KIM HIN INDUSTRY BERHAD

(018203-V)

2018

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, intergrity, teamwork and proactivity amongst our people.

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NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Forty-Sixth Annual General Meeting ("46th 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 Monday, 27 May 2019 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 2018 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 RM264,000.00 for the financial year ended 31 December 2018.	**Resolution 1**
3.	To re-elect the following Directors retiring pursuant to Article 84 of the Company's Articles of Association and being eligible, offer themselves for re-election:	
	Dato' John Chua Seng Chai	**Resolution 2**
	Mr. Fong Tshu Kwong	**Resolution 3**
	Mr. Yong Lin Lin	**Resolution 4**
4.	To re-appoint Messrs. Ernst & Young 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 and Special Resolution:

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 Section 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 per centum (10%) 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 Articles 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 26 April 2019 ("Circular"), with the specific related parties mentioned therein subject further to the followings:

"**THAT** approval be and is hereby given to the Company and its subsidiaries to enter into any of the categories of recurrent related party transactions of a revenue or trading nature as set out in the Circular to Shareholders dated 26 April 2019 with the specific related parties mentioned therein which are necessary for Kim Hin Group's day-to-day operations subject further to the followings:

(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 detrimental to the interest of the minority shareholders; and

NOTICE OF ANNUAL GENERAL MEETING

(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** subject to the passing of Resolution 3, Mr. Fong Tshu Kwong who has served the Board as an 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." **Resolution 8**

(ii) "**THAT** Mr. Ong Ah Ba who has served the Board as an Independent Director of the Company for more than nine (9) years since 8 December 2009, be and is hereby retained as Independent Director of the Company." **Resolution 9**

8. Special Resolution

Proposed Alteration of the entire existing Memorandum And Articles of Association of the Company by the replacement thereof with a new Constitution of the Company **Resolution 10**

"**THAT** approval be and is hereby given to alter or amend the entire existing Memorandum And Articles of Association of the Company by the replacement thereof with a new Constitution of the Company as set out in Appendix A with immediate effect. **AND THAT** the Board of Directors of the Company be and is hereby authorised to assent to any conditions, modifications and/or amendments as may be required by any relevant authorities, and to do all acts and things and take all such steps as may be considered necessary to give full effect to the foregoing."

9. 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 Articles of Association.

By Order of the Board of Directors,

Yeo Puay Huang [LS0000577]
Company Secretary

Kuching, Sarawak
26 April 2019

NOTICE OF ANNUAL GENERAL MEETING

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 ten per centum (10%) of the issued share capital of the Company for the time being. This authority, unless revoked or varied by the Company at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

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) Shareholders' 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 shareholders' 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 to Sharholders dated 26 April 2019 ("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 shareholders' 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.

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

The Board has assessed 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.

NOTICE OF ANNUAL GENERAL MEETING

3) Special Resolution

The proposed alteration of the entire existing Memorandum and Articles of Association of the Company are made mainly for the following purposes: (Proposed Resolution 10)

(a) To comply with the amended Bursa Malaysia Securities Berhad Main Market Listing Requirements which was issued on 29 November 2017;
(b) To provide clarify and consistency with the amendments that arise from the Companies Act 2016 effective 31 January 2017; and
(c) To incorporate the necessary amendments that arise from the Capital Markets and Services (Amendment) Act 2015.

In view of the above, the shareholders' approval for the Company to alter the entire existing Memorandum and Articles of Association of the Company by the replacement thereof with the New Constitution as per Appendix A in accordance with Section 36(1) of the Companies Act 2016. The Appendix A on the Proposed New Constitution of the Company, which is circulated together with the Notice of 46th AGM dated 26 April 2019, shall take effect once the proposed Resolution 10 has been passed by a majority of not less than seventy-five per centum (75%) of members who are entitled to vote in person or by proxy and who are present at the 46th AGM.

Notes

1. *A member entitled to attend, speak and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and vote in his stead. A proxy may but need not be a member of the Company and there shall be no restriction as to the qualification of the proxy. A proxy appointed to attend, speak and vote at a meeting of a Company shall have the same rights as the member to speak at the meeting.*
2. *A member of the Company entitled to attend, speak and vote at this Annual General Meeting shall not be entitled to appoint more than two (2) proxies to attend, speak and vote at the same meeting. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy.*
3. *If the appointor is a corporation, the form of proxy must be executed under its Common Seal or under the hand of an officer or attorney duly authorised.*
4. *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) 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. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA") which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.*
5. *The instrument appointing a proxy must be deposited at the Registered Office of the Company 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.*
6. *A depositor whose name appears in the Record of Depositors as at 21 May 2019 shall be entitled to attend the meeting and to speak and vote thereat.*

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
Chua Yew Lin
(Executive Directors)

Fong Tshu Kwong
Ong Ah Ba
Yong Lin Lin
(Independent Directors)

COMPANY SECRETARY
Yeo Puay Huang (LS0000577)

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
Chartered Accountants
3rd Floor, Wisma Bukit Mata Kuching,
Jalan Tuanku 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: 5371)

GROUP CORPORATE STRUCTURE

KIM HIN INDUSTRY BERHAD
(018203-V)

- 100% CERAMICA INDAH SDN. BHD.
  - 100% KIMGRES AUSTRALIA PTY. LTD.
  - 100% AMBER FRANCHISING PTY. LTD.
  - 100% AUSTRALIAN TILES PTY. LTD.
  - 100% OUTSET HOLDINGS PTY. LTD.
    - 100% AMBER GROUP AUSTRALIA PTY. LTD.
      - 100% NORCORP PTY. LTD.
- 100% KIMGRES MARKETING SDN. BHD.
  - 70% KIMGRES VIETNAM TRADING CO. LTD.
- 100% TILEWORLD SDN. BHD.
  - 100% KIM HIN AUSTRALIA PTY. LTD.
    - 100% JOHNSON TILES PTY. LTD.
      - 100% CORAMIC AUSTRALIA PTY. LTD. Inactive
- 100% KIM HIN CERAMIC (SEREMBAN) SDN. BHD.
- 100% KIM HIN PROPERTIES SDN. BHD.
- 100% JOHNSON TILES MALAYSIA SDN. BHD.
- 100% KIM HIN INVESTMENT PTY. LTD.
- 79.5% KIM HIN CERAMICS (SHANGHAI) CO. LTD.
  - 100% SHANGHAI KUCHING REALTY CO., LIMITED
- 100% REFINED KOALIN INDUSTRIES SDN. BHD. Inactive
- 100% UNICORN CERAMICS SDN. BHD. Inactive
- 100% WORLD CERAMICS INTERNATIONAL SDN. BHD.

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 for the financial year ended 31 December 2018.

FINANCIAL PERFORMANCE

The year 2018 turned out to be a tough and challenging year as the Group grappled with the impacts arising from rising prices of raw material and energy costs, unfavorable foreign currency exchange movement and the prevalence of sluggish and stagnant property market domestically in Malaysia and also slow-down of property sector in Australia, the Group's main export market.

The Group recorded a revenue of RM 402.7 million for the financial year ended 31 December 2018 as compared to RM 420.3 million for the preceding financial year. The gross margin of the Group deteriorated from 33% previously to 27% as a result of competitive pricing and higher average production costs. In addition, the weak financial performance and under utilization of production capacity of its manufacturing subsidiaries in Malaysia has led to the provision of impairment on its intangibles (goodwill) of RM 9.2 million and the property, plant and equipment of RM 19.2 million.The Group registered a substantial loss before tax of RM 55.1 million for the financial year ended 31 December 2018.

The Board is optimistic that the Group's fundamental strengths and the continual and full commitment, relentless efforts and strive for better performance from the management and staff in running the Group will enable the Group to remain resilient and eventually drive the Group through this difficult time and challenging business environment.

DIVIDEND

The Board had earlier declared an interim dividend of 2 sen per ordinary share (tax exempt) in respect of the financial year ended 31 December 2018, which was paid on 26 June 2018. The dividend payout demonstrated that the Group's commitment in rewarding a fair and equitable return of investment to its shareholders.

However, the Board does not recommend any final dividend to be declared for the financial year ended 31 December 2018, after taking into consideration of the challenges ahead and the need to preserve funds for the Group's future growth.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to extend our sincere gratitude to our shareholders, valued customers, vendors, bankers, business associates and regulatory authorities for your continuous support and confidence in the Group.

I sincerely thank my 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 service and the unwavering commitment of our staff and management team.

CHUA SENG HUAT
Executive Chairman

26 April 2019

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 operations for the financial year ended 31 December 2018.

The MD&A should be read together with the Group's audited financial statements for the financial year ended 31 December 2018.

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 monoprosa 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 Market 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 Kimgres, 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, 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 of thirty-one (31) stores located in New South Wales, the Australian Capital Territory and Queensland, Australia. Presently, Kim Hin Group employs approximately 1,670 employees worldwide.

The Group exports about 25% of its production from the Malaysia plants to overseas, mainly Australia, Middle East, Taiwan and Pakistan while its Shanghai plant exports about 44% 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. 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. As such, Kim Hin is committed to the welfare 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 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

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

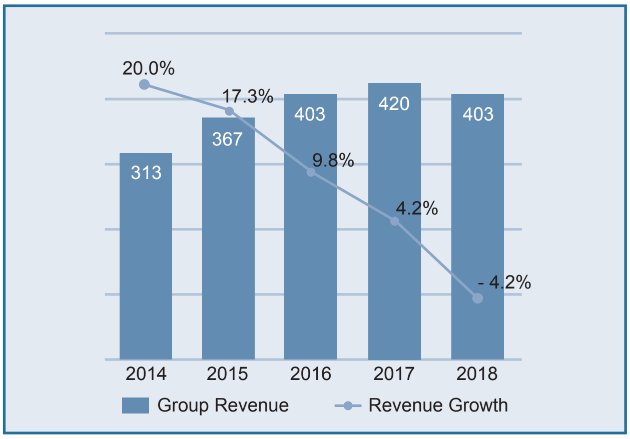
	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Financial					
Revenue	313,372	367,441	403,314	420,278	402,726
Profit/(loss) before interest and tax	30,040	46,181	42,807	19,696	(53,851)
Finance costs	505	454	1,247	1,437	1,265
Net profit/(loss)	25,837	35,712	33,719	9,551	(61,547)
Shareholders' equity	457,129	496,612	514,937	510,672	441,148
Total assets	547,317	584,631	662,676	650,375	564,500
Borrowings	10,173	9,208	32,958	24,711	22,981
Debt/Equity (%)	2.22	1.85	6.40	4.84	5.21
Earnings/(loss) per share (sen)	17.03	24.50	22.51	5.72	(44.42)
Net assets per share (RM)	3.26	3.54	3.67	3.64	3.15
Dividend per share (sen)	6.00	3.00	9.00	6.00	2.00
Share					
Year high (RM)	1.83	2.60	2.47	2.40	1.45
Year low (RM)	1.05	1.17	1.56	1.37	1.08
Year close (RM)	1.18	2.28	1.83	1.42	1.24
Market capitalization as at year end (RM'000)	165,482	319,745	256,638	199,139	173,896

Review of Financial Results and Financial Conditions

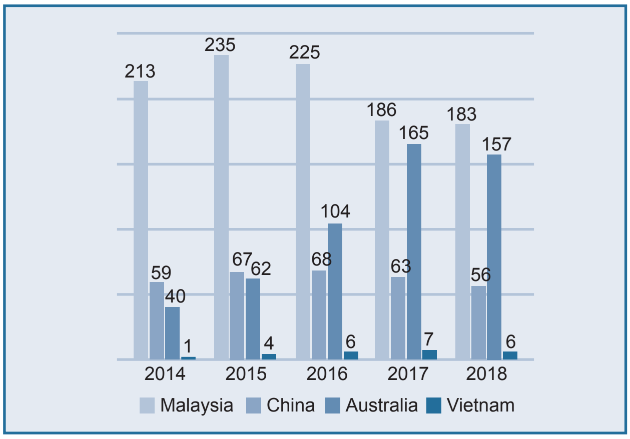
Revenue

The Group registered a revenue of RM 403 million for the current financial year compared to revenue of RM 420 million recorded in the preceding financial year. The decline in revenue was contributed by all geographical segments of the Group. The revenue for its Malaysia segment declined slightly as the soften market condition of the Malaysia's local housing sector continued since the second half of year 2016. In addition, the weakening of the global market has affected the sales in the Group's overseas operations. Overall, the Kim Hin's overseas operations contributed about 84% of the decline in the Group's revenue for the current financial year.

Group Revenue (RM million)



Revenue by Segment (RM million)

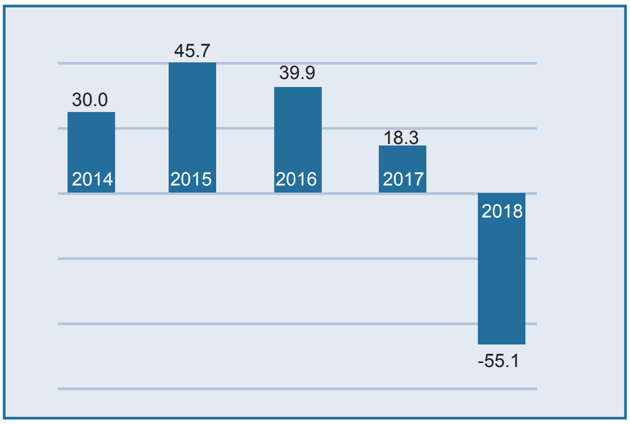


MANAGEMENT DISCUSSION AND ANALYSIS

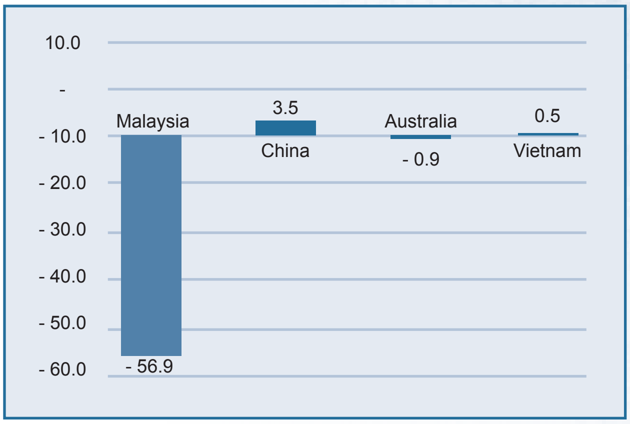
Profit Before Tax

The Group recorded a loss before tax of RM 55.1 million for the current financial year, compared to a profit of RM 18.3 million in the previous financial year. This is mainly due to significant losses suffered by its Malaysian segment as a result of substantial decline in revenue, and higher operating expenses due to increased raw materials price and energy prices, in addition to the impairment on assets of RM 28 million provided on the goodwill arising from business combination and the property, plant and equipment of the Group's manufacturing plants in Malaysia.

Group PBT (RM million)



2018 Segmental Operating (Loss)/Profit



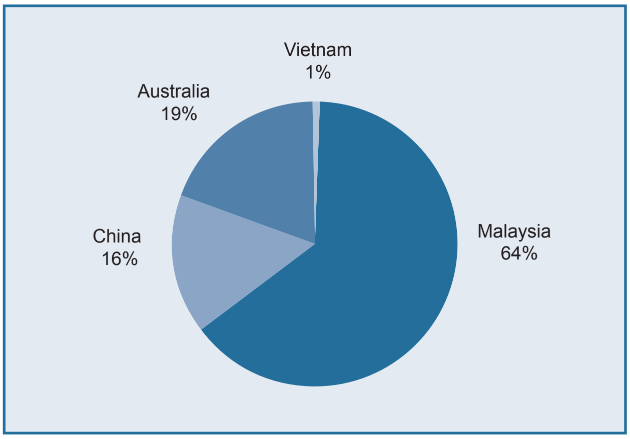
Operating expenses (excluding cost of sales) of the Group increased to RM 140.3 million (excluding impairment loss on intangible assets and property, plant and equipment of RM 28.4 million) during the financial year as compared to RM 132.8 million in the previous financial year. The increase was mainly due to the higher staff costs (employee benefits expense) of RM 86.0 million (2017: RM 82.9 million), loss on fair value changes on other investment and derivatives (forward foreign exchange contracts) of RM 4.2 million (2017: a gain of RM 3.8 million), higher depreciation charges of RM 23.4 million (2017: RM 22.0 million).

Total finance costs declined slightly from RM 1.4 million to RM1.3 million as the Group continues to repay its term loans.

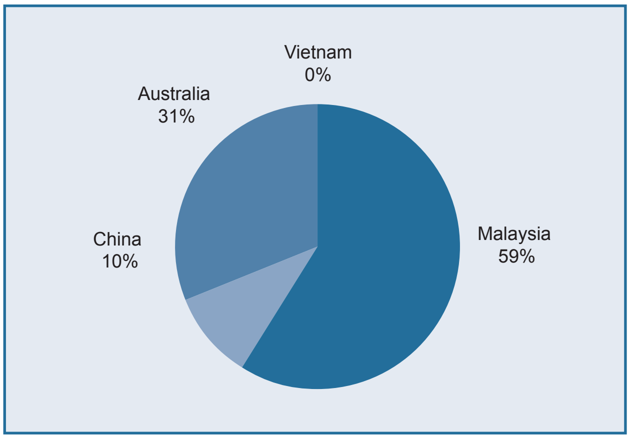
The Group's income tax expense decreased from RM 8.7 million in the previous financial year to RM 6.4 million for the current financial year. The derecognition of deferred tax asset previously recognised of RM 4.5 million and current year unrecognized deferred tax assets of RM 10 million have resulted in a much higher effective tax rate for the current financial year of the Group.

Distribution of Segmental Assets and Liabilities of the Group as at 31 December 2018

Segmental Assets (RM million)



Segmental Liabilities (RM million)



MANAGEMENT DISCUSSION AND ANALYSIS

Assets

Investment properties

During the current financial year, the Group acquired an investment property located in Shanghai, People Republic of China for a cash consideration of RMB 12.7 million in December 2018. Consequently, the net carrying amount of its investment property has increased to RM 27.6 million (31 December 2017: RM 20.2 million) as at end of the current financial year.

Trade and Other Receivables

	2018 RM'000	**2017** RM'000
Trade receivables	69,902	72,011
Other receivables	8,587	32,099
	78,489	104,110

Trade receivables decreased by 2.9% to RM 69.9 million as at end of the current financial year. This is in line with the decline in revenue of 4.2% recorded during the current financial year. Included in the Group's other receivables for the previous financial year was an amount of AUD 8.3 million (or equivalent of RM 26.3 million) being balance of consideration receivable arising from the disposal of the Group's investment property in Australia. This receivable has been duly received on the settlement date, 5 March 2018.

Inventories

	2018 RM'000	**2017** RM'000
Finished goods	121,213	133,837
Raw materials, and work-in-progress	29,287	28,771
Packing materials, spare parts and stores	14,744	14,357
	165,244	176,965

The Group's finished goods stood at RM 121.2 million at the end of the financial year, a 9.4% reduction as compared to RM 133.8 million at last year end, as a result of the Group's relentlessly efforts in reducing the inventories. The Group provided a write down of RM 5.3 million (2017: RM 4.4 million) on its inventories during the financial year under review.

Liabilities

Trade and other payables

	2018 RM'000	**2017** RM'000
Trade payables	45,431	58,010
Other payables	26,141	24,443
	71,572	82,453

The Group's trade payables reduced by 21.7% to RM 45.4 million from RM 58.0 million in the previous financial year, due to the reduction in operating expenses as a result of reduced production activities during the second half of the current financial year. Included in the other payables was sales tax payables of RM 1.84 million (2017: Nil).

Capital structure and capital resources

The gearing ratio (total borrowings over total equity) of the Group maintains at about 0.05 times for both the present and previous financial 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. During the financial year, the Group's borrowings reduced from RM 24.7 million as at the end of the preceding financial year to RM 23.0 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operating Activities

The Group has completed the upgrading of its manufacturing facility (Johan plant) in Seremban as part of its plan to rationalise its manufacturing facilities in Malaysia. Encountering the challenging and difficult time amidst the persistence of weak property market both domestically in Malaysia and globally, the Group continues to concentrate its efforts and focus on securing sales and improving the utilization of production capacity for the manufacturing plants in Malaysia.

The combined revenue of its overseas operations has surpassed the segment revenue of the Group's Malaysian operations for the second year in a row, as a result of Kim Hin's efforts in strengthening and achieving revenue growth for its overseas operations. Whilst its Australian operations has not performed well, the Group's operations in Vietnam and China continue to register commendable performance during the financial year under review.

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 efficiencies.

The main risks affecting the 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 is 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 operations 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.

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"), Australian 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 and the price of liquefied petroleum gas which is consumed by the Group's Kuching plant will affect future operational costs.

MANAGEMENT DISCUSSION AND ANALYSIS

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 policy 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 where the Group adopts stringent procedures on approving credit terms to customers and closely monitoring 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.

Outlook

The Group is cautiously optimistic about its outlook for the coming financial year (2019), given the weak domestic (Malaysia) and global economic environment, uncertainty of global trade generated by the impasse at the Parliament of United Kingdom on the approval of agreement with European Union over Brexit and the prolong trade war between the United State of America and People Republic of China which started in year 2018.

The property and real estate market for Malaysia in 2019 will remain challenging across all property sectors. Factors such as affordability, excess stock, economic and political concerns continue to influence what was once a vibrant sector.

According to the data provided by the National Property Information Centre (Napic), the unsold completed residential units rose from 20,304 units to 30,115 units year-on-year as at 30 September 2018. This represents an increase of 48.35%. The total value was an alarming RM 19.54 billion, representing a 56.44% jump from RM 12.49 billion a year ago. The total unsold units in Napic's findings have not included SoHo (small office/home office) units and serviced apartments. If JPPH (Valuation and Property Services Department) were to also include SoHo and serviced apartments, this would bring the total property overhang to 40,916 units and valued at an alarming RM 27.38 billion. Johor holds the highest count of overhang units in Malaysia at 13,767 units, follow by Selangor (7,233 units) and Kuala Lumpur (5,144 units). At the same time, the take up rates for unsold units of high-rise residential and high-end products are extremely low.

It is foresee the year 2019 to be a period of further stagnation with continued hope and anticipation of improvements, with the introduction of new policies and incentives aimed at the property market such as the National Housing Policy 2.0 and property crowdfunding platform. The National Housing Policy 2018-2025, launched in January 2019, unveiled the Government's target of offering one million units of affordable homes to Malaysian over a period of ten years, to enable more people, especially the low-income earners, to be house owners.

Collectively, the continuation of the wait-and-see sentiment and the persisting struggle of buyers in securing housing loans contributed to the market's stagnation and the rising of inventory levels.The Malaysian property market will go through another year of further stagnation before a more meaningful recovery can be seen in one to two years from now. However, the industrial sub-sector will be the least impacted for now.

The Group is continually rationalizing its manufacturing facilities in Malaysia, looking at increasing the productivity of its factories, improving operating efficiency and prudent cost saving measures to counter the impact of rising operating costs. The Group remains focused in consolidating and strengthening its Australian operations following the acquisitions of Johnson and Amber.

Dividend policy

The Group is committed to reward its shareholders with a fair and equitable return of their investment while retaining part of the available funds to accommodate future capital expenditure and investment. This is imperative in keeping the growth momentum of the Group into the medium to long term while the Group is eyeing for new suitable investment opportunities. In addition, the quantum of such dividend payment is also dependent on other factors, amongst others, the earnings, capital commitments, general financial conditions, distributable reserves and other factors to be considered by the Board.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Malaysian Code on Corporate Governance 2017 ("MCCG") issued in April 2017 takes on a new approach to promote greater internalization of corporate governance culture. In accordance with Paragraph 15.25(1) of the Main Market Listing Requirements ("MMLR"), all listed issuers must provide an overview of the application of the Principles as set out in MCCG, in its annual report.

In addition, the listed issuers were required to disclose how they have applied the Principles set out in MCCG and guidance was drawn from Practice Note 9 of the MMLR and the Corporate Governance Guide (3rd Edition) issued by Bursa Malaysia Securities Berhad. The detailed application of each Practice as set out in the MCCG is disclosed in the Corporate Governance Report which is available on the corporate website, www.kimhin.com.my.

The Board of Directors of Kim Hin Industry Berhad ("the Board") is committed to the implementation and maintenance of good corporate governance practices in discharging its duties, with a view to enhance business prosperity and long term value for its shareholders.

THE BOARD OF DIRECTORS

The Board has the overall responsibility for corporate governance, strategic directions, formulation of policies and overseeing the investments and operations of the Company.

A BOARD LEADERSHIP AND EFFECTIVENESS

PART I – BOARD RESPONSIBILITIES

1. Board's Leadership

1.1 Strategic aims, objectives, values and standards

The Board leads and has effective controls over the Group whereby collective decision and close monitoring are conducted on issues relating to strategy, performance, resources, standards of conduct and financial matters.

The Board is also responsible for oversight and overall management of the Company. To ensure the effective discharge of its function and responsibilities, the Board established Authority Chart for the Group, which clearly sets out relevant matters reserved for the Board's approval, as well as those which the Board may delegate to the relevant Executive Directors, the Group Managing Director and Senior Management.

Some of the key responsibilities of the Board are as follows:

(i) Promote good corporate governance culture within the Group which reinforces ethical, prudent and professional behaviour;
(ii) Review, challenge and decide on management's proposals for the Company, and monitor its implementation by management;
(iii) Ensure that the strategic plan of the Group supports long-term value creation and includes strategies on economic, environmental and social considerations underpinning sustainability;
(iv) Supervise and assess management performance to determine whether the business is being property managed;
(v) Ensure there is a sound framework for internal controls and risk management;
(vi) Understand the principal risks of the Group's business and recognise that business decisions involve the taking of appropriate risks;
(vii) Ensure that senior management has the necessary skills and experience, and there are measures in place to provide for the orderly succession of board and senior management;
(viii) Ensure that the Group has in place procedures to enable effective communication with stakeholders; and
(ix) Ensure the integrity of the Group's financial and non-financial reporting.

1.2 The Chairman

The Chairman holds an Executive position and is primarily responsible for matters pertaining to the Board and the overall conduct of the Group. The Chairman is responsible for instilling good corporate governance practices, leadership and effectiveness of the Board.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

1.3 Chairman and Group Managing Director

There is a clear division of responsibilities between the Executive Chairman and the Group Managing Director to ensure that there is balance of power and authority and no one individual has unfettered powers of decision. The Group Managing Director is responsible for the overall operations of the Group and the implementation of the Board's strategies and policies.

1.4 Qualified and competent Company Secretary

The Company Secretary of Kim Hin Industry Berhad is Mdm Yeo Puay Huang. She holds a Company Secretary Licence and is qualified to act as a Company Secretary under Section 235 of the Companies Act 2016. She has more than 41 years of professional experience in corporate secretarial practices.

The Company Secretary plays an advisory role in supporting the Board to uphold high standards of corporate governance. As a counsel to the Board, she provides the Board with periodic updates and compliance requirements from the Main Market Listing Requirements, Companies Act 2016 and other regulatory requirements.

The Company Secretary also ensures that there is good information flow within the Board, Board Committees and senior management.

She also serves as a focal point for stakeholders' communication and engagement on corporate governance issues.

1.5 Meeting materials and minutes

The Board recognises the importance of sound and timely information flow to facilitate robust board discussions. The Chairman, together with the Company Secretary and the management, are responsible for ensuring the Directors are provided with sufficient and timely information to prepare for board meetings.

The deliberations and decisions of the board are duly recorded in the Board's minutes. The draft minutes are circulated to the Executive Chairman for his review within a reasonable timeframe after the meeting. The minutes of meetings also capture the deliberations and decisions, rationale for decisions made, fundamental questions raised and key points of discussions, and any dissent views and abstentions made by the directors.

2. Demarcation of responsibilities

2.1 Board Charter

The Board is guided by its Board Charter which sets out the Board's strategic intent, roles and responsibilities of the Directors, Board membership guidelines, leadership development, Board and member evaluations, Directors' remuneration, meeting procedures and Code of Conduct for Directors.

The Board Charter shall be periodically reviewed and updated at such interval the Board deems necessary taking into consideration the needs of the Company and changes in the regulatory requirements that may affect the Directors' duties and responsibilities.

The Board Charter is available on the corporate website, www.kimhin.com.my

3. Good business conduct and corporate culture

3.1 Code of Conduct and Ethics

The Code of Conduct and Ethics outlines the principles, policies and rules that govern the activities of the Group, and the employees are subject to a set of values and standards of conduct that is expected of them.

The Code of Conduct and Ethics shall shape the corporate culture and driving conduct within the Company. It serves as both an internal guideline and external statement of corporate values and commitment. It could also act as a central point of reference for employees to support their day-to-day decision-making.

The Board reviews and update the Code of Conduct and Ethics periodically or as and when the need arises to ensure it is kept contemporaneous.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

3.2 Whistle Blowing policy

The Group has in place the Whistle Blowing Policy in 2014 with the objective of promoting and maintaining high standard of transparency, accountability and ethics as well as good corporate governance practices in the workplace.

The Whistle Blowing Policy serves as the internal complaint framework for employees or other stakeholders to raise concerns about illegal or unethical activity that they are aware of through their work, without fear of reprisals or retaliations.

PART II – BOARD COMPOSITION

4. Objective Board's decision

4.1 Composition of the Board

The Board comprises of eight (8) members, three (3) of which are Independent Directors.

The appointment of Mr Fong as the Senior Independent Director, provides an additional channel for the Independent Directors to voice any opinions or concerns that they believe have not been properly considered or addressed by the Board.

4.2 Tenure of Independent Director

Annual shareholders' approval was obtained for Mr Fong Tshu Kwong, who has served for a cumulative term of nearly **18 years** as an Independent Director since 21 May 2001.

In addition, Mr Ong Ah Ba, who was appointed as an Independent Director of the Company on 8 December 2009, has also served for a cumulative term of more than 9 years.

The Board strongly believes that a director's independence cannot be determined arbitrarily with reference to a set period of time. Kim Hin Industry Berhad benefits from its long serving directors, such as Mr Fong and Mr Ong, with detailed knowledge of the business and with proven commitment, experience and competence to effectively advise the Board.

For the upcoming Annual General Meeting, the Company shall seek shareholders' approval through two-tier voting for the proposed retention of Mr Fong and Mr Ong as an Independent Director of the Company.

4.3 Independent Director's Tenure Policy

The Company does not have a policy which limits the tenure of its independent directors to 9 years. The shareholders' approval was obtained at the annual general meeting each year for the re-appointment of Mr Fong Tshu Kwong.

4.4 Board and senior management

Appointment of Board and senior management are based on objective criteria, merit and besides diversity in skills, experience, age, cultural background and gender.

The Group is also committed to providing an inclusive workplace that embraces and promotes diversity.

4.5 Gender diversity

The Board adopted the Boardroom and Workforce Diversity Policy in 2015.

The Board recognises and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage.

Currently, the Company has six (6) male Directors and two (2) female Directors.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

4.6 Board's new candidate

The Nomination Committee is responsible for recommending suitable candidates for Directorship to the Board.

In searching for suitable candidate, the Nomination Committee may receive suggestions from existing Board Members, management, and major shareholders. The Committee is also open to referrals from external sources available, such as industry and professional associations, as well as independent executive search firms.

4.7 Nomination Committee

The Nomination Committee is responsible for recommending the right candidate with the necessary skills, experience and competencies as new Board member as well as member of Board Committees. The Nomination Committee comprises two members, who are all Independent Directors.

Each year, the Nomination Committee assesses the effectiveness of the Board and Board Committees, contributions and performance of each individual director, as well as the Group Managing Director and the Chief Financial Officer in accordance with paragraph 2.20A of the MMLR.

The objective of the assessment is to improve the Board's effectiveness, identify gaps, maximize strengths and address weaknesses of the Board. Self-assessment on the performance of the directors is used, and issues put forth for assessment are presented in a customized questionnaire. The Board oversees the overall evaluation process and responses are analysed by the Nomination Committee, being tabled and communicated to the Board.

The criteria on which assessment of the Board's effectiveness is carried out is developed, maintained and reviewed by the Nomination Committee. They include, inter alia, Board's and Board Committees' composition, Board's roles and responsibilities, and Board's operations.

The Chairman of the Nomination Committee is the Senior Independent Director.

Given that the Senior Independent Director serves as a confidant to the other directors, he is well-placed to oversee the assessment of the Board's Chairman, taking into account a broad range of perspectives.

The Terms of Reference of the Nomination Committee is set out in the Board Charter and is available on the corporate website – www.kimhin.com.my.

5.0 Overall Board effectiveness

5.1 Objective annual evaluation

A detailed self-assessment is undertaken every year to review the effectiveness of the Board, Committees and individual Directors. The questionnaires are reviewed by the Nomination Committee and approved by the Board. This annual assessment provides the opportunity for the Directors to examine the effectiveness in discharging their roles and responsibilities, identify areas for improvement and to assess the overall effectiveness of the Board and Committees.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board meets on a quarterly basis and additional meetings are convened as and when necessary. The Board met for a total of six (6) times during the financial year ended 31 December 2018 and their attendance details are as follows:

Directors	Attendance	Percentage of attendance
Chua Seng Huat	6/6	100%
Chua Seng Guan	5/6	83%
John Chua Seng Chai	6/6	100%
Pauline Getrude Chua Hui Lin	6/6	100%
Chua Yew Lin	6/6	100%
Fong Tshu Kwong	6/6	100%
Ong Ah Ba	6/6	100%
Yong Lin Lin	6/6	100%

The Board is satisfied with the time commitment given by the Directors to the affairs of the Company. Director shall notify the Chairman before accepting any new directorship and the notification shall include the indication of time that will be spent on the new appointment.

Directors' training

The Board is mindful of the importance for its members to undergo continuous training through its Nomination Committee continue to evaluate and determine the training needs of its members to ensure continuing education is made available to the Directors in order for them to be equipped with the necessary skills and knowledge to meet the challenges of the Board. Any Director appointed to the Board is required to complete the Mandatory Accreditation Programme within four months from the date of appointment.

During the financial year ended 31 December 2018, all directors attended the training entitled "Black Belt Strategic Thinking" on 27 November 2018.

PART III – REMUNERATION

6.0 Remuneration of Directors and senior management

6.1 Remuneration Policy

The objective of the Company's remuneration policy on directors' remuneration is to attract, retain and motivate the directors with the relevant experience and expertise to manage the Group successfully. Their remuneration reflects the level of experience and expertise they bring with them and the level of responsibility undertaken by them.

The Board has recently formalised the Directors' Compensation Policy on 26 February 2018. However, the Board has yet to formalise the remuneration policies and procedures for the senior management.

The Board intends to put in place the remuneration policies and procedures for senior management within 3 years' period. The Board acknowledges the importance of formalisation of remuneration policies and procedures in order to attract and retain Directors and senior management with the right talents and competencies.

6.2 Remuneration Committee

The Board has established the Remuneration Committee, comprises of a majority of Independent Non-Executive Directors.

The Remuneration Committee's responsibilities include to establish compensation strategy, compensation policies and programs, and management development plans.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

7. Remuneration of Directors and senior management

7.1 Details of Directors' remuneration

The remuneration of the Directors (group basis) for 2018 are as follows:-

	Fees^ RM'000	Salaries RM'000	Bonus RM'000	Allowance RM'000	Benefits-in-kind RM'000	Other emoluments* RM'000	Total RM'000
Executive Director							
Chua Seng Huat	33	1,166	765	25	72	346	2,407
Dato' John Chua Seng Chai	33	1,151	765	25	42	353	2,369
Chua Seng Guan	33	1,166	765	24	33	346	2,367
Pauline Getrude Chua Hui Lin	33	384	192	-	30	117	756
Chua Yew Lin	33	384	192	-	20	116	745
Independent Director							
Fong Tshu Kwong	33	-	-	-	-	-	33
Ong Ah Ba	33	-	-	-	-	-	33
Yong Lin Lin	33	-	-	-	-	-	33
TOTAL	264	4,251	2,679	74	197	1,278	8,743

<u>Note</u>

^ Directors' fee shall be approved by shareholders at the forthcoming Annual General Meeting.
* Other emoluments consist of Employee Provident Fund and Social Security contributions made by the employer.

7.2 Remuneration of the top five Senior Management

The remuneration of the top five senior management of the Group are as follows:

Range of remuneration (RM)	Top Five Senior Management
RM200,001 to RM250,000	2
RM250,001 to RM300,000	2
RM300,001 to RM350,000	-
RM350,001 to RM400,000	1
Total	5

CORPORATE GOVERNANCE OVERVIEW STATEMENT

B. EFFECTIVE AUDIT AND RISK MANAGEMENT

PART I – AUDIT COMMITTEE

8. Effective and independent Audit Committee

8.1 Chairman of the Audit Committee

The Board has established an Audit Committee which is chaired by the Senior Independent Director, Mr Fong Tshu Kwong. The Chairman of the Board is Mr Chua Seng Huat.

Having the positions of Board Chairman and Chairman of the Audit Committee assumed by different individuals allows the Board to objectively review the Audit Committee's findings and recommendations.

8.2 Policy on appointment of former key audit partner

In an effort to preserve the integrity and credibility of the audit process, the Audit Committee has incorporated a policy in its Terms of Reference which requires a former key audit partner to observe a cooling-off period of at least two years before appointment as a member of the Audit Committee.

8.3 Policies and procedures on external auditor

The Board has established Policies and Procedures in assessing the suitability, objectivity and independence of the external auditor.

8.4 Membership of Audit Committee

The members of the Audit Committee of the Company are all Independent Directors,

8.5 Skills of Audit Committee members

The members of the Audit Committee have undertaken continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and regulatory requirements.

PART II – RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

9. Effective Risk Management and Internal Control Framework

The Board acknowledges its overall responsibility and the importance of sound risk management and internal control, and for reviewing the adequacy and integrity of those system. The system of risk management and internal control is designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure to achieve business objectives of the Group. It can therefore only provide reasonable and not absolute assurance of effectiveness against material misstatement of management and financial information or against financial loss and fraud.

The Corporate Risk Scorecard system helped management in methodically identifying and assessing any emerging new risks, updating the business risks profiles that were previously identified, and following up with the implementation of the control plans.

10. Effective governance, risk management and internal control framework

The Audit Committee is responsible for reviewing the adequacy of the scope, competency and resources of the internal audit function and ensure that it has the necessary authority to carry out its work.

The Board affirms that the internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence. Please refer to the Corporate Governance Report under Practice 10.2 on the details of the resources of the internal audit function.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

C. INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDER

PART I – COMMUNICATION WITH STAKEHOLDERS

11. Continuous communication between the Company and stakeholders

The Board endeavours to ensure that communication with stakeholders is conducted in a timely and effective manner.

The Company utilises the Annual Reports, announcements to Bursa Malaysia Securities Berhad, Annual General Meetings, and the Group's website to disseminate information to stakeholders.

Through our Corporate website at www.kimhin.com.my, stakeholders are able to access information on the Group's background, products etc and it also acts as an avenue for them to raise any query by email or phone. Primary contact details are also set out in the website.

PART II – CONDUCT OF GENERAL MEETINGS

12. Shareholder participation at general meetings

The Board recognises the importance of being accountable to and communicating with its investors, and the need for shareholders to be informed of all material business matters affecting the Company.

The Company's Annual General Meeting presents opportunities for the Board to meet individual shareholders, and provide a forum to discuss and debate key issues. All shareholders are encouraged to attend the General Meetings and participate in the proceedings. The shareholders were given the opportunity to raise questions and seek clarification from the members of the Board, management and the Auditors of the Company about the resolutions being proposed and the Group's performance and activities.

Pursuant to Paragraph 8.29A of the MMLR, all resolutions set out in the notice of general meetings shall be voted by poll and an independent scrutineer shall be appointed for validation of the votes casted.

CORPORATE GOVERNANCE KEY FOCUS AREAS AND FUTURE PRIORITIES

<u>Key focus areas</u>

The key focus areas of the governance practices of the Group for 2019 are ensuring the strategic plan of the Group supports its long term value creation which includes strategies on economic, environmental and social consideration underpinning sustainability, and succession planning for the Directors and senior management.

<u>Future priorities</u>

The Board aims to establish a formal remuneration policies and procedures for senior management within the next 3 years.

AUDIT COMMITEE REPORT

The Board of Directors of Kim Hin Industry Berhad is pleased to present the report of the Audit Committee for the financial year ended 31 December 2018.

COMPOSITION OF THE AUDIT COMMITTEE

The members of the Audit Committee during the financial year under review comprised of the following Directors:

Fong Tshu Kwong *(Chairman)*
(Independent Non Executive Director)

Ong Ah Ba *(Member)*
(Independent Non Executive Director)

Yong Lin Lin *(Member)*
(Independent Non Executive Director)

The Audit Committee met five (5) times during the year as follows:

1) 26 February 2018
2) 28 March 2018
3) 28 May 2018
4) 28 August 2018
5) 27 November 2018

Details of attendance at the Audit Committee Meetings are as follows:

Name of Audit Committee member	Attendance	Percentage of attendance
Fong Tshu Kwong	5/5	100%
Ong Ah Ba	5/5	100%
Yong Lin Lin	5/5	100%

The Audit Committee also met with the External Auditors on 28 March 2018 and 27 November 2018 respectively without the presence of Executive Directors, the management and Internal Auditors.

The meetings of the Audit Committee were attended by all committee members and invitees. The invitees include the internal auditors, external auditors and the Chief Financial Officer. The Company Secretary acted as secretary at the meetings to record minutes of the proceedings of the meeting.

TERMS OF REFERENCE

In performing its duties and discharging its responsibilities, the Audit Committee is guided by its Terms of Reference.

MEMBERSHIP

The Audit Committee shall comprise of at least three non-executive directors, the majority of whom are independent directors. At least one member shall be a professional or qualified accountant. Any vacancy resulting in the non-compliance of the above, shall be filled within three months.

SUMMARY OF WORK

During the financial year ended 31 December 2018, the Audit Committee's work carried out in accordance with its terms of reference.

FINANCIAL REPORTING

- Reviewed the quarterly and year-to-date unaudited financial results of the Company and the Group, before recommending them for approval by the Board of Directors.

- Reviewed the annual audited financial statements of the Company and the Group with the External Auditors prior to submission to the Board of Directors for approval.

AUDIT COMMITEE REPORT

The review was to ensure that the financial reporting and disclosures are in compliance with:

- the provisions of the Companies Act 2016;
- Main Market Listing Requirements of Bursa Malaysia Securities Berhad;
- applicable financial reporting standards in Malaysia; and
- other relevant legal and regulatory requirements.

In the review of the annual audited financial statements, the Audit Committee discussed with the management and the External Auditors the accounting principles and standards that were applied and their judgment of the items that may affect the financial statements.

INTERNAL AUDIT

The Internal Audit Plan was drawn up in accordance with high risk areas identified as a result of the risk assessment carried out.

The audit scope of the Internal Auditors during the financial year covered the following processes:

SCOPE OF REVIEW
1. Operational reviews of the Group's major subsidiaries in Malaysia: (i) **Kim Hin Ceramic (Seremban) Sdn. Bhd.** • Vendors' evaluation process; • Maintenance; • Inventory management; • Raw materials storage management; and • Human resource.
(ii) **Johnson Tiles Malaysia Sdn. Bhd.** • Bangsar showroom entrance review audit.
(iii) **Kimgres Marketing Sdn. Bhd.** • Inventory management; • Standard operating procedure for showroom orders and sales recording; • Customers' satisfaction survey; • Customers' credit control procedure and debt collection; and • Suppliers' evaluation.
(iv) **Ceramica Indah Sdn. Bhd.** • Inventory management; • Maintenance; and • Calibration of Equipment.
(v) **Overall Review** • Goods and Service Tax Reporting; and • Recurrent Related Party Transactions.

The overall review of the internal control system for the above areas covered, reveals that controls and policies are generally adequate and functioning satisfactorily. On-going reviews are being carried out continuously to ensure the effectiveness of the system. Although the Group's internal control system has been evaluated as satisfactory, it can only provide reasonable but not absolute assurance in the event of material error or loss.

The Audit Committee reviewed the following:

- the adequacy of the scope, competency and resources of the internal audit function to carry out its work.
- the internal audit plan and internal audit reports for the Group on the effectiveness and adequacy of governance, risk management, operational and compliance processes.
- the adequacy and monitory of the status of implementation of action plans agreed by the management on the outstanding issues to ensure that all the key risks and control lapses have been addressed.

AUDIT COMMITEE REPORT

EXTERNAL AUDIT

a. Reviewed with the External Auditors:
   - their Audit Plan and scope of work for the year 2018; and
   - the results of the annual audit and their audit report and evaluate their findings and recommendations for actions to be taken.

b. The Audit Committee had two independent meetings with the External Auditors in March and November 2018 respectively, without the presence of the Executive Directors, the management and Internal Auditors. The Audit Committee enquired about the management's cooperation with the External Auditors, their sharing of information and the proficiency and adequacy of resources in financial reporting functions.

c. On 28 March 2019, the Audit Committee undertook an annual evaluation of the quality of audit which encompassed the following areas:

   a. The caliber of external audit firm;
   b. The quality of processes/performance;
   c. The audit team; and
   d. The independence and objectivity.

   The Audit Committee received written confirmation from the External Auditors regarding their independence to the Group.

   The Audit Committee also obtained input from the Company's personnel who has substantial contact with the External Auditors, in relation to the external auditors' performance. The Company's personnel was given a set of questionnaire to assess the quality of services provided, the independence and professional skepticism demonstrated by the External Auditors' team and the firm.

   The Audit Committee was satisfied with the suitability of the External Auditors based on the quality of services, technical competency and sufficiency of resources they provided to the Group.

   The Board at its meeting held on 28 March 2019 approved the Audit Committee's recommendation to re-appoint Ernst & Young as the External Auditors of the Group for the financial year ending 31 December 2019, subject to the shareholders' approval to be sought at the forthcoming annual general meeting.

Related Party Transactions

- Reviewed the updates on the recurrent related party transactions entered into by the Group.
- Reviewed the Circular to Shareholders relating to Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature prior to recommending it for the Boards' approval.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

(PURSUANT TO PARAGRAPH 15.26(B) OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD)

BACKGROUND

The Malaysian Code on Corporate Governance requires the Board of Directors to maintain a sound system of risk management and internal control to safeguard shareholders' investment and the Group's assets. The Board of Directors of Kim Hin Industry Berhad ("Board") is pleased to provide the following statement which outlines the main features and scope of the Group's risk management and internal control system during the financial year ended 31 December 2018.

This Statement is prepared in accordance with paragraph 15.26(b) of the Main Market Listing Requirements ("MMLR") and Practice Note 9 of Bursa Malaysia Securities Berhad ("Bursa Securities").

RESPONSIBILITY OF THE BOARD

The Board acknowledges its overall responsibility and the importance of sound risk management and internal control system, and for reviewing the adequacy and integrity of those system. The system of risk management and internal control is designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure to achieve business objectives of the Group. It can therefore only provide reasonable and not absolute assurance of effectiveness against material misstatement of management and financial information or against financial loss and fraud.

The Group has an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the risk management practices and internal controls when there are changes to the business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the MMLR of Bursa Securities and guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers issued by the Taskforce on Internal Control ("SRMICG").

RISK ASSESSMENT

The Board affirms that an important element for a sound system of internal control is to have in place a risk management and control system to identify and assess the significant risks to the existing business processes of the Group and implement appropriate controls to manage such risks. The Risk Management Committee ("RMC") was established in 2001 to achieve the following objectives:

(a) To be at the forefront of the Group Wide Risk Programme and ensure that a risk management structure is embedded in day-to-day operations throughout the Group;
(b) To ensure that the risk management structure is consistently adopted throughout the Group and is within the parameters established by the Board; and
(c) To ensure compliance with external requirements such as the SRMICG.

CONTROL ENVIRONMENT AND ACTIVITIES

The Corporate Risk Scorecard system helped management in methodically identifying and assessing any emerging new risks, updating the business risks profiles that were previously identified, and following up with the implementation of the control plans.

The most recent Enterprise Risk Assessment of the Group was held in September 2017. The Group is in the midst of reassessing its Enterprise Risk Management ("ERM"), and external consultants have been engaged to facilitate the process. Existing and new key risks which would impact the Group's businesses and its ability to meet the Group's business objectives will be identified and assessed during the Enterprise Risk Assessment sessions that have been scheduled in April 2019 for both East Malaysia and West Malaysia operations of the Group. In addition, risk assessment criteria used in defining the level of significance as well as impact of risks affecting the business will also be reviewed.

Revenue, Inventory, Trade Receivables, Production and Foreign Exchange were identified as major risks and are monitored as Key Risk Indicators on a monthly basis. Controls were also identified and evaluated to mitigate the risks with risk owners assigned to manage these risks.

In addition, the Group has other key control processes in place for its control environment to further enhance its evaluation and managing processes for risk management and internal control:

- A formalised Board Charter and Code of Conducts for Directors;
- Establishment of Employee's Handbook and Code of Conduct and Ethics;
- Well structured organisation chart with defined lines of responsibilities and duties as specified in the job terms of reference;
- Existence of Standard Operating Procedures under the governance of ISO 9001 Quality Management System for the Group's manufacturing operations in Malaysia (Kuching and Seremban);
- Existence of Standard Operating Procedures under the governance of compulsory product certification by China Quality Certification Centre for the Group's manufacturing operations in People Republic of China (Shanghai);
- Scheduled meeting of Management Review Meetings and Management Meetings; and
- Continuous monthly monitoring of the Group's Corporate Key Performance Indicators ("KPI"), financial policy and use of Enterprise Resource Planning (ERP) by the Group's operations in Malaysia.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL
(PURSUANT TO PARAGRAPH 15.26(B) OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD)

The Group's manufacturing facilities at Kuching and Seremban have been successfully recertified to ISO 9001: 2015 Quality Management System. The latest version of ISO 9001 has adopted a risk based approach which adds further assurance to the Group's risk management for its operations.

AUDIT ("IA")

The Group has an IA function which is outsourced to independent internal auditors. The Group's IA function reviews the effectiveness of the system of internal control in managing the key risks and report accordingly to the Audit Committee.

In carrying out its work, the Group's Internal Auditors focused on areas of priority as determined by risk assessment and in accordance with the annual operational internal audit plan approved by the Audit Committee. Where any significant weaknesses have been identified as a result of the reviews, improvement measures are recommended to strengthen controls and business processes, with follow-up audits by Internal Auditors to assess the status of implementation thereof by management.

During the financial year under review, the Group's Internal Auditors have performed audits covering the various business processes of the Group, which includes review of the Group's recurrent related party transactions, and the Goods and Services Tax reporting for its Malaysian entities.

In addition, the Group's Internal Auditors performed operational reviews of the Group's major subsidiaries in Malaysia.

Among areas of audit carried out for the Group's marketing operations were inventory management, customers' credit control procedure and debts collection, Standard Operating Procedure for showroom orders and sales, suppliers' evaluation and customers' satisfaction survey. In addition, a field visit was conducted for the Bangsar showroom operated by the Group's marketing subsidiary, Johnson Tiles Malaysia Sdn. Bhd. as well as a site visit to its intended showroom at Jalan Ipoh, Kuala Lumpur.

The Internal Auditors have also reviewed inventory and storage management, vendors' evaluation process, maintenance and human resource for the Group's production facility under Kim Hin Ceramic (Seremban) Sdn. Bhd.

The Inventory Management, Calibration and Maintenance for the Group's manufacturing operations in East Malaysia were also covered during the year.

The Audit Committee reviews the IA Reports from the Group's IA function and reports to the Board on key audit findings, recommendations of action plans and implementation status of corrective actions.

The costs incurred for the internal audit function in respect of the financial year ended 31 December 2018 was in the region of RM80,000.

BOARD REVIEW

The Board has taken continuous steps to assess and enhance the effectiveness of the system of risk management and internal control, and is not aware of any significant weaknesses or deficiencies in the risk management and internal control system of the Group.

In addition, written assurance were received from Group Managing Director and Chief Financial Officer by the Board that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects.

Hence, the Board is pleased to report that there were no significant material internal control weaknesses noted during the year under review and up to the date of approval of the annual report and financial statements.

REVIEW 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 3, Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report ("AAPG 3") issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the annual report of the Group for the year ended 31 December 2018, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the annual report of the Group, in all material respects: 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 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 Directors and management thereon. The report from the external auditors was made solely for, and directed solely to the Board of Directors in connection with their compliance with the listing requirements of Bursa Malaysia Securities Berhad and for no other purposes or parties. The external auditors do not assume responsibility to any person other than the Board of Directors in respect of any aspect of this report.

This statement is issued in accordance with the Board's approval on 28 March 2019.

SUSTAINABILITY STATEMENT

INTRODUCTION

Sustainability has always been positioned and integrated in the business operations of Kim Hin Industry Berhad Group ("Kim Hin") to enhance the measures in generating long term benefits for business continuity and value creation.

This Sustainability Statement describes the Group's commitment towards improving its sustainability practices while also taking into account the concerns of stakeholders. By focusing on sustainability, the Group aims to manage its economic, environmental and social ('EES') risks to strengthen the local economy, safeguard natural resources and strengthen its bond with the community.

Since its inception, Kim Hin operates as a ceramic tiles manufacturer in Malaysia with the goal to achieve business successes by integrating corporate responsibilities in alignment with sustainability of the Group. The Group's Vision, Mission and Corporate Value are as follows:

OUR VISION
Our vision is 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.

OUR MISSION
- Achieving responsible and balanced commercial success;
- Satisfying customers' needs;
- Enhancing shareholders' values and to provide fair returns to shareholders;
- Providing rewarding careers to employees;
- Having mutually beneficial relationship with business associates; and
- Participating and contributing effectively towards nation building.

OUR CORPORATE VALUE

- As a role model and a good corporate citizen;
- Provide the highest quality products and values to customers;
- Commitment to employees' welfare and wellbeing;
- To instill a culture of discipline, integrity, teamwork and proactivity amongst staff.

The Board of Directors of Kim Hin set business strategies and take up their responsibilities with commitments to embed sustainability across the organisation with supportive culture and strong leadership. Kim Hin has expanded its operation globally with its business strategies on sustainable growth. The Board is mindful that sustainability practices in Kim Hin is essential because it helps to identify, evaluate and manage the material EES risks and opportunities in order to meet the global market change.

THE EXPORT MARKETS OF KIM HIN INDUSTRY BERHAD

SUSTAINABILITY STATEMENT

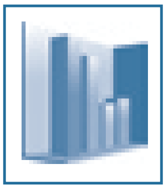
Economic	Environmental	Social
- Engagement with stakeholders - Investment management - Resources management - Business communication and connection with customers and suppliers	- Environmental preservation - Water recycling management - Production waste management - LED light energy saving	- Occupational health and safety - Ethics and integrity - Accountability and transparency - Employee training and development - Employee welfare - Compliance with regulatory requirements

STAKEHOLDER ENGAGEMENT

The stakeholders of Kim Hin consist of investors, government, regulators, customers, suppliers, employees and local communities. They play an important role in the Group's business generation by providing business opportunities and the opportunities in identifying the Group's sustainability risk locally and globally.

The Board is ultimately responsible in ensuring that the Group adheres to high standards of ethics and corporate behavior in accordance with the Code of Conduct which is applicable to directors, officers and employees of the Group. The Corporate Disclosure Policy and Procedures outlines the policies and processes for communications with shareholders, analysts and investors to ensure effectiveness and compliance with the applicable laws, rules and regulations.

The initiatives, measures and actions plans in response to the material sustainability matters undertaken by the Board are as below:



ECONOMIC

The Board of Directors is the highest authority accountable for the Group's sustainability strategy and performance. The Board is supported by the Sustainability Committee that oversees the Group's principles, policies, objectives and environment in addition to factors that affect the achievement of the Group's business objectives.

The objective of the materiality assessment may include, among others, the following:
- Identifying relevant sustainability issues, considering their impacts and associated risks and opportunities;
- Identifying material sustainability matters that need to be managed and included in sustainability disclosures (for communication with internal and external stakeholders);
- Identifying future trends that may affect the organisation or its business strategy;
- Identifying areas for target setting to improve business and sustainability performance;
- Informing the development or revision of business strategies including sustainability considerations; and
- Facilitating effective engagements with internal and/or external stakeholders, with particular focus on addressing their concerns.

The Group takes initiatives and proper measures in enhancing the value and reputation of their brands, which are Kimgres, Durogres, Vitrogres, Johnson and Amber. The Group aims to retain its existing customers and to attract new customers for business growth. Besides producing and delivering quality products to meet customers' satisfaction, the Group is focusing on upgrading the designs of ceramic tiles to meet the high expectations of customers.

Certification is a crucial requirement and to improve the quality products. All our manufacturing plants in Malaysia are certified with ISO 9001:2015 Quality Management System, and are adopting operational control procedures with good documentation requirements to provide assurance that a trail of accountability exists and also for continuous improvement.

We continuously focus on improving the efficiency and productivity of our workforce across our production and marketing functions to meet our customers' satisfaction and in maintaining good connections and relationships with our suppliers locally and globally.

Business risks which have great impact on the Group's business performance, such as risk of price increase in raw materials and gas are measured and monitored. Foreign exchange risks are also analysed. The Group is determined to perform proper analysis and take into considerations towards investment risk when dealing with investment matters.

We endeavour to improve the Group's financial performance by optimising the capital expenditure, reducing operational costs and implementing stronger operating margin towards the business operations.

We always ensure the disclosure of all relevant information to our shareholders and perform proper presentation in Annual General Meetings and we aim to enhance shareholders' values.

SUSTAINABILITY STATEMENT

ENVIRONMENT

Kim Hin is committed to preserving the environment and to this end, we have been applying best practices and operating strategies to minimise environmental impact. We develop and cultivate our culture of maintaining a clean, safe and healthy environment.

Kim Hin endeavours to promote enviromental initiatives across all activites.

Trees are planted at the surrounding of our office buildings and factory premises as part of our little contribution to provide clean air and cool the globe. Dust collector system is used to enhance the quality of air by collecting dust and other impurities from air.

The Management practice a good housekeeping culture in the office in order to promote a hygienic and healthy environment. We practice paper recycling and envelopes recycling culture in our office as well.

Energy efficient lighting LED lights are widely used in the factory and office for energy saving purposes. Rain water is collected for recycling purposes.

OUR ENVIRONMENT POLICY

We are committed to a sustainable earth and have adopted environmentally friendly practices to lessen the damage to the environment that supports communities. We ensure that our people and manufacturing practices support this objective through personal awareness and the adoption of green technology and best practices by European or Asian innovations that maximise energy efficiency improvements. The main environmental factors associated with the production of ceramic tiles are gaseous emissions, production of heat, dust and waste.

GREENGUARD AND ECO-LABEL CERTIFICATION

People spend 90% of their time indoors and are exposed to indoor air pollutants. The US Environmental Protection Agency (USEPA) estimates that the average person receives 72% of their chemical exposure at home. Paradoxically, what we consider the safest place has the greatest amount of potentially hazardous pollutants. These pollutants come from activities, products and materials we use everyday. Chemical emissions is the most harmful as they contribute to a wide range of health effects.

Our products are certified to have low chemical emissions, thus improving the quality of air in which the products are used. This gives peace of mind to homeowners, schools, public health organisations, offices etc.

We are conscious that being environmental friendly will contribute to the preservation and protection of the environment. Our products are granted the Eco-Label as complying to SIRIM criteria 022 : 2010.

GREENGUARD

GREENGUARD

GOLD

SIRIM

LOWER CARBON FOOTPRINT

Green-house gases are emitted into the atmosphere from companies burning fuel for their production processes and activities. Close to 60% of our gas emissions are from LPG which is a clean burning fuel with very little particulate matter. According to the Intergovernmental Panel on Climate Change (IPCC), LPG is not a green-house gas so it has global warming potentials (GWP) of zero[1]. Despite the cost of LPG being higher, we are fully committed to its utilisation.

[1] *Atlantic Consulting, 2009, LPG's carbon footprint relative to other fuels. A Scientific Review.*

SUSTAINABILITY STATEMENT

AIR QUALITY

Air quality in our manufacturing facilities is very important in order to have a clean environment for our employees.

- Dust suction exhaust system are installed for dust dispersion.
- Whole production complex has cement or tarmac surfaces to minimise dust when raw materials are transferred from one area to the next.

To ensure minimum particulate matter and gaseous emissions - the pollutants of concern from the firing process, our products are fired using either liquified natural gas (LNG) or liquified petroleum gas (LPG), both of which are clean burning fuel with very little particulate matter. On top of that, the carefully selected materials help control and reduce the fluorine compound emission associated with the firing of clayey materials.

ENERGY SAVING

Energy saving initiatives include installation of highly efficient burners and heat recovery system in our rapid cycle roller kilns. Roofs at our manufacturing facilities are installed with translucent panels to reduce consumption of electricity during the day and to inculcate habits of utilities savings, company-wide. LED lightings which are eco-friendly and efficient energy savers are widely used throughout offices and factory buildings.

WATER CONSERVATION

With Mother Nature granting us with abundant rain, we harvest it to be used in our manufacturing processes. 100% of the water used in the cutting process are from harvested water.

Glazing and printing operations require frequent washing which in turn generates waste water. This is directed to a waste water treatment plant and water is recycled back to the production process. This in turn reduces our consumption of treated piped water.

RECYCLING

We reuse a certain percentage of materials in our production of tiles. Reject tiles from production are re-used through crushing. Green tiles and reject powder are collected and re-used back into the production process.

For packaging materials, we use the thinnest plastic possible to wrap our goods. We minimise usage of wooden pallets with a return policy.

We practice paper and envelope recycling in the office as well.

SOCIAL

The Group values the commitments, capabilities and hard work of the employees and is committed to the welfare and well-being of its employees, by giving incentive awards to the children of our employees who excel in national public examinations. Training is given to the employees to develop and enhance the employee’s capability and competency development.

The Group has its Safety and Health Policy in place where processes and procedures are established to manage occupational safety at work places and the employees’ health matters to prevent hazards arising in or from the workplace that could impair the health and well-being of workers. The Occupational Safety and Health Committee is led by the Group Executive Director, who oversees the Company’s responsibility in relation to occupational safety and health matters in compliance to the Industry Standards and legislation.

In accordance with the International Labour Organisation, occupational safety and health refers to the anticipation, recognition, evaluation and control of hazards arising in or from the workplace that could impair the health and well-being of workers. To fulfil this commitment, we make every effort to adhere to the relevant industry standards and comply with occupational safety and health legislation.

Safety infrastructure such as fire-fighting system and equipment, first-aid boxes and Emergency Response Plan are located at various places in the operation’s premises.

We are committed to a clean, safe, and healthy workplace and environment. All aspects of our business are managed in a safe and environmentally responsible manner. We believe these actions benefit our employees, customers, shareholders and the public.

SUSTAINABILITY STATEMENT

Medical surveillance

Medical surveillance is necessary for the protection of our employees who are exposed or likely to be exposed to chemicals which are hazardous to health. We carry out the medical surveillance programme annually, so as to identify the changes in health status of the relevant employees due to occupational exposure. The medical surveillance is carried out by an occupational health doctor.

OCCUPATIONAL SAFETY AND HEALTH

The details of safety and health trainings in 2018:

Date	Types of trainings/courses	No. of participants
07.05.2018	Seminar On Clean Air Regulation 2014	1
08.06.2018	Presentation of CHRA	16
11.07.2018	Control of Industrial Major Hazard (CIMAH)	19
20.09.2018	Managing OSH Among Vendors and Entrepreneur (MOVE)	1
21.09.2018	Ceramah Keselamatan Kebakaran & Demonsterasi Penggunaan Pemadam Api	30
25.10.2018	Awareness And Safety Of Machinery	34
05 & 06.11.2018	Workplace Inspection Training	2
07.12.2018	Presentation of Report on Chemical Exposure Monitoring	6
10.12.2018	Compliance To Rules & Regulations Under Occupational Safety & Health Act (OSHA) 1994	1
12.12.2018	PPE Awareness Training	40
	Total:	**150**

The details of safety and health trainings in 2017:

Date	Types of trainings / courses	No. of participants
15 & 16.03.2017	National SOHELP Convention	1
26.04.2017	Workshop of DOSH Online Reporting System (MYKKP)	1
11.05.2017	Program Keselamatan Untuk Pekerja Yang Menunggang Basikal	28
17.05.2017	Nurturing OSH Culture for Higher Productivity	1
30 & 31.10.2017	Environmental Life Cycle Assessment Training	3
11-12.11.2017	Occupational First Aid and CPR Programme	26
	Total:	**60**

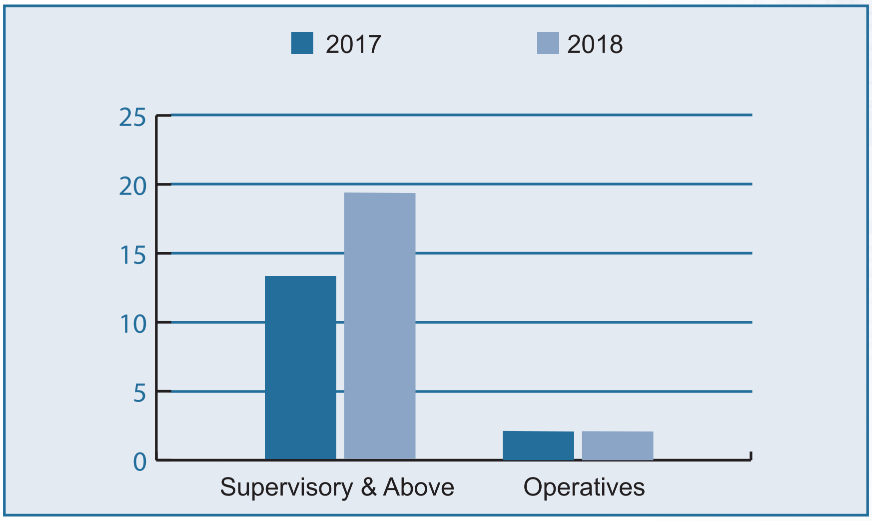
The details of accident incidents and lost days:

Types	2018	2017
Fatalities	0 incident	0 incident
Injuries	3 incidents	7 incidents
Lost time injuries	86 days	114 days

SUSTAINABILITY STATEMENT

LABOUR PRACTICES

We are committed to encompass the fair treatment of employees in regards to the terms and conditions of employment and to develop the employees' skills and knowledge. We emphasise on employee development through on jobs training and learning via internal and external courses for the retention and maintenance of skilled labour.



Average hours of training per employee for Supervisory and above category and Operatives Category

HUMAN RIGHTS

In accordance with the United Nations Universal Declaration on Human Rights, human rights are defined as to include the right to:

- not to be discriminated against;
- not be enslaved;
- be treated with dignity;
- to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay; and
- have freedom of opinion and expression.

Kim Hin has a responsibility to respect all human rights. To respect human rights means, in the first place, to not infringe the rights of others. As our commitment, we have made provisions in our Code of Conduct and Ethics to reflect our policies and procedures in managing human rights issues. We proactively manage the following human rights issues:

<u>Non-discriminatory employment practices</u>

We are committed to equal employment opportunity and fair employment practices without discrimination against race, ethnic group, gender, religion, sexual orientation, disability, age, marital status and pregnant status. Beyond legal compliance, we strive to create an environment that is considerate and respectful towards one another.

<u>Child labour</u>

We comply with all applicable child labour laws including those related to hiring, wages, work hours, overtime and working condition.

<u>Forced labour</u>

We hire applicants who seek employment on a voluntary basis. We do not use any form of forced labour or labour acquired through human trafficking or indentured labour, forced prison labour or slave labour.

<u>Freedom of association</u>

We respect employees' right to join or form trade union of their choice, and to bargain collectively.

SUSTAINABILITY STATEMENT

DIVERSITY

The Board has formalised the Boardroom and Workforce Diversity Policy on 15 April 2015.

Principles of the Boardroom Diversity Policy

The Group recognises and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, age, race, gender and other qualities of Directors. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately.

All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires to be effective.

Principles of Workforce Diversity Policy

The Group is committed to providing an inclusive workplace that embraces and promotes diversity.

(i) The Group values, respects and leverages the unique contributions of people with diverse backgrounds, experiences and perspectives to provide exceptional service to an equally diverse community; and
(ii) The Group recognises the benefits arising from employee and board diversity, including a broader pool of high quality employees, improving employee retention, accessing different perspectives and ideas and benefiting from all available talent. Diversity includes, but is not limited to, gender, age, ethnicity and cultural background.

Workforce diversity for 2018 for Kuching Headquarters

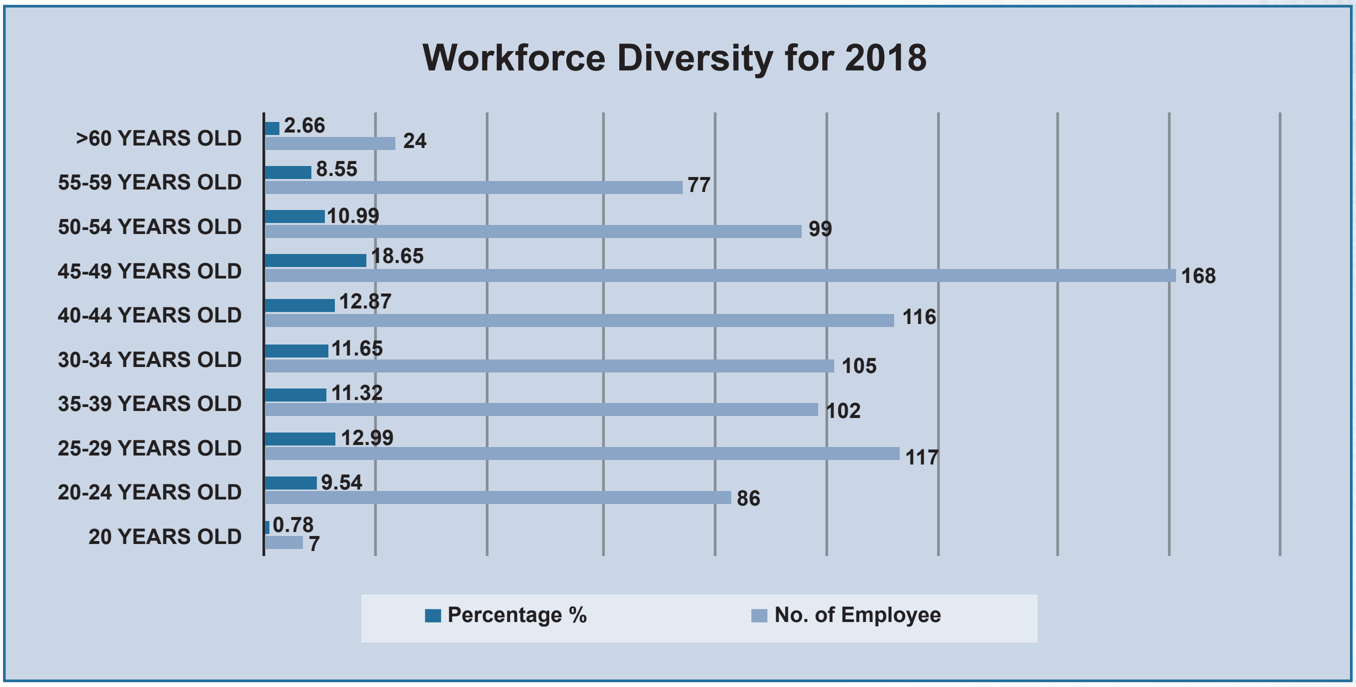
Ethnicity	Total number of employee		Management*		Non-management		Ethnicity Percentage (%)	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Bumiputera	722	752	10	12	712	738	80.13	80.34
Chinese	178	183	58	52	120	133	19.76	19.55
Indian	-	-	-	-	-	-	0.00	0.00
Non-Malaysian	1	1	1	1	-	-	0.11	0.11
Total	**901**	**936**	**69**	**65**	**832**	**871**	**100.00**	**100.00**

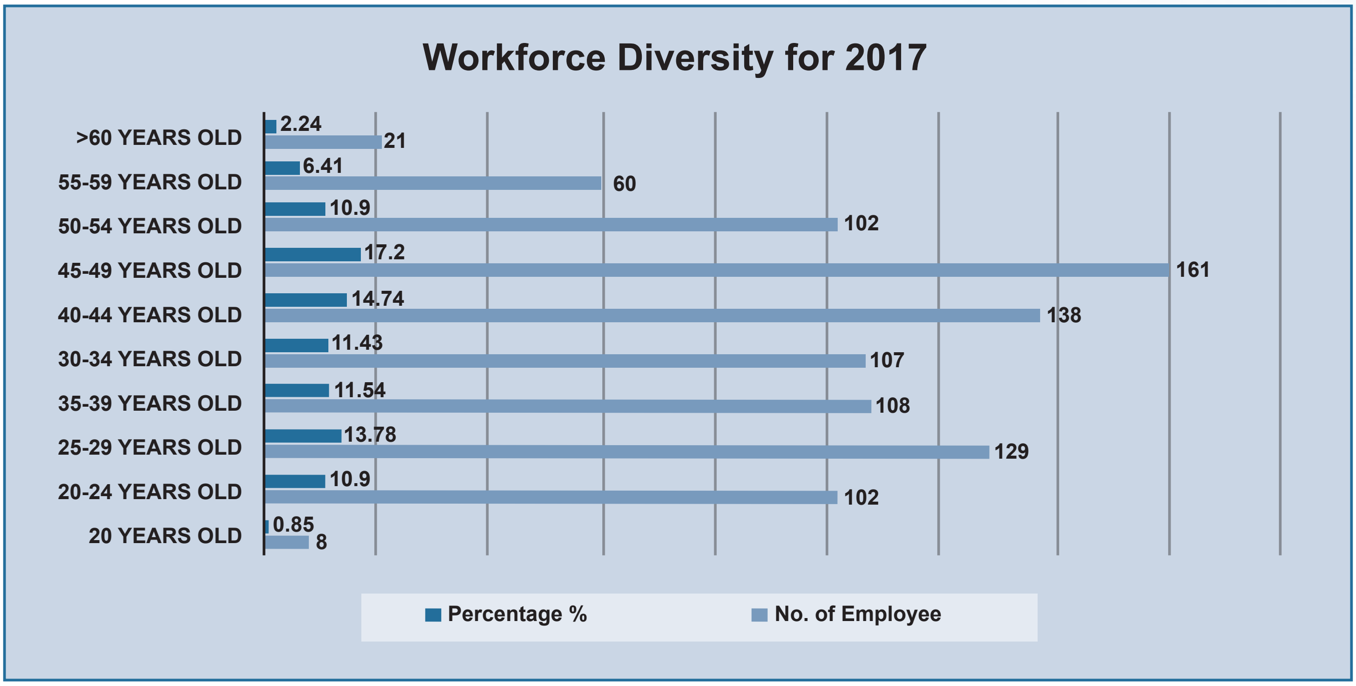
Gender	Total number of employee		Management*		Non-management		Gender Percentage (%)	
Male	622	649	34	35	588	614	69.03	69.34
Female	279	287	35	30	244	257	30.97	30.66
Total	**901**	**936**	**69**	**65**	**832**	**871**	**100.00**	**100.00**

Note
* Management denotes Executive level and above

SUSTAINABILITY STATEMENT

The diagram below shows the workforce diversity for 2018 and 2017 of our Kuching Headquarters.





SUSTAINABILITY STATEMENT

SOCIAL ENGAGEMENT

EDUCATIONAL TOURS

Swinburne University of Technology on 19 February 2019 in Kuching

Twenty (20) students and lecturers had an educational tour in Kuching on 19th February 2019. They were from the Faculty of Engineering, Computing and Science from Swinburne University of Technology. The Melbourne campus comprised 12 students and Sarawak, 6. Each campus was lead by a lecturer respectively. The objective of their visit was to "expose the participants to manufacturing processes, innovative culture, code of ethics, as well as occupational safety and health (OSH) practiced" in our company.

SEGI University on 28th March 2019 in Seremban

Thirteen (13) students headed by a lecturer paid a visit to Kim Hin Ceramic (Seremban) Sdn Bhd on 28th March 2019. They were from the Faculty of Engineering and Built Environment, SEGI University, Kota Damansara. These students are pursuing Quantity Surveying and the aim of their visit is "to enrich their academic knowledge and expose themselves to practical experiences" as part of their Bachelor's degree programme. This educational tour is to fulfil their requirement of visiting a production facility of scale for analysis and exposure.

SUSTAINABILITY STATEMENT

SPONSORSHIP

Sponsored tiles to SK Song Kheng Hai in Kuching

We provided free tiles to 18 classrooms of SK Song Kheng Hai in Kuching. This is to provide a clean and cosy environment for the students.

SK Song Kheng Hai School Parent-Teacher Association (PTA) invited our company to an award ceremony on 15 February 2019. Charmaine Pan (PA to EC) and Chong Wei Ing (Senior Executive) represented our company to accept the plaque handed out by the President of the PTA.

Sponsored a new passenger van to Home of Peace, Kuching

An amount of RM10,000 was donated to Home of Peace, Kuching. The donation was handed over to Mr. Jacob Wong from Home of Peace on 18 December 2018 together with other donors, to part sponsor the cost of a new passenger van purchased by the Home, who provides shelter and care to the elderly poor irrespective of race, religion and gender.

Left photo: from left to right: Mr Peter Wong, RH Vision Sdn Bhd-major donor; Stephen Ang; YB Ir. Lo Khere Chiang-Chairman of Padawan Municipal Council; Mr Jacob Wong, Home of Peace. Right photo shows the key handover ceremony.

Kim Hin Social, Welfare and Recreation Club

Our Sport Club, Kim Hin Social, Welfare and Recreation Club ("Kimgres Club") took part in Kuching Autistic Association 15th Charity Food Fair, held on 29 July 2018. The involvement in the charity activity was part of our employees' initiatives towards the national will of building a caring society and fulfilling our corporate social responsibility.

PROFILE OF DIRECTORS

CHUA SENG HUAT
Executive Chairman

58 years of age
Malaysian
Male

Mr. Chua Seng Huat holds a Bachelor of Business Administration degree from the University of Hawaii, Honolulu, USA. He was first appointed to the Board of Kim Hin Industry Berhad on 2 October 1981 and was actively engaged in the operations of the Company and in the strategic business planning and was promoted to the post of Executive Chairman in 1998. He resigned as a Director in June 2001 and later was re-appointed to the Board and resumed the post of the Executive Chairman on 28 August 2006. He is a member of the Remuneration Committee.

He attended all of the five (5) Board Meetings held during the financial year ended 31 December 2018.

Mr. Chua Seng Huat is the brother of Dato' John Chua Seng Chai, Mr. Chua Seng Guan, Mdm. Pauline Getrude Chua Hui Lin and Mdm. Chua Yew Lin who are also the Directors of the Company.

DATO' JOHN CHUA SENG CHAI
Group Managing Director

61 years of age
Malaysian
Male

Dato' John Chua Seng Chai holds a Bachelor of Arts (Economics) Honours degree from the University of Warwick, United Kingdom. He was appointed to the Board as the Production Director on 2 October 1981. He is a member of the Risk Management Committee and Option Committee.

He attended all of the five (5) Board Meetings held during the financial year ended 31 December 2018.

Dato' John Chua Seng Chai is the brother of Mr. Chua Seng Huat, Mr. Chua Seng Guan, Mdm. Pauline Getrude Chua Hui Lin and Mdm. Chua Yew Lin who are also Directors of the Company.

CHUA SENG GUAN
Group Executive Director

61 years of age
Malaysian
Male

Mr. Chua Seng Guan graduated with a Bachelor of Arts, Honours degree in Business Law from the City of London Polytechnic, United Kingdom and was called to the Bar at Gray's Inn at the end of 1983. After he had chambered and worked at Gray's Inn and Inner Temple, he returned to Malaysia and joined the Company as the Marketing Director on 22 October 1985. He is a member of the Risk Management Committee.

He attended four (4) of the five (5) Board Meetings held during the financial year ended 31 December 2018.

Mr. Chua Seng Guan is the brother of Mr. Chua Seng Huat, Dato' John Chua Seng Chai, Mdm. Pauline Getrude Chua Hui Lin and Mdm. Chua Yew Lin who are also Directors of the Company.

PROFILE OF DIRECTORS

PAULINE GETRUDE CHUA HUI LIN
Executive Director

57 years of age
Malaysian
Female

Madam Pauline Getrude Chua Hui Lin has completed her secondary education in Kuching and she joined the Company in 1980, initially serving in the Accounts Department and was appointed to the Board of Directors of Kim Hin Industry Berhad in 1981 and later as an Alternate Director to Mr. Chua Seng Guan in 1985. Madam Pauline Getrude Chua Hui Lin was later re-appointed as a Director of Kim Hin Industry Berhad on 1 January 1992. She is primarily in-charge of the administration and operating procedures of the Group.

She attended all of the five (5) Board Meetings held during the financial year ended 31 December 2018.

Madam Pauline Getrude Chua Hui Lin is the sister of Mr. Chua Seng Huat, Mr. Chua Seng Guan, Dato' John Chua Seng Chai and Mdm. Chua Yew Lin who are also Directors of the Company.

CHUA YEW LIN

Executive Director
56 years of age
Malaysian
Female

Madam Chua Yew Lin has completed her secondary education in Kuching. She joined the Company in 1980 as Office Manager and was later promoted as a Director on 2 October 1981. She oversees the overall financial and treasury operations of the Group.

She attended all of the five (5) Board Meetings held during the financial year ended 31 December 2018.

Mdm. Chua Yew Lin is the sister of Mr. Chua Seng Huat, Mr. Chua Seng Guan, Dato' John Chua Seng Chai and Mdm. Pauline Getrude Chua Hui Lin who are also Directors of the Company.

FONG TSHU KWONG
Independent Director

61 years of age
Malaysian
Male

Mr. Fong Tshu Kwong is a Chartered Accountant (Malaysia) and a member of the Malaysian Institute of Certified Public Accountants, Malaysian Institute of Accountants and Malaysian Institute of Corporate Governance.

He started his career in Ernst & Young and has over 18 years of professional experience in accounting, secretarial, assurance and advisory business services, taxation, management consultancy and corporate advisory services in London and Malaysia offices. From April 1996 to June 2009, he was the Managing Director of OMG Electronic Chemicals (M) Sdn Bhd, a wholly-owned subsidiary of OM Group Inc., USA, a NYSE listed company.

Mr. Fong Tshu Kwong was appointed to the Board as an Independent Non-Executive Director on 21 May 2001. He is a member of the Audit Committee, Risk Management Committee, Nomination Committee, Remuneration Committee and Option Committee.

He attended all of the five (5) Board Meetings held during the financial year ended 31 December 2018.

PROFILE OF DIRECTORS

ONG AH BA

Independent Director
61 years of age
Malaysian
Male

Mr. Ong Ah Ba completed his Form 6 and Higher School Certificate in 1978.

He joined Khong Guan Group in early 1979. He started his career as a Management Trainee at Khong Guan Biscuit Factory (Singapore) Pte. Ltd. From 1980 to 1988, he served in Khong Guan Biscuit Factory (Borneo) Sdn Bhd and Sasinco Sdn Bhd.

He was transferred to work in Borneo Biscuit Factory Sdn Bhd in 1988. Currently, Mr. Ong Ah Ba is the General Manager of Borneo Biscuit Factory Sdn Bhd and Executive Director of Sunshine Traders Sdn Bhd which is a subsidiary company of Borneo Biscuit Factory Sdn Bhd. He is also a director of Chung Ying Confectionary & Food Products Sdn Bhd in Sandakan, one of the biscuit factories of Khong Guan Group.

He was appointed as an Independent Director and a member of the Audit Committee on 8 December 2009. Additionally, he was also appointed by the Board as a member of the Nomination Committee, Remuneration Committee and Option Committee on 27 February 2012.

He attended all of the five (5) Board Meetings held during the financial year ended 31 December 2018.

YONG LIN LIN

Independent Director
59 years of age
Malaysian
Male

Mr. Yong Lin Lin obtained his Diploma in Electrical and Electronic Engineering, Full Technical Certificate in City & Guild, England in 1985.

He joined Weida Resources Sdn Bhd from 1985 to 2003. Weida Resources Sdn Bhd was later listed on the Bursa Malaysia Securities Berhad as Weida (M) Bhd in 2000. He was an Executive Director of Weida (M) Bhd until August 2003.

Mr. Yong Lin Lin later attached with Naim Utilities Sdn Bhd as an Executive Director from 2006 – 2008.

In 2008, he was appointed as a director of Tenaga Suria Hybrid Sdn Bhd.

He was appointed as an Independent Director and a member of the Audit Committee on 21 August 2013.

He attended all of the five (5) Board Meetings held during the financial year ended 31 December 2018.

Save as disclosed, none of the Directors has

(i) any family relationship with any Director and/or major shareholder of the Company;
(ii) any conflict of interest with the Company; and
(iii) any conviction of offences within the past 5 years other than traffic offences.

PARTICULARS OF KEY SENIOR MANAGEMENT

1. ANG PEK LAY • General Manager, Kimgres Marketing Sdn Bhd

Nationality / age / gender: Malaysian / 55 / Female Date of appointment: 1 October 2015	Academic / professional qualification(s): • Master in International Business Present Directorship: Listed entity: Nil Other public companies: Nil Working experience: • Worked in H&R Johnson for 3 years (1989-1992) • Joined Kimgres Marketing Sdn Bhd since 1993

2. PETER CHIAM TAU MIEN • Chief Financial Officer, Kim Hin Industry Berhad

Nationality / age / gender: Malaysian / 47 / Male Date of appointment: 1 January 2014	Academic / professional qualification(s): • Chartered Accountant (Malaysia) • Fellow of Association of Chartered Certified Accounts (“ACCA”) (UK) Present Directorship: Listed entity: Nil Other public companies: Nil Working experience: • He started his career in Ernst & Young, Kuching in 1995 and has about 10 years of professional experience in accounting, assurance and advisory business services, taxation and corporate advisory services. • Joined Kim Hin Industry Berhad as Group Finance Manager on 1 August 2005.

3. CHUA BAN CHOON @ CHUA CHUI KIM • Director & General Manager, Kim Hin Ceramics (Shanghai) Co. Ltd. Operation Manager, Kim Hin Industry Berhad

Nationality / age / gender: Malaysian / 65 / Male Date of appointment: 1995	Family relationship with any director and/or major shareholder • He is the uncle of the Executive Directors* Present Directorship: Listed entity: Nil Other public companies: Nil Working experience: • Has wide experience in the ceramic tiles industry and received his training. with several large ceramic manufacturing companies in Taiwan. • Joined Kim Hin Industry Berhad in 1974.

4. WINNIE HO • Personal Assistant to Group Managing Director, Kim Hin Industry Berhad

Nationality / age / gender: Malaysian / 52 / Female Date of appointment: 1 October 2006	Academic / professional qualification(s): • Master of Business Administration Present Directorship: Listed entity: Nil Other public companies: Nil Working experience: • Started as a legal clerk in an advocate firm in 1986. Moved on to a management consultancy firm in 1992 as a secretary. • Joined Kim Hin Industry Berhad in April 2000.

PARTICULARS OF KEY SENIOR MANAGEMENT

5. CAI CHUN HUI • Vice General Manager, Kim Hin Ceramics (Shanghai) Co. Ltd.

Nationality / age / gender: Chinese / 50 / Female	Academic / professional qualification(s): • University graduate Family relationship with any director and/or major shareholder • She is the cousin of the Executive Directors*
Date of appointment: 1995	Present Directorship: Listed entity: Nil Other public companies: Nil Working experience: • Has 25 years of experience in the ceramic tiles industry

6. AHMAD BAKHTIAR BIN ABU BAKAR • Finance and Administration Manager, Kim Hin Ceramics (Seremban) Sdn Bhd

Nationality / age / gender: Malaysian / 60 / Male	Academic / professional qualification(s): • Master in Science (Operational Research) • Bachelor of Science in Finance
Date of appointment: 1 December 2007	Present Directorship: Listed entity: Nil Other public companies: Nil Working experience: • Has 29 years of experience in the ceramic tiles industry. • Joined Kim Hin Ceramics (Seremban) Sdn Bhd on 1 October 1989.

7. CHARLINE PAN LING HWEN • Director and Chief Executive Officer, Johnson Tiles Pty Ltd

Nationality / age / gender: Malaysian / 29 / Female	Academic / professional qualification(s): • Bachelor of Commerce (Accounting & Finance) • Certified Public Accountants (Australia)
Date of appointment: 2016	Family relationship with any director and/or major shareholder • She is the daughter of Mdm Pauline Getrude Chua Hui Lin Present Directorship: Listed entity: Nil Other public companies: Nil Working experience: • Has joined Kimgres Australia Pty Ltd (“KA”) since 2012 • appointed as CEO/General Manager of KA in 2013 and oversees the entire operations of KA. • Appointed as CEO of Johnson Tiles Pty Ltd in 2016

1. Save for Chua Ban Choon @ Chua Chui Kim, Cai Chun Hui and Charline Pan Ling Hwen, none of the Key Senior Management personnel has any family relationship with any Director and/or major shareholder of Kim Hin Industry Berhad.

2. None of the Key Senior Management personnel has:
   - any conflict of interest with Kim Hin Industry Berhad;
   - any conviction for offences within the past 5 years other than traffic offences; and
   - any imposition of penalty by the relevant regulatory bodies during the financial year ended 31 December 2018.

Note
* Executive Directors are Mr Chua Seng Huat, Dato’ John Chua Seng Chai, Mr Chua Seng Guan, Mdm Pauline Getrude Chua Hui Lin and Mdm Chua Yew Lin.

STATEMENT OF DIRECTORS' RESPONSIBILITY IN PREPARING ANNUAL AUDITED FINANCIAL STATEMENTS

In preparing the financial statements of the Group and of the Company, the Directors are collectively responsible:

1) for ensuring that the financial statements are drawn up in accordance with the provisions of the Companies Act 2016, applicable Financial Reporting Standards in Malaysia and the Listing Requirements of Bursa Malaysia Securities Berhad.

2) for ensuring that the financial statements for each financial year, gives a true and fair view of the financial position of the Group and of the Company at the end of the financial year.

3) for ensuring the adoption of suitable and relevant accounting policies on a consistent basis supported by judgements and estimates that are prudent and reasonable.

4) for ensuring the Group and the Company maintain accounting records which disclose with reasonable accuracy of the financial position of the Group and of the Company.

5) for taking such steps that are reasonably available to them to safeguard the assets of the Group and of the Company, and to prevent and detect fraud and other irregularities.

ADDITIONAL COMPLIANCE INFORMATION

The following information is presented in compliance with the Bursa Malaysia Securities Berhad Listing Requirements:

AUDIT AND NON-AUDIT FEES

The fees paid/payable to the external auditors for the financial year ended 31 December 2018 are set out below:

	Company RM'000	Group RM'000
Fees paid/payable to Messrs Ernst & Young & its affiliates	85	364
Statutory Audit	19	50
Non-audit services including tax services		
Fees paid/payable to other auditors		
• Statutory Audit	-	250
• Non-audit services including tax services	-	86
Total	104	750

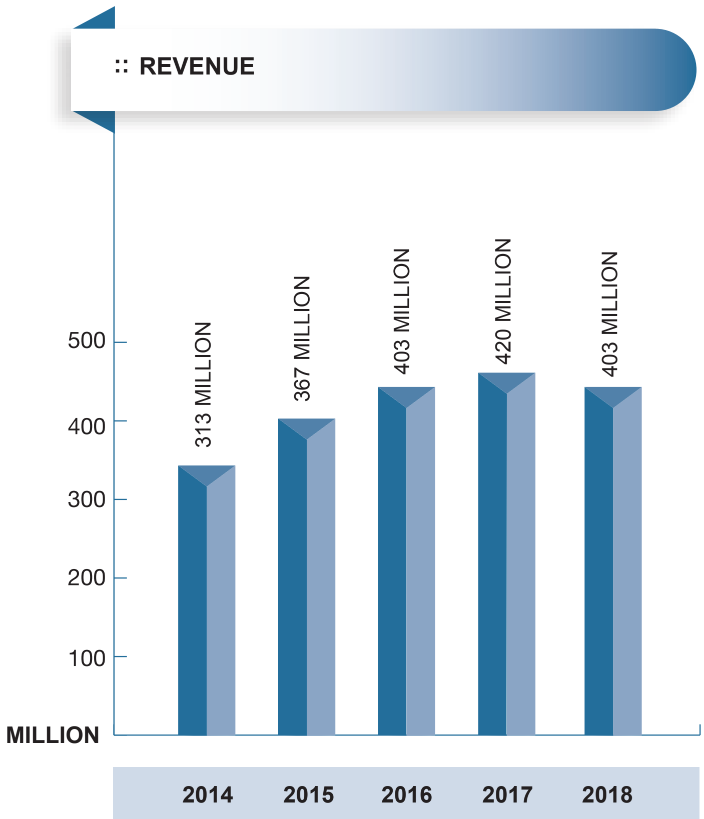
MATERIAL CONTRACTS

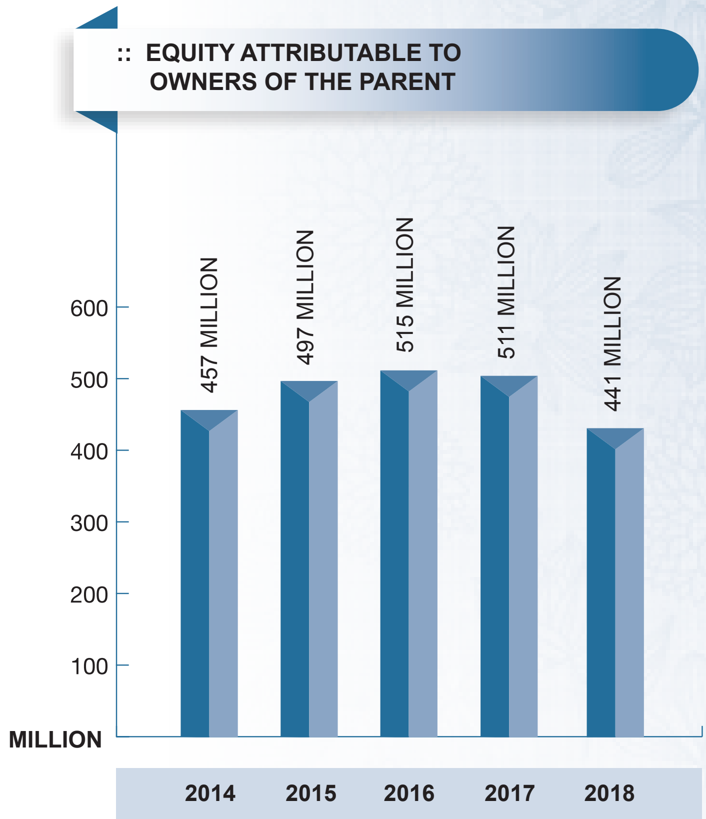
There was no material contract entered into by the Company and its subsidiary companies involving the directors and major shareholders' interest during the financial year.

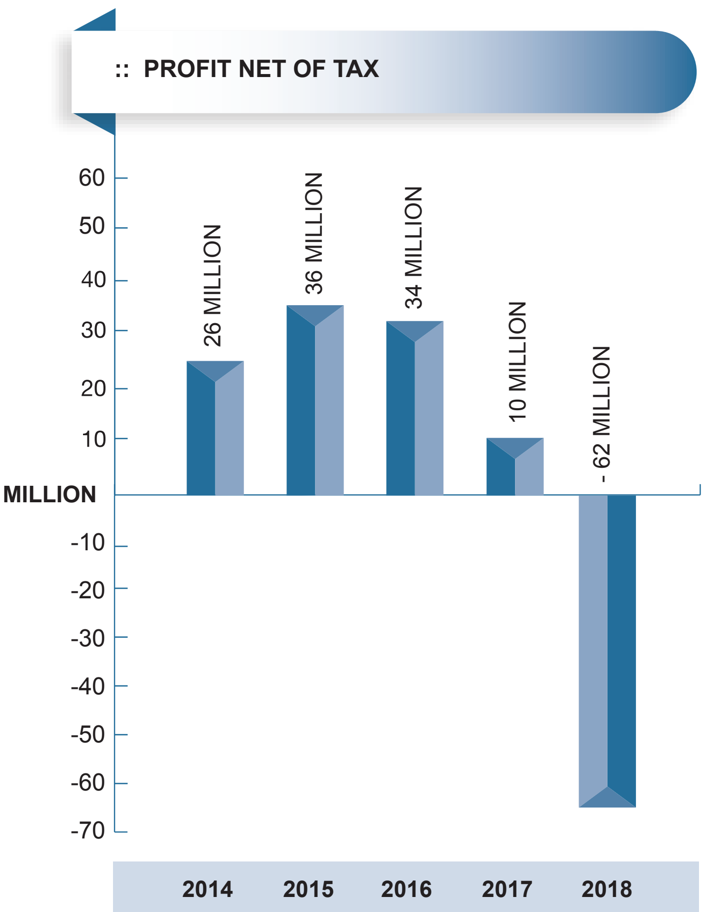
RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

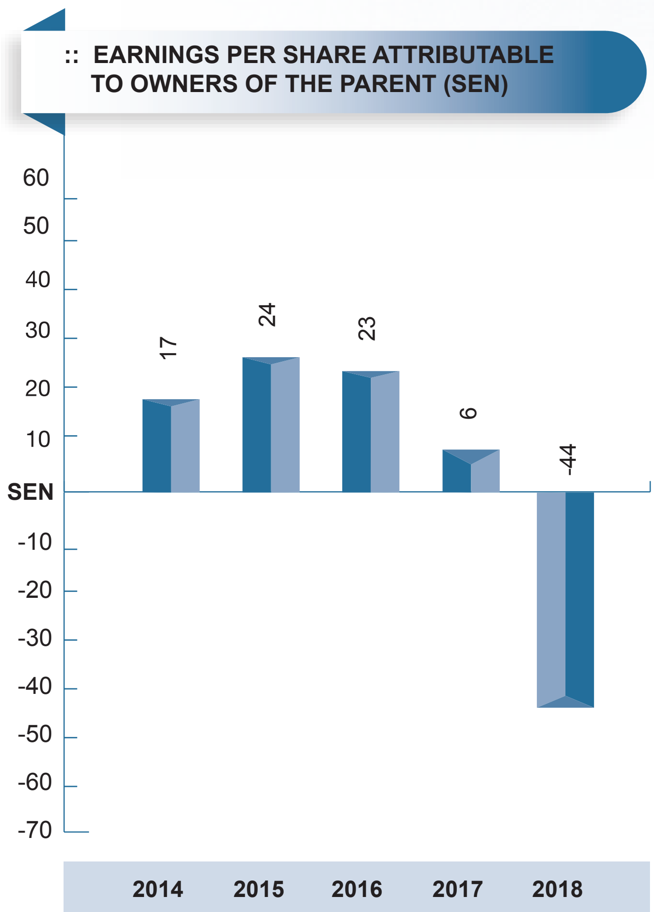
Please refer to Note 31 of the Audited Financial Statement on page 116 for the breakdown of the aggregate value of Recurrent Related Party Transactions conducted during the financial year ended 31 December 2018 pursuant to the Shareholders' mandate.

FINANCIAL HIGHLIGHTS







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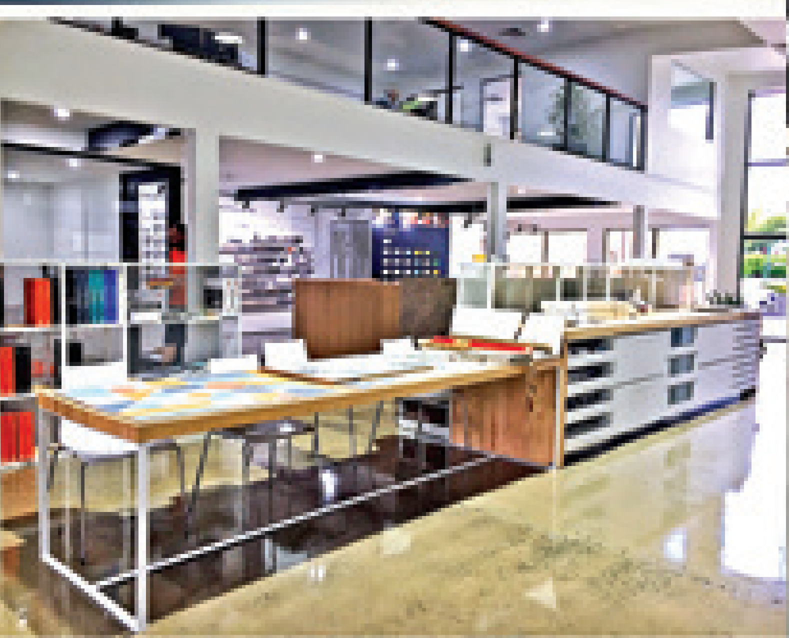

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2018.

Principal activities

The principal activities of the Company are investment holding and the provision of management services. The principal activities of the subsidiaries are set out in Note 15 to the financial statements. There have been no significant changes in the nature of the principal activities during the financial year.

Results

	Group RM'000	Company RM'000
(Loss)/profit net of tax	(61,547)	4,103
(Loss)/profit attributable to:		
Owners of the parent	(62,292)	4,103
Non-controlling interests	745	-
	(61,547)	4,103

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than the effect arising from the impairment of assets as disclosed in Note 7 to the financial statements.

Dividends

The amounts of dividends paid by the Company since 31 December 2017 were as follows:

	RM'000
In respect of the financial year ended 31 December 2018:	
Interim tax exempt dividend of 2.0 sen per ordinary share, on 140,239,113 ordinary shares, declared on 11 June 2018 and paid on 26 June 2018	2,805

The directors do not recommend any payment of final dividend in respect of the current financial year.

Directors

The directors of the Company in office since the beginning of the financial year and up and to the date of this report are:

Chua Seng Huat **	(Executive Chairman)
Dato' John Chua Seng Chai **	(Group Managing Director)
Chua Seng Guan **	(Group Executive Director)
Chua Yew Lin **	
Pauline Getrude Chua Hui Lin **	
Fong Tshu Kwong @ Fong Tshun Kwong	
Ong Ah Ba	
Yong Lin Lin	

** These directors are also directors of the Company's subsidiaries.

DIRECTORS' REPORT

Directors (contd)

The directors of the Company's subsidiaries in office since the beginning of the financial year and up to the date of this report (not including those directors listed above) are:

Meera Sen Mei-Li
Vincent Gerald Khoo
Chua Chui Kim
Cicy Cai Chun Hui
Wang Chin Chieh
Wang Chin Hsiang
Charline Pan Ling Hwen
Shirley Liew Siaw Nee
Stephen James Purcell
Ngui Sam Ted
David Chua Kee Yong

Directors' benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as disclosed in Note 9 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member, or with a company in which he has a substantial financial interest, except as disclosed in Note 31 to the financial statements.

Details of directors' remuneration for the financial year are disclosed in Note 9 to the financial statements.

Indemnification of directors and officers

The Group maintains a liability insurance for its directors and officers. The amount of insurance premium effected for the directors and officers of the Group and the Company during the financial year was RM10,500 in relation to its Malaysian operations. The directors and officers shall not be indemnified by such insurance for any negligence, fraud, intentional breach of the law or breach of trust proven against them.

There were no payments of indemnification during the financial year and up to the date of this report.

Directors' interests

According to the register of directors' shareholdings, the interests of the directors in office at the end of the financial year in shares in the Company and its related corporation during the financial year were as follows:

(a) Shareholdings in the Company registered in the name of directors:

	Number of ordinary shares At 1.1.2018 and 31.12.2018
Chua Seng Huat	1,113,225
Dato' John Chua Seng Chai	524,650
Chua Seng Guan	566,000
Chua Yew Lin	242,400
Pauline Getrude Chua Hui Lin	328,900
Fong Tshu Kwong @ Fong Tshun Kwong	20,000
Ong Ah Ba	10,000

DIRECTORS' REPORT

Directors' interests (contd)

(b) Shareholdings in which directors are deemed to have an interest:

Indirect interest	**Number of ordinary shares At 1.1.2018 and 31.12.2018**
Chua Seng Huat	86,189,825
Dato' John Chua Seng Chai	86,189,825
Chua Seng Guan	86,189,825
Chua Yew Lin	86,189,825
Pauline Getrude Chua Hui Lin	86,204,175

By virtue of their substantial indirect interest in the shares of the Company, the aforementioned directors are also deemed interested in shares in all the Company's subsidiaries to the extent the Company has an interest.

Other statutory information

(a) Before the statements of profit or loss and other comprehensive income and statements of financial position of the Group and of the Company were made out, the directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of an allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

(i) the amount written off for bad debts or the amount of allowance for doubtful debts in respect of the financial statements of the Group and of the Company inadequate to any substantial extent; and

(ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

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

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

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

(ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.

(f) In the opinion of the directors:

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

DIRECTORS' REPORT

Holding company

The holding company is Kim Hin (Malaysia) Sdn. Bhd., a company incorporated and domiciled in Malaysia, with its registered office located at 4½ Mile, Kung Phin Road, Off Penrissen Road, 93250 Kuching.

Auditors

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Auditors' remuneration are disclosed in Note 7 to the financial statements.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement against claims by third parties arising from the audit for an unspecified amount. No payment has been made to indemnify Ernst & Young during or since the financial year.

Signed on behalf of the Board in accordance with a resolution of the directors dated 15 April 2019.

Chua Seng Huat | **Dato' John Chua Seng Chai**

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, **Chua Seng Huat** and **Dato' John Chua Seng Chai,** being two of the directors of **Kim Hin Industry Berhad**, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 57 to 125 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 at 31 December 2018 and of their financial performances and their cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 15 April 2019.

Chua Seng Huat **Dato' John Chua Seng Chai**

STATUTORY DECLARATION
PURSUANT TO SECTION 251(1)(B) OF THE COMPANIES ACT 2016

I, **Peter Chiam Tau Mien**, being the officer primarily responsible for the financial management of **Kim Hin Industry Berhad**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 57 to 125 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed **Peter Chiam Tau Mien**
at Kuching in the State of Sarawak
on 15 April 2019

Peter Chiam Tau Mien **(MIA 14085)**

Before me,

Phang Dah Nan
Commissioner of Oath

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KIM HIN INDUSTRY BERHAD (INCORPORATED IN MALAYSIA)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Kim Hin Industry Berhad, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, and statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 57 to 125.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 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 report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. We have determined that there are no key audit matters to communicate in our report on the financial statements of the Company. The key audit matters for the audit of the financial statements of the Group are described below. 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. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis of our audit opinion on the accompanying financial statements.

Goodwill

The Group's goodwill amounting to RM9.2 million, which arose from the acquisition of a subsidiary engaged in the manufacture and sales of ceramic tiles in prior years, was fully impaired during the financial year as disclosed in Note 17 to the financial statements. The goodwill was impaired due to the slowdown in the construction and property development sector in Malaysia which has led to weak financial performance of the subject subsidiary. The annual impairment test for goodwill is significant to our audit as the assessment process is complex, highly judgmental and the quantum involved is material to the Group.

The Group estimated the recoverable amount of the cash-generating units ("CGU") to which the goodwill was allocated based on the value-in-use ("VIU"). Estimating the VIU of the CGU involved estimating the future cash inflows and outflows that will be generated by the CGU, and discounting it at an appropriate rate. Significant judgement was required in determining the assumptions to be used to estimate the recoverable amount of the CGU to which the above goodwill had been allocated to and was based on assumptions that are affected by expected future demand or economic conditions. The assumptions used included estimates of future sales volume, prices, operating costs and discount rate.

Our audit procedures, among others, included assessing whether the assumptions on which the cash flow projections were based were consistent with past actual outcomes, in particular the assumptions about estimated revenue growth rates and possible variations in the timing of those future cash flows.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KIM HIN INDUSTRY BERHAD (INCORPORATED IN MALAYSIA)

Report on the audit of the financial statements (contd)

Key audit matters (contd)

Goodwill (contd)

We also assessed the discount rate, to determine the present value of the cash flows and whether the rate used reflects the current market assessments of the time value of money and the risks specific to the asset is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expected to derive from the asset.

In addition, we also evaluated the adequacy of the disclosures of the key assumptions on which the Group had based its cash flow projections. Key assumptions are those to which the unit's recoverable amount is most sensitive and are disclosed in Note 17 to the financial statements.

Impairment review of property, plant and equipment ("PPE")

The Group is required to perform impairment test of PPE whenever there is an indication that these PPE may be impaired by comparing the carrying amount with their recoverable amount.

Two subsidiaries of the Group are principally engaged in the manufacture and sale of ceramic tiles and have been incurring operating losses. The slowdown in the construction and property development sector in Malaysia has led to the reduction in their operating activities and continue to dampen profitability. These are indications that the PPE of these subsidiaries may be impaired. The carrying amount of PPE of these two subsidiaries, prior to current year impairment review, was RM125.4 million which represented 60% of the Group's total PPE.

The Group has determined the recoverable amount of these PPE based on their VIU. The VIU were based on the discounted future net cash inflows estimated to be generated by the PPE. The carrying amount of these PPE is significant to the audit due to their quantum and significant judgement and estimates were involved in determining their recoverable amounts. Accordingly, the impairment review of PPE of these two subsidiaries has been identified as a key audit matter.

As part of the audit, we have assessed the reasonableness of the key assumptions used, in particular sale prices, operating costs and the discount rate used. In assessing the discount rate, we have considered the appropriateness of specific inputs such as the risk-free rate, equity risk premium and beta, along with gearing and cost of debt. We also considered the sensitivity of these key assumptions, particularly the discount rate used, operating costs and selling prices as disclosed in Note 13 and 17 to the financial statements.

As at 31 December 2018, the Group has recognised accumulated impairment losses amounting to RM19.2 million as disclosed in Note 13 to the financial statements.

Inventories

As of 31 December 2018, total inventories of the Group amounted to RM165.2 million representing approximately 29% of the Group's total assets and during the current financial year, the Group recorded a write-down of slow moving inventories of RM5.3 million as disclosed in Note 7 to the financial statements. We focused on this area because of the quantum involved and the significant judgement involved in determining the amount of write down required.

Our audit procedures included the evaluation of analyses and assessments made by management with respect to slow moving inventories and management's assumption and method in calculating the write-down. We have tested the net realisable value of the inventories on a sampling basis by comparing their carrying amount to their selling prices based on actual sales made near or subsequent to financial year. We have also assessed the reliability of the inventory aging reports provided by the management and considered the adequacy of the disclosures related to inventories as disclosed in Note 18 to the financial statements.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KIM HIN INDUSTRY BERHAD (INCORPORATED IN MALAYSIA)

Report on the audit of the financial statements (contd)

Information other than the financial statements and auditors' report thereon (contd)

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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Company and take appropriate action.

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 Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

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

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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;

- 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 Group's or the Company's ability 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 achieves fair presentation; and

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KIM HIN INDUSTRY BERHAD (INCORPORATED IN MALAYSIA)

Report on the audit of the financial statements (contd)

Auditors' responsibilities for the audit of the financial statements (contd)

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

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our 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, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 15 to the financial statement.

Other matters

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.

ERNST & YOUNG
AF: 0039
Chartered Accountants

LOW KHUNG LEONG
No. 02697/01/2021 J
Chartered Accountant

Kuching, Malaysia.
15 April 2019

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Revenue	4	402,726	420,278	11,350	13,625
Cost of sales		(294,469)	(281,709)	-	-
Gross profit		108,257	138,569	11,350	13,625
Other income	5	6,637	13,917	5,422	8,755
Selling and distribution costs		(52,095)	(49,943)	-	-
Administrative expenses		(102,133)	(72,767)	(8,212)	(8,379)
Other expenses		(14,517)	(10,080)	(4,024)	(488)
Operating (loss)/profit		(53,851)	19,696	4,536	13,513
Finance costs	6	(1,265)	(1,437)	-	-
(Loss)/profit before tax	7	(55,116)	18,259	4,536	13,513
Income tax expense	10	(6,431)	(8,708)	(433)	(765)
(Loss)/profit net of tax		(61,547)	9,551	4,103	12,748
Other comprehensive income:					
Other comprehensive income that will be reclassified to profits or loss in subsequent periods (net of tax):					
Exchange translation differences on foreign subsidiaries		(4,888)	(4,502)	-	-
Other comprehensive income for the year, net of tax		(4,888)	(4,502)	-	-
Total comprehensive income for the year		(66,435)	5,049	4,103	12,748
(Loss)/profit attributable to:					
Owners of the parent		(62,292)	8,022	4,103	12,748
Non-controlling interests		745	1,529	-	-
		(61,547)	9,551	4,103	12,748
Total comprehensive income attributable to:					
Owners of the parent		(66,719)	4,149	4,103	12,748
Non-controlling interests		284	900	-	-
		(66,435)	5,049	4,103	12,748
(Loss)/earnings per share attributable to owners of the parent (sen):	11				
- Basic / Diluted		(44.42)	5.72		

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	13	189,131	220,886	23,675	25,890
Investment properties	14	27,554	20,214	19,865	20,214
Investment in subsidiaries	15	-	-	197,371	162,521
Other investments	16	22,170	27,770	22,170	27,770
Intangible assets	17	15,749	24,967	-	-
Deferred tax assets	25	3,270	7,076	-	-
		257,874	300,913	263,081	236,395
Current assets					
Inventories	18	165,244	176,965	-	-
Trade and other receivables	19	78,489	104,110	96,528	132,086
Other current assets	20	4,642	5,118	9	6
Tax recoverable		4,434	1,884	1,415	1,363
Derivative assets	26	-	426	-	-
Other investments	16	-	2,496	-	-
Cash and bank balances	21	53,817	58,463	6,083	1,067
		306,626	349,462	104,035	134,522
TOTAL ASSETS		564,500	650,375	367,116	370,917
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	22	206,658	206,658	206,658	206,658
Treasury shares	22	(24,309)	(24,309)	(24,309)	(24,309)
Other reserves	23	11,996	16,061	-	-
Retained earnings		246,803	312,262	182,628	181,330
		441,148	510,672	364,977	363,679
Non-controlling interests		16,914	17,870	-	-
Total equity		458,062	528,542	364,977	363,679
Non-current liabilities					
Loans and borrowings	24	18,963	21,822	-	-
Deferred tax liabilities	25	4,795	4,802	70	77
Provisions	28	427	1,353	-	-
Deferred capital grant	29	192	395	-	-
		24,377	28,372	70	77
Current liabilities					
Loans and borrowings	24	4,018	2,889	-	-
Trade and other payables	27	71,572	82,453	1,996	7,090
Provisions	28	3,701	2,951	73	71
Derivative liabilities	26	930	-	-	-
Deferred capital grant	29	203	203	-	-
Tax payable		1,637	4,965	-	-
		82,061	93,461	2,069	7,161
Total liabilities		106,438	121,833	2,139	7,238
TOTAL EQUITY AND LIABILITIES		564,500	650,375	367,116	370,917

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	← Attributable to equity holders of the Company						→		
		Share capital (Note 22) RM'000	Share premium RM'000	Treasury shares (Note 22) RM'000	Reserve and enterprise expansion funds (Note 23) RM'000	Translation adjustment account (Note 23) RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
At 1 January 2018		206,658	-	(24,309)	4,219	11,842	312,262	510,672	17,870	528,542
Loss net of tax		-	-	-	-	-	(62,292)	(62,292)	745	(61,547)
Other comprehensive income		-	-	-	-	(4,427)	-	(4,427)	(461)	(4,888)
Total comprehensive income		-	-	-	-	(4,427)	(62,292)	(66,719)	284	(66,435)
Transactions with owners										
Dividends	12	-	-	-	-	-	(2,805)	(2,805)	-	(2,805)
Dividend paid to non-controlling interests		-	-	-	-	-	-	-	(1,240)	(1,240)
Transfer between reserves		-	-	-	374	(12)	(362)	-	-	-
At 31 December 2018		206,658	-	(24,309)	4,593	7,403	246,803	441,148	16,914	458,062

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

		← Attributable to equity holders of the Company →								
	Note	Share capital (Note 22) RM'000	Share premium RM'000	Treasury shares (Note 22) RM'000	Reserve and enterprise expansion funds (Note 23) RM'000	Translation adjustment account (Note 23) RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
At 1 January 2017		155,616	51,042	(24,309)	3,675	15,715	313,198	514,937	19,041	533,978
Profit net of tax		-	-	-	-	-	8,022	8,022	1,529	9,551
Other comprehensive income		-	-	-	-	(3,873)	-	(3,873)	(629)	(4,502)
Total comprehensive income		-	-	-	-	(3,873)	8,022	4,149	900	5,049
Transactions with owners										
Dividends	12	-	-	-	-	-	(8,414)	(8,414)	-	(8,414)
Dividend paid to non-controlling interests		-	-	-	-	-	-	-	(2,071)	(2,071)
Transition to no par value regime on 31 January 2017		51,042	(51,042)	-	-	-	-	-	-	-
Transfer between reserves		-	-	-	544	-	(544)	-	-	-
At 31 December 2017		206,658	-	(24,309)	4,219	11,842	312,262	510,672	17,870	528,542

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	Share capital (Note 22) RM'000	Share premium RM'000	Treasury shares (Note 22) RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2018		206,658	-	(24,309)	181,330	363,679
Profit net of tax, representing total comprehensive income for the year		-	-	-	4,103	4,103
Transactions with owners						
Dividends	12	-	-	-	(2,805)	(2,805)
At 31 December 2018		206,658	-	(24,309)	182,628	364,977
At 1 January 2017		155,616	51,042	(24,309)	176,996	359,345
Profit net of tax, representing total comprehensive income for the year		-	-	-	12,748	12,748
Transition to no par value regime on 31 January 2017		51,042	(51,042)	-	-	-
Transactions with owners						
Dividends	12	-	-	-	(8,414)	(8,414)
At 31 December 2017		206,658	-	(24,309)	181,330	363,679

The accompanying accounting policies and explanatory notes form an integral part of the financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
Operating activities			
(Loss)/profit before tax		(55,116)	18,259
Adjustments for:			
Amortisation of deferred capital grant	5	(203)	(203)
Credit losses on receivables, net	5, 7	380	481
Depreciation of property, plant and equipment	7	23,431	22,012
Depreciation of investment properties	7	349	609
Dividend income	4	(564)	(362)
Gain on disposal of investment property	5	-	(2,062)
Gain on disposal of other investments	5	(126)	(265)
Gain on disposal of property, plant and equipment, net	5, 7	(791)	(222)
Impairment loss on intangible assets	7	9,218	-
Impairment loss on property, plant and equipment	7	19,200	-
Interest expense	6	1,265	1,437
Interest income	5	(276)	(766)
Inventories written down, net	5, 7	5,171	4,297
Inventories written off	7	47	44
Loss/(gain) on fair value changes on instruments at fair value through profit or loss	5, 7	4,198	(3,770)
Property, plant and equipment written off	7	5	30
Unrealised loss on foreign exchange, net	5, 7	1,494	2,806
Operating profit before working capital changes		7,682	42,325
Changes in working capital:			
Inventories		6,503	(26,403)
Receivables		23,960	(20,587)
Other current assets		476	17
Payables		(10,880)	67
Provision		(176)	1,326
Cash generated from/(used in) operations		27,565	(3,255)
Interest paid		(1,265)	(1,437)
Taxes paid, net of refund		(8,709)	(11,015)
Net cash generated from/(used in) operating activities		17,591	(15,707)
Investing activities			
Acquisition of investment properties	14	(7,689)	-
Acquisition of property, plant and equipment	13	(13,407)	(22,194)
Acquisition of other investments		(1,557)	(10,524)
Withdrawal/(placement) in short-term deposits with maturity more than 3 months		2,480	(2,721)
Interest received		276	766
Proceeds from disposal of investment properties		-	28,593
Proceeds from disposal of other investments		7,417	38,063
Proceeds from disposal of property, plant and equipment		1,694	664
Net cash (used in)/generated from investing activities		(10,786)	32,647

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
Financing activities			
Dividend paid		(2,805)	(8,414)
Dividend paid to non-controlling interests		(1,240)	(2,071)
Repayment of lease payables		-	(415)
Repayment of other borrowings		-	(4,526)
Repayment of term loan		(2,780)	(2,699)
Net cash used in financing activities		(6,825)	(18,125)
Net decrease in cash and cash equivalents		(20)	(1,185)
Net foreign exchange difference		(3,196)	(3,450)
Cash and cash equivalents at the beginning of the year		45,086	49,721
Cash and cash equivalents at the end of the year	21	41,870	45,086

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
Operating activities			
Profit before tax		4,536	13,513
Adjustments for:			
Depreciation of property, plant and equipment	7	1,464	1,472
Depreciation of investment properties	7	349	349
Dividend income	4	(10,294)	(12,569)
Gain on disposal of other investments	5	(126)	(265)
Gain on disposal of property, plant and equipment	5	(173)	-
Impairment loss on investments in subsidiaries	7	160	-
Interest income	5	(4,895)	(4,886)
Loss/(gain) on fair value changes on instruments at fair value through profit or loss	5, 7	2,847	(3,344)
Unrealised loss on foreign exchange	7	583	488
Operating loss before working capital changes		(5,549)	(5,242)
Changes in working capital:			
Other receivables		173	(20,278)
Other current assets		(3)	20
Other payables		(5,094)	(18)
Provision		2	2
Cash generated from/(used in) operating activities		(10,471)	(25,516)
Taxes paid, net of refund		(492)	(575)
Net cash generated from/(used in) operating activities		(10,963)	(26,091)
Investing activities			
Acquisition of property, plant and equipment	13	(70)	(72)
Acquisition of other investments		(1,557)	(7,971)
Dividends received		9,730	12,240
Interest received		4,895	4,886
Proceeds from disposal of other investments		5,000	26,346
Proceeds from disposal of property, plant and equipment		994	-
Net cash generated from investing activities		18,992	35,429
Financing activity			
Dividend paid	12	(2,805)	(8,414)
Net increase in cash and cash equivalents		5,224	924
Net foreign exchange difference		(208)	-
Cash and cash equivalents at the beginning of the year		1,067	143
Cash and cash equivalents at the end of the year	21	6,083	1,067

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

1. Corporate information

The Company is a public limited liability company incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Company is located at 4½ Mile, Kung Phin Road, Off Penrissen Road, 93250 Kuching, Sarawak, Malaysia.

The holding company is Kim Hin (Malaysia) Sdn. Bhd., a company incorporated and domiciled in Malaysia, with its registered office located at 4½ Mile, Kung Phin Road, Off Penrissen Road, 93250 Kuching, Sarawak.

The principal activities of the Company are investment holding and the provision of management services. The principal activities of the subsidiaries are disclosed in Note 15. There have been no significant changes in the nature of the principal activities during the financial year.

2. Basis of preparation and summary of significant accounting policies

2.1 Basis of preparation

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

The financial statements of the Group and of the Company have also been prepared on the historical cost basis except otherwise disclosed in the accounting policies below.

These financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand ("RM'000") except when otherwise indicated.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended MFRSs and interpretation which are effective for annual financial periods beginning on or after 1 January 2018.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
MFRS 9: Financial Instruments	1 January 2018
MFRS 15: Revenue from Contracts with Customers	1 January 2018
Amendments to MFRS 140: Transfers of Investment Property	1 January 2018
Annual Improvements to MFRS Standards 2014 - 2017 Cycle:	
(i) Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards	1 January 2018
(ii) Amendments to MFRS 128: Investments in Associates and Joint Ventures	1 January 2018
IC Interpretation 22: Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts	1 January 2018

The initial application of the above did not have any material impact to the financial statements of the Group and of the Company except as disclosed below. As the effect of changes in accounting policies is not material to the statements of financial position as at 1 January 2017, the statements of financial position as at 1 January 2017 are not presented.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Basis of preparation and summary of significant accounting policies (contd)

2.2 Changes in accounting policies (contd)

MFRS 15: Revenue from Contracts with Customers

MFRS 15 supersedes the revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and related interpretations. MFRS 15 establishes a new five-step model that applies to revenue arising from contracts with customers.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Depending on whether certain criteria are met, revenue is recognised over time, in a manner that depicts the performance of the contract; or at a point in time, when control of the goods or services is transferred to the customers.

The Group and the Company adopted MFRS 15 using the full retrospective method. The effect of the adoption of MFRS 15 on the financial statements of the Group and of the Company are as disclosed below:

(a) Sale of goods

The Group contracts with its customers for sales of ceramic tiles and building materials. The Group has concluded that revenue for sales of ceramic tiles and building materials should be recognised at the point in time when the control of the goods is transferred to the customer which generally coincide with the delivery of the goods. Therefore, the adoption of MFRS 15 did not have any impact on the timing of revenue recognition for the sales of goods.

(b) Rendering of delivery services

The Group provides delivery services. These services are bundled together with the sale of goods to customers. Previously, the Group accounted for the bundled sales as one deliverable and recognises revenue at a point in time. Under MFRS 15, the Group assessed that there were two performance obligations in the sale of goods and delivery services and performed a re-allocation of the transaction price based on their relative standalone selling prices which decreased the amount allocated to the sale of goods. The delivery services is recognised over time and its stage of completion is measured using the actual time incurred to date compared to the estimated time needed to complete the delivery services.

However, the identification of delivery services as a separate performance obligation did not have any material impact on the amount and timing of revenue recognised except for the reclassification as follows:

	As previously stated RM'000	Reclassification RM'000	Amounts prepared under MFRS 15 RM'000
Revenue from contracts with customers			
Sales of goods	419,916	(8,460)	411,456
Delivery services	-	8,460	8,460

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Basis of preparation and summary of significant accounting policies (contd)

2.2 Changes in accounting policies (contd)

MFRS 9: Financial Instruments

MFRS 9 Financial Instruments replaces MFRS 139 Financial Instruments: Recognition and Measurement and have been adopted using the full retrospective approach by the Group and the Company.

The impact of the adoption of MFRS 9 is described below:

(a) Classification and measurement

Under MFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through other comprehensive income. The classification is based on two criteria: the Group's and the Company's business models for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of business models of the Group and the Company was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments comprised solely of principal and interest are made based on the facts and circumstances as at the initial recognition of the assets.

The Group and the Company continued measuring at fair value through profit or loss all financial assets previously held at fair value through profit or loss under MFRS 139. The following are the changes in the classification of the Group's and the Company's financial assets:

- Trade and other receivables classified as loans and receivables as at 31 December 2017 were held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debts instruments at amortised cost beginning 1 January 2018.
- The Group and the Company elected to re-designate all available for sale instruments as fair value through profit or loss.

The Group and the Company have not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's and the Company's financial liabilities.

In summary, upon the adoption of MFRS 9, the Group and the Company had the following required or elected reclassifications as at 1 January 2018:

		MFRS 9 measurement category	
		Amortised costs	**Fair value through profit or loss**
Group	RM'000	RM'000	RM'000
MFRS 139 measurement category			
Loans and receivables			
Trade and other receivables	104,110	104,110	-
Cash and bank balances	58,463	58,463	-
Available for sale			
Unquoted structured products	2,496	-	2,496
Fair value through profit or loss			
Derivative assets	426	-	426
Unquoted securities	22,170	-	22,170
	187,665	162,573	25,092

2. Basis of preparation and summary of significant accounting policies (contd)

2.2 Changes in accounting policies (contd)

MFRS 9: Financial Instruments (contd)

(a) Classification and measurement (contd)

Company	RM'000	MFRS 9 measurement category: Amortised costs RM'000	MFRS 9 measurement category: Fair value through profit or loss RM'000
MFRS 139 measurement category			
Loans and receivables			
Trade and other receivables	132,086	132,086	-
Cash and bank balances	1,067	1,067	-
Fair value through profit or loss			
Unquoted securities	27,770	-	27,770
	160,923	133,153	27,770

(b) Impairment

The adoption of MFRS 9 changed the Group's and the Company's accounting for impairment losses for financial assets by replacing MFRS 139's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, loan commitments and certain financial guarantee contracts. No additional loss allowance is recognised on these financial assets upon application of MFRS 9 after considering the days past due, historical default experience and the future prospects of the industries in which the receivables operate.

2.3 Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 9: Prepayment Features with Negative Compensation	1 January 2019
MFRS 16: Leases	1 January 2019
Amendments to MFRS 128: Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual improvements to MFRS Standards 2015-2017 Cycle:	
(i) Amendments to MFRS 3: Business Combination	1 January 2019
(ii) Amendments to MFRS 11: Joint Arrangements	1 January 2019
(iii) Amendments to MFRS 112: Income Taxes	1 January 2019
(iv) Amendments to MFRS 123: Borrowing Costs	1 January 2019
IC Interpretation 23: Uncertainty over Income Tax Treatments	1 January 2019
Amendments to MFRS 119: Plan Amendments, curtailment or settlement	1 January 2019
Amendments to MFRS 3: Definition of a Business	1 January 2020
Amendments to MFRS 101 and MFRS 108: Definition of Material	1 January 2020
MFRS 17: Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Basis of preparation and summary of significant accounting policies (contd)

2.3 Standards issued but not yet effective (contd)

Except as discussed below, the initial application of the abovementioned new or revised MFRSs and amendments to MFRSs has no material impact to the financial statements of the Group and of the Company.

MFRS 16: Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

Classification of cash flows will also be affected as operating lease payments under MFRS 117 are presented as operating cash flows, whereas under MFRS 16, the lease payments will be split into a principal (which will be presented as financing cash flows) and an interest portion (which will be presented as operating cash flows).

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases. MFRS 16 also requires lessees and lessors to make more extensive disclosures than under MFRS 117.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group is currently assessing the impact of MFRS 16 and plans to adopt the new standard on the required effective date.

IC Interpretation 23 Uncertainty over Income Tax Treatments

IC Interpretation 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of MFRS 112 and does not apply to taxes or levies outside the scope of MFRS 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

(i) Whether an entity considers uncertain tax treatments separately;
(ii) The assumptions an entity makes about the estimation of tax treatments by taxation authority;
(iii) How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
(iv) How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Group and the Company will apply the interpretation from its effective date.

2. Basis of preparation and summary of significant accounting policies (contd)

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:
- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group’s voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Basis of preparation and summary of significant accounting policies (contd)

2.4 Basis of consolidation (contd)

Business combinations and goodwill (contd)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of MFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with MFRS 9. Other contingent consideration that is not within the scope of MFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.5 Current versus non-current classification

Assets and liabilities in the statements of financial position are presented based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Basis of preparation and summary of significant accounting policies (contd)

2.6 Foreign currencies

The Group's consolidated financial statements are presented in RM, which is also the parent company's functional currency. The Group determines the functional currency of each entity based on the currency of the primary economic environment in which the entity operates. Items included in the financial statements of each entity are then measured using the determined functional currency.

The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

(ii) Foreign operations

On consolidation, the assets and liabilities of foreign operations are translated into RM at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

2. Basis of preparation and summary of significant accounting policies (contd)

2.7 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment except for freehold land are measured at cost less accumulated depreciation and accumulated impairment losses, if any. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them, accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Freehold land has an unlimited useful life and therefore is not depreciated. Leasehold land is depreciated over the residual lease period. Capital work-in-progress is not depreciated as these assets are not yet available for use.

Depreciation of other property, plant and equipment is provided on a straight-line basis over the estimated useful lives of the assets, at the following annual rates:

Buildings, drainage and roads	2% to 10%
Plant, machinery and equipment	5% to 50%
Motor vehicles	20%
Furniture, fittings and office equipment	8% to 30%

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

2.8 Investment properties

Investment properties, which are properties that are held either to earn rental income or for capital appreciation or both, are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment losses (if any). Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the Group loses control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in MFRS 15.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Basis of preparation and summary of significant accounting policies (contd)

2.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Gain or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statements of profit or loss when the asset is derecognised.

2.10 Subsidiaries

A subsidiary is an entity controlled by the Company. Control exists when the Company 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.

In the separate financial statements of the Company, investment in subsidiaries are accounted for at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

Dividend income is recognised when the Company’s right to receive payment is established.

2.11 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (“CGU”) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows expected to be generated by the assets 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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group’s CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years or more. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in the statements of profit or loss in expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

2. Basis of preparation and summary of significant accounting policies (contd)

2.11 Impairment of non-financial assets (contd)

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the asset's or CGU's recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

Goodwill is tested for impairment annually as at the reporting date and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at the reporting date at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

2.12 Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the practical expedient has been applied, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the practical expedient has been applied are measured at the transaction price determined under MFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and bank balances, trade and other receivables and other current assets.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Basis of preparation and summary of significant accounting policies (contd)

2.12 Financial assets (contd)

Subsequent measurement (contd)

(a) Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Interest income and foreign currency gains or losses are recognised in profit or loss.

(b) Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group has no debt instruments that are designated as financial assets at fair value through OCI.

(c) Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under MFRS 132 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group has no equity instruments that are designated as financial assets at fair value through OCI.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Basis of preparation and summary of significant accounting policies (contd)

2.12 Financial assets (contd)

Subsequent measurement (contd)

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

All other financial assets not classified as measured at amortised cost or fair value through OCI as described above are measured at fair value through profit or loss.

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Dividends on investment securities are also recognised as other income in the statement of profit or loss when the right of payment has been established.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Basis of preparation and summary of significant accounting policies (contd)

2.13 Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.14 Fair value measurement

Fair value is 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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset 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.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group and the Company have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets and liabilities and the level of the fair value hierarchy as explained above.

2. Basis of preparation and summary of significant accounting policies (contd)

2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

2.16 Inventories and work-in-progress

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- Raw materials, spare parts and sundry inventories: cost is determined on a weighted average basis, which approximates actual costs, and includes cost of purchase and other directly attributable costs of acquisition.

- Finished goods and work-in-progress: cost is determined on standard cost basis, and includes cost of direct materials and labour and appropriate proportion of manufacturing overheads.

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

2.17 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.18 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all conditions attached will be complied with. Where the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group and the Company receive grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Basis of preparation and summary of significant accounting policies (contd)

2.19 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Financial liabilities include trade and other payables, and loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by MFRS 139. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in MFRS 9 are satisfied.

No financial liability has been designated at fair value through profit or loss.

(b) Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2. Basis of preparation and summary of significant accounting policies (contd)

2.20 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs when the likelihood of default by the debtors is more than probable. Subsequent to initial recognition, financial guarantee contracts are recognised as income in profit or loss over the period of the guarantee. If the debtor fails to make payment relating to financial guarantee contract when it is due and the Group and the Company, as the issuer, is required to reimburse the holder for the associated loss, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

2.21 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset.

All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.22 Employee benefits

(a) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group and the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(b) Defined contribution plans

The Group and the Company participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Malaysian companies in the Group make contributions to the Employees' Provident Fund in Malaysia, a defined contribution pension scheme. The Group's foreign subsidiaries also make contribution to their respective countries' statutory pension schemes. Such contributions are recognised as an expense in the period in which the related service is performed.

(c) Employee leave entitlements

Employee entitlements to annual leave are recognised as a liability when they accrue to the employees. The estimated liabilities for leave is recognised for services rendered by employees up to the reporting date.

2. Basