phin Road,
Off Penrissen Road,
93250 Kuching, Sarawak, Malaysia.
Tel : 082-451567
Fax : 082-452135

WEBSITE

www.kimhin.com.my

ADVOCATES & SOLICITORS

Messrs Wong Lu Peen and Tunku Alina
21-6, Block B, The Boulevard,
Mid Valley City, Lingkaran Syed Putra,
59200 Kuala Lumpur, Malaysia.

AUDITORS

Ernst & Young PLT
Chartered Accountants
3rd Floor, Wisma Bukit Mata Kuching,
Jalan Tunku Abdul Rahman,
93100 Kuching, Sarawak, Malaysia.

PRINCIPAL BANKERS

CIMB Bank Berhad
OCBC Bank (Malaysia) Berhad
Standard Chartered Bank Malaysia Bhd.
United Overseas Bank (Malaysia) Berhad

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad

STOCK NAME

KIMHIN

STOCK CODE

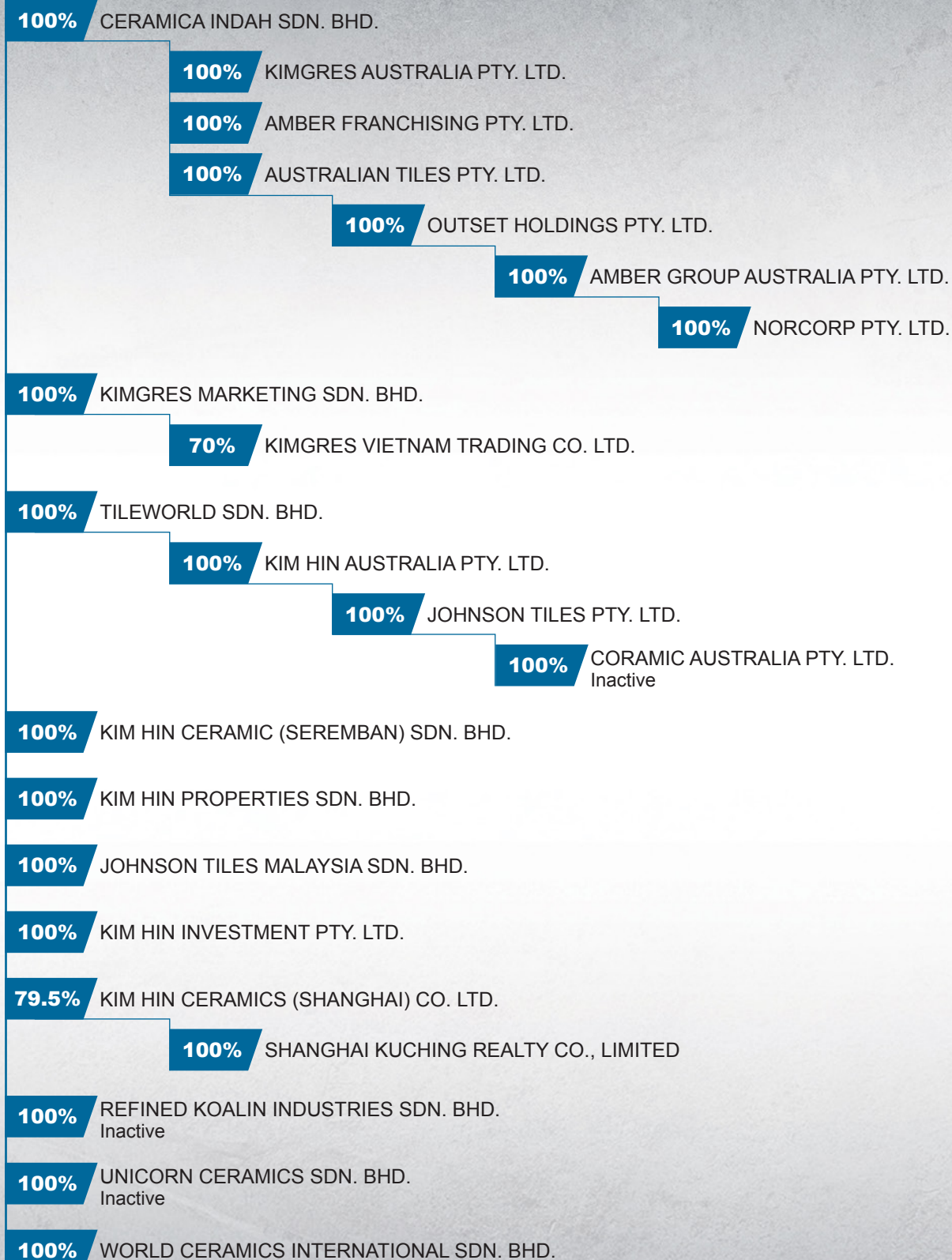
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KIM HIN INDUSTRY BERHAD

Registration No.:
197301003569 (18203-V)

GROUP CORPORATE STRUCTURE



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, it is my pleasure to present to you the Annual Report of Kim Hin Industry Berhad and its subsidiary companies ("the Group") for the financial year ended 31 December 2019.

Following the downturn of the property market in 2018, the demand for tiles has remained subdued in 2019. The domestic industry underwent a consolidation phase with major players reducing their production capacity and implementing cost cutting exercise. The import of tiles from China remains unabated and this has created an excess supply situation in the market.

Our export markets were also affected by the downturn especially Australia and the Middle East. Property markets remain weak in most regions and the excess capacity from China due to the United State trade war has created a supply imbalance to other regions with low import duty, Malaysia being one of them.

FINANCIAL PERFORMANCE

The softening market conditions of the domestic property market in Malaysia as well as the Australian property sector has led to a decline in the Group's revenue. The Group's revenue for the financial year ended 31 December 2019 fell marginally to RM 378.6 million from RM402.7 million recorded in the preceding financial year.

The Group recorded a loss before tax of RM 29.8 million for the financial year under review as compared to a loss before tax of RM 55.1 million suffered in the previous financial year. In the previous financial year, the Group provided a total impairment charge of RM 28.4 million on its property, plant and equipment, and intangible assets (goodwill) due to the weak financial performance and under-utilization of production capacity of its manufacturing subsidiaries in Malaysia. A further impairment of RM 4.8 million was provided on the property, plant and equipment in the financial year ended 31 December 2019.

While the Group continue to grapple with impacts arising from rising prices of raw material, unfavorable foreign currency exchange movement and the prevalence of sluggish property market domestically in Malaysia and globally, the Board is, nevertheless, optimistic of the Group's fundamental strengths. The Board is confident that with the full commitment and relentless efforts to strive for better performance from the management and staff, the Group will remain resilient and eventually drive the Group through this difficult period and challenging business environment.

Further details on the financial results and the impact of the global Covid-19 pandemic are discussed in the Management Discussion and Analysis section.

NEW BUSINESS PROSPECTS

The Group is expected to continue achieving future growth, as we look forward to year 2020 and beyond. The Group has repositioned its export market by targeting the USA market which has been abandoned by the Chinese suppliers due to the anti-dumping tariff implemented by the United State government against China. We have started exporting to USA since the last quarter in year 2019 and we look forward to achieve a strong growth in this new export market. Domestic sales are likely to remain weak due to Covid-19 pandemic and the closures of many industries and various economic sectors, which resulted from the enforcement of government lockdown restrictions. Nevertheless, we strive to remain cautious of the uncertainty surrounding this pandemic which has become a worldwide phenomenon.

DIVIDEND

The Board does not recommend any dividend for the financial year ended 31 December 2019, after taking into consideration the challenges ahead which will necessitate the need to preserve funds for the Group's future growth and also to mitigate any impact on the Group's cash flow arising from the unprecedented Covid-19 pandemic.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank all stakeholders and shareholders for their continuous trust and support.

I would like to express my gratitude to our fellow directors for their concerted effort, invaluable contribution, advices, insights and support in driving the Group forward. I would also like to acknowledge the dedicated services and unwavering commitments of our staff and management team.

CHUA SENG HUAT
Executive Chairman

29 June 2020

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors and management of Kim Hin Industry Berhad (“Kim Hin” or “the Company”) are pleased to present the Management Discussion & Analysis (“MD&A”) containing management commentary to provide investors and shareholders with a better understanding of the Group’s business and operation for the financial year ended 31 December 2019.

The MD&A should be read together with the Group’s audited financial statements for the financial year ended 31 December 2019.

OVERVIEW OF BUSINESS AND OPERATIONS

Profile

Kim Hin is an investment holding company, which is engaged in the provision of management services whilst its subsidiaries are involved in production and distribution of ceramic floor, homogeneous and monoproso tiles, trading in building materials, property and investment holding. The Company was founded in 1973 and is headquartered in Kuching, Malaysia. It has been listed on the Main Board of Bursa Malaysia Securities Berhad since year 1992.

The Group operates principally in the ceramic tiles industry and is organized into four operating segments according to geographical location, namely Malaysia, People’s Republic of China, Australia and Vietnam. As one of the leading ceramic tiles manufacturers in Malaysia, Kim Hin designs, manufactures and markets tiles under the brands Kingres, Durogres, Vitrogres, Habitat, Johnson and Amber.

Kim Hin has three (3) manufacturing plants, of which, two (2) are located in Malaysia (Kuching, Sarawak and Senawang, Seremban) and the third located in Shanghai, People’s Republic of China. The marketing network of Kim Hin Group comprises sales offices situated in major cities of Malaysia (Kuala Lumpur, Kuching, Kota Kinabalu, Petaling Jaya, Johor Bharu, Ipoh and Penang), Australia (Melbourne, Sydney, Brisbane and Hobart), People Republic of China (Shanghai) and Vietnam (Danang). In 2016, the Group strengthened its foothold and presence in Australia market by acquiring Outset Holdings Pty Ltd (“Outset Holdings”). Outset Holdings is the holding company of Amber Group Australia Pty Ltd (“Amber”), which operates a network of retail stores under the Amber brand. The Amber Store Network comprises thirty-one (31) stores located in New South Wales, the Australian Capital Territory and Queensland, Australia. Presently, Kim Hin Group employs approximately 1,616 employees worldwide.

The Group exports about 28% of its production from the Malaysian plants overseas, mainly Australia, Middle East, Taiwan and Pakistan while its Shanghai plant exports about 48% of its products to the Australian and North American markets.

Vision

Our vision is to be a world class ceramic tiles producer and distributor by providing products and services of superior quality and value and by sustaining consistent long term growth in volume and profitability. In line with our vision to provide our customers with products and services of superior value, the Group’s manufacturing plants in Kuching and Seremban are both certified with the latest version of ISO 9001:2015 released by the International Organisation for Standardisation (“ISO”), in July 2016 and March 2017 respectively. Both plants have been re-certified in June 2019 and April 2020 respectively. In addition, our manufacturing operations in Shanghai, People Republic of China is under governance of compulsory product certification issued by China Quality Certification Centre.

The Group’s Malaysian operations has a fully integrated Enterprise Resource Planning (ERP) system covering Sales and Distribution, Inventory Management, Production Planning and Financial and Controlling modules using SAP software. The Group is currently using an upgraded version ECC 6.0 to facilitate its business processes and operation efficiency for its Malaysian segment.

Kim Hin invested significantly over the past years in hardware and software assets to boost its IT infrastructure capabilities in line with our mission to progress through continuous advancement in technology.

The Group values its people and acknowledges the success and growth of the Group over the past decades are the result of the commitment, hard work and capability of our people. Accordingly, Kim Hin is committed to its social responsibility of taking care of the welfare, safety and well-being of its employees. The children of our employees who excelled in government examinations were given incentive awards, and the sports club assists in promoting the balance of work and lifestyle. At the same time, the Group continues to focus on the competency development of our employees with training hours being one of the Group’s key performance indicators. We promote and instill a culture of discipline, integrity, teamwork and proactivity among our people.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Highlights of Kim Hin Group's Financial and Share Performances for the Past 5 Financial Years

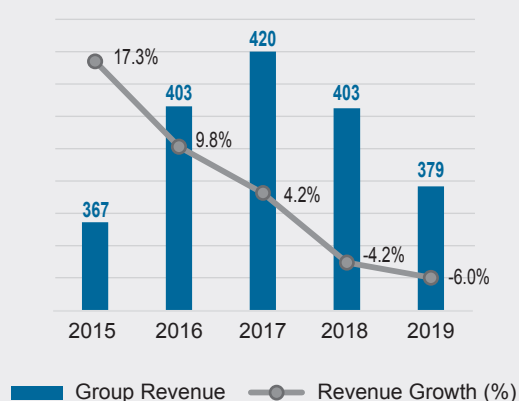
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
Financial					
Revenue	367,441	403,314	420,278	402,726	378,588
Profit/(loss) before interest and tax	46,181	42,807	19,696	(53,851)	(27,242)
Finance costs	454	1,247	1,437	1,265	2,520
Net profit/(loss)	35,712	33,719	9,551	(61,547)	(31,446)
Shareholders' equity	496,612	514,937	510,672	441,148	406,849
Total assets	584,631	662,676	650,375	564,500	553,646
Borrowings	9,208	32,958	24,711	22,981	22,915
Debt/Equity (%)	1.85	6.40	4.84	5.21	5.63
Earnings/(loss) per share (sen)	24.50	22.51	5.72	(44.42)	(23.14)
Net assets per share (RM)	3.54	3.67	3.64	3.15	2.90
Dividend per share (sen)	3.00	9.00	6.00	2.00	-
Share					
Year high (RM)	2.60	2.47	2.40	1.45	1.26
Year low (RM)	1.17	1.56	1.37	1.08	1.00
Year close (RM)	2.28	1.83	1.42	1.24	1.05
Market capitalization as at year end (RM'000)	319,745	256,638	199,139	173,896	147,251

Review of Financial Results and Financial Conditions

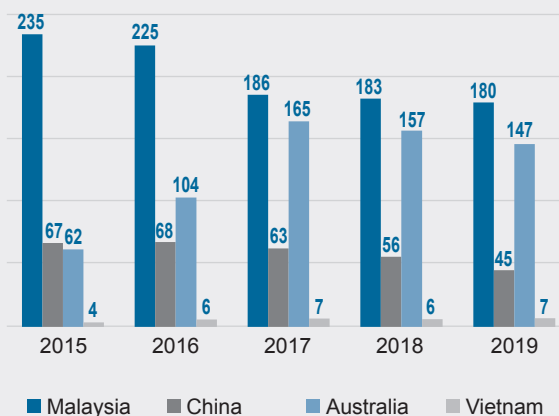
Revenue

The Group registered a revenue of RM 379 million for the current financial year compared to revenue of RM 403 million recorded in the preceding financial year. The decline in revenue was contributed by all geographical segments of the Group with the exception of its Vietnam segment. While the soften market condition of Malaysia's local housing sector since the second half of year 2016 continued to affect the Group's operation in Malaysia, the revenue for its Malaysia segment has reduced marginally by 1.6%. The revenue for the Group's China segment and Australia segment had reduced by 19.6% and 6.6% respectively due to the weakening of the global market. Overall, the Kim Hin's overseas operations contributed about 87% of the decline in the Group's revenue for the current financial year.

Group Revenue (RM million)



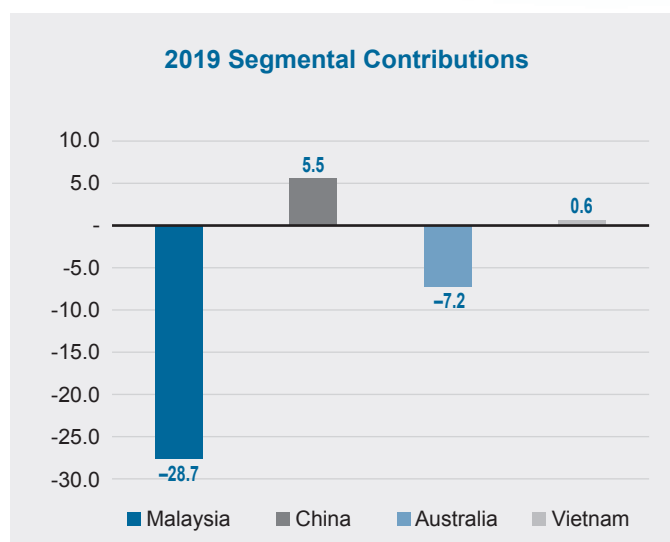
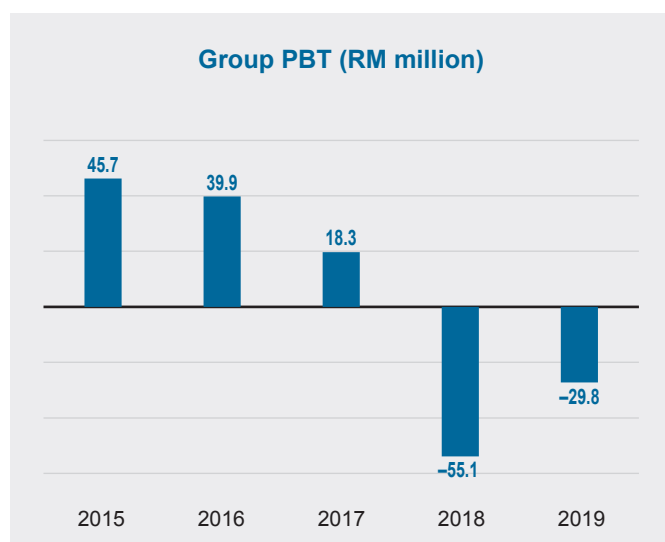
Revenue by Segment (RM million)



MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Profit Before Tax

The Group recorded a loss before tax of RM 29.8 million for the current financial year, compared to a loss of RM55.1 million in the previous financial year. This is mainly due to the impairment on assets of RM 28.4 million (2019: RM 4.8 million) provided by the Group in the previous financial year on the goodwill arising from business combination and the property, plant and equipment of the Group's manufacturing plants in Malaysia.

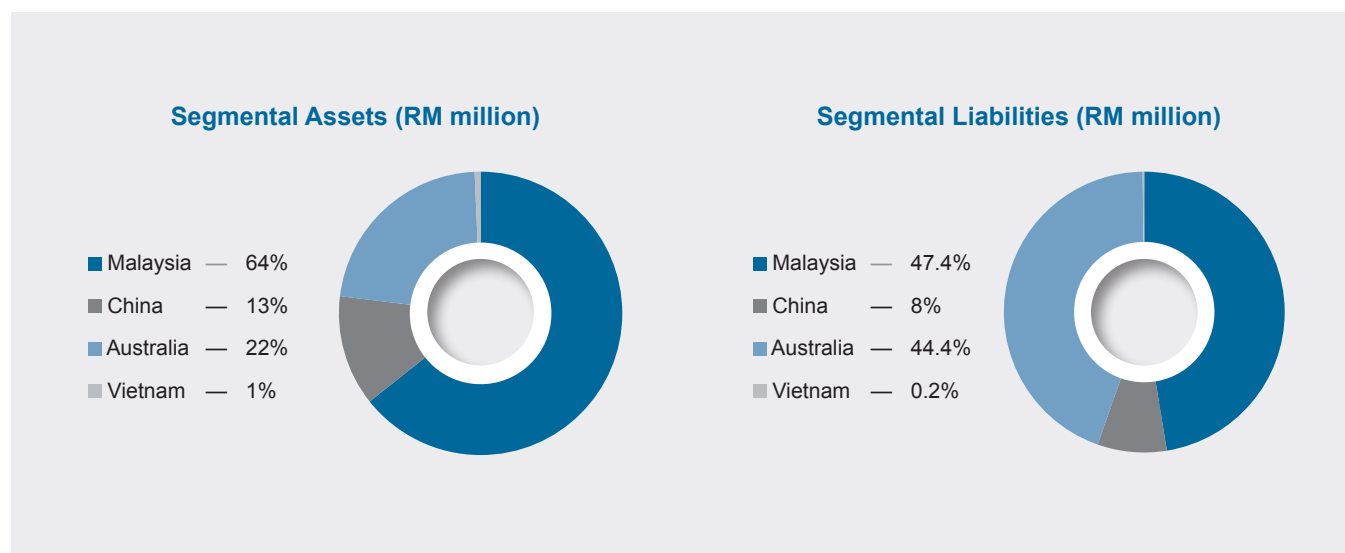


Operating expenses (excluding cost of sales and impairment loss on intangible assets and property, plant and equipment) of the Group reduced to RM 127.9 million during the financial year as compared to RM 140.3 million in the previous financial year. The decrease was mainly due to lower write-down of inventories of RM 0.8 million (2018: RM 5.3 million), and loss on fair value changes on other investment and derivatives (forward foreign exchange contracts) of RM 4.2 million provided in the previous financial year.

Total finance costs increased from RM 1.3 million to RM 2.5 million as the Group recognized interest on lease liabilities of RM1.2 million during the current financial year upon adoption of MFRS 16 Leases.

The Group's income tax expense for the current financial year decreased to RM 1.7 million as compared to the previous financial year of RM 6.4 million, which includes a derecognition of deferred tax asset previously recognised of RM 4.5 million. The higher effective tax rate of the Group for the current financial year were due to unavailability of Group loss relief as well as non-deductible expenses.

Distribution of Segmental Assets and Liabilities of the Group as at 31 December 2019



MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Assets

Investment properties

The net carrying amount of its investment properties has declined to RM 27.0 million (31 December 2018: RM 27.6 million) as at end of the current financial year, mainly due to translation differences.

Right-of-use assets

As at 1 January 2019, the Group's leasehold land of RM 43 million is reclassified as right-of-use assets following the adoption of MFRS 16 Leases.

Trade and Other Receivables

	2019 RM'000	2018 RM'000
Trade receivables	69,916	69,902
Other receivables	5,759	8,587
	<u>75,675</u>	<u>78,489</u>

Although the Group's revenue has declined by 6%, the turnover of the Group's trade receivables has increased slightly from 63 days to 67 days. Overall, the Group's credit exposure is well manageable, and expected credit losses on trade receivables of RM577,000 (2018: RM380,000) was provided during the current financial year.

Inventories

	2019 RM'000	2018 RM'000
Finished goods	95,626	121,213
Raw materials, and work-in-progress	25,999	29,287
Packing materials, spare parts and stores	12,915	14,744
	<u>135,540</u>	<u>165,244</u>

The Group continued its relentless efforts in reducing its inventories level from previous years. Further to the 9.4% reduction in finished goods level achieved in the financial year ended 31 December 2018, the Group has reduced its finished goods by a significant 21%. It stood at RM 95.6 million at the end of the current financial year under review.

The Group provided a write down of RM0.8 million (2018: RM 5.3 million) on its inventories during the financial year under review.

Liabilities

Trade and other payables

	2019 RM'000	2018 RM'000
Trade payables	41,381	45,431
Other payables	26,966	26,141
	<u>68,347</u>	<u>71,572</u>

The Group's trade payables reduced by 8.9% to RM 41.4 million from RM 45.4 million in the previous financial year, due to the reduction in operating expenses as a result of reduced production activities during the current financial year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Lease liabilities

As at 1 January 2019, the Group recognized right-of-use assets following the adoption of MFRS 16 Leases. Consequently, lease liabilities measured at the present value of lease payments to be made over the lease term of RM 40.4 million were also recognized by the Group. These representing the Group's short term and long term leasehold land.

Capital structure and capital resources

During the financial year, the Group's borrowings stood at RM 23 million as at the end of the current financial year. The gearing ratio (total borrowings over total equity) of the Group remains between 0.05 times to 0.06 times, consistent with the past five years. The Group's continual significantly low gearing ratio is the testimony of its intention to maintain a sound financial position that enables the execution of its strategic objectives in creating value for the coming years.

Impacts of global Covid-19 pandemic and business outlook

The issues surrounding the global Covid-19 pandemic have the capacity to impact companies' earnings by interrupting supply chains, workforce sustainability, and demand. Unquestionably a decline in demand is likely to have the most significant impact on most businesses. Together with the general loss of consumer confidence following the emergence of the virus, in some countries potential customers cannot buy tiles, due to the closure of all non-essential retail businesses.

Looking ahead, given the uncertainty around both the duration and severity of government actions in the different countries in which the Group operates, it is not possible at this point to provide meaningful earning guidance for the financial year ending 31 December 2020.

The Board, however, is clear that the situation does not present an existential threat to Kim Hin. Whilst short term trading will be affected, the long-term outlook for the Group remains positive.

The Executive Directors and certain senior management have been in the industry for more than 30 years and the value of their experience is enormous. Since its inception, the highly experienced and motivated management team had successfully navigated the Group through several economic downturns and financial recessions.

The Group operates in four geographical segments and its manufacturing operations are located in Malaysia and People Republic of China, hence the impact of Covid-19 pandemic on the Group's revenue and operations (and the subsequent recovery) actually occurred at varying times and not simultaneously. While the manufacturing plant of the Group located in Shanghai was affected during the China national lockdown in the first two months of year 2020, its Malaysian operation was affected by the Movement Control Order implemented by the Malaysian Government on 18 March 2020. Both China and Malaysia have performed remarkably well in overcoming the Covid-19 pandemic. Malaysia has a recovery rate among the highest in the world. Consequently, the nation has now entered the Recovery Movement Control Order (RMCO) phase from 10 June to 31 August 2020 with the implementation of more relaxed conditions.

As the impact of the pandemic, in the short term, can be significant, the Group has promptly taken actions to protect its cash position and to preserve the cashflow of the business. Cost-cutting measures include deferring of all discretionary operating expenditure such as travel ban, and spending on essentials, re-prioritizing of business activities and investments have been carried out. In addition, the Group has also applied for wage subsidies in countries where it operates, namely in Malaysia and Australia.

Kim Hin is in a strong financial position and has a low level of debts (low gearing ratio around 5% of its equity) to support its business. As at the end of the financial year ended 31 December 2019, the Group has total cash reserves and other investments (easily convertible to cash) of RM 88 million. In addition, the Group has also recently announced that its subsidiary operating in Shanghai, People Republic of China has fully received the compensation of Renminbi 60 million.

In ensuring it has sufficient short-term liquidity, the Group has applied for moratorium on the two term loans (Malaysia) for a period of six months, besides utilizing trade facilities offered by its bankers to ease immediate or short-term cash requirement and is actively chasing for payments from customers.

The Group has also not neglected the welfare of its employees, whilst preserving employment the Group has made changes to its standard operating procedure to observe the new normalcy of works which includes social distancing, continuous cleaning and disinfection, provision of personal protection equipment, using existing and newly available networking tools such as Microsoft Teams, Zoom for meetings among staff, with customers, suppliers and ecetera.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

The Group encounters challenging and difficult times amidst the persistence of weak property market both domestically in Malaysia and globally, as evidenced by the negative growth in revenue for its Malaysia, Australia and China operations recorded during the financial year under review.

Kim Hin's efforts in strengthening and achieving revenue growth for its overseas operations continues. This year, the combined revenue of its overseas operations has surpassed the Group's Malaysia segment revenue for the third year in a row. The Vietnam operations continued its revenue growth and registered commendable performance during the financial year under review. The Group is concentrating its efforts and focus on securing sales, and its Malaysia operations are exploring new export markets (United State of America, started from the fourth quarter of year 2019) to address the declining demand as well as the utilisation of production capacity for the manufacturing plants in Malaysia.

The Board is confident that Kim Hin is well placed to overcome the Covid-19-induced disruption the Group presently faces, and the Group will remain focused in executing its business plan and mission despite the uncertainty in the duration that will be taken by the pandemic to subside.

Dividend policy

The Board does not recommend any dividend for the financial year as the Group had incurred losses and the need to preserve cash at times when the scale and duration of the Covid-19 pandemic induced impacts on the business are unclear at this juncture.

Anticipated Business Risks

The Group is exposed to external risks such as adverse economic and market conditions and internal risks related to the Group's operations and financial management.

It has to be recognised that the Group has limitations in the actions that can be taken to manage or mitigate external economic risks. However, the Group has put in place a risk management framework to identify, manage and mitigate internal operational risks. Operational procedures are in place and are constantly being reviewed to ensure operational and cost efficiency.

The main risks affecting Kim Hin Group are as follows:-

Competition Risk

The ceramic tile industry is highly competitive. Intense industry competition and aggressive pricing strategies amongst the manufacturers, distributors and dealers are common in the industry. This is further aggravated by the influx of tiles produced by lower cost manufacturers in countries such as Thailand, Indonesia, Vietnam and China.

Tiles are installed primarily on floors, walls, countertops and other areas requiring a highly aesthetic yet durable surface. Flooring applications make up the largest share of tile demand. The flooring industry comprises five (5) major product groups namely carpet, vinyl, decorative tiles, laminated and hardwood flooring. There is further product segmentation for decorative tiles into ceramic, porcelain and glass types, as well as tiles made from such specialty materials such as natural stone, concrete and metal.

The pricing pressures due to competition and the evolution in style preference as well as the cost and availability of competitive materials will affect consumer demand for the Group's products. To remain competitive, the Group will reinforce its positioning as one of the market leaders in the ceramic tile manufacturing and sale of ceramic and porcelain tiles. This will be supported by the Group's continued efforts in promoting and organising well-established training programs for its management and employees, improving customers' satisfaction and application of new technology for product improvements.

The Group's initiatives in expanding the Group's operation in its traditional stronghold market, Australia and a new geographical location (Vietnam) have successfully reduced its reliance on the Malaysian operations. The increased contributions from its overseas operations act as the shield for the Group in facing the continual soften market conditions of its Malaysia operation. In addition, the Group has ventured into retails activities through its wholly owned subsidiary in Australia, Outset Holdings. Outset Holdings operates a renowned retail chain that further enhances the Group's distribution channels in Australia.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Foreign Exchange Risks

The Group imports certain raw materials, printing materials and machinery from abroad and also exports products to overseas markets, thus exposing itself to foreign exchange risks, mainly from the fluctuation of the United States Dollar ("USD"), Australia Dollar ("AUD") and Euro against the Malaysian Ringgit ("RM"). The fluctuation in the USD/RM affects both the operation costs and exports, while the fluctuation of AUD/RM affects only exports and the fluctuation of EURO/RM influences mainly operation costs. In addition, the Group has minimal exposure to Sterling Pound ("GBP"), Singaporean Dollar ("SGD") and Brunei Dollar ("BND").

Rising operating costs

Disruption in the supply chain of raw materials and volatility in raw materials prices coupled with the weaker Malaysian Ringgit will result in higher operational and operating costs. The "uptick" in energy price caused by the continuous gradual hike in liquefied natural gas due to the Malaysian Government's subsidy rationalization plan and the price of liquefied petroleum gas which is consumed by the Group's Kuching plant, could affect future operational costs.

Others

Amongst other factors or concerns that may have an impact or effect on the Group's performance are:

Financial risks and cash flow risks but these are considered low due to the minimal borrowings of the Group (5% of the shareholders' equity) and is mitigated by substantial cash reserves and the flexibility of the Group in obtaining credit facilities from financial institutions thus ensuring the availability of working capital;

Interest rate risk is minimised as borrowings bear floating interest rates and Malaysia is maintaining a low interest rate regime since 2012 with its overnight interest rate being kept within the range between 3% to 3.25%. As the inflation is expected to be broadly stable compared to 2018, there is high possibility that there will be no further hike in overnight interest rate.

Credit risk is mitigated as the Group adopts stringent procedures on approving credit terms to customers and close monitoring for the collection of the Group's receivables.

The Group's ability to attract and retain talent pool while managing labour costs, levy expenses and other issues impacting labour supply.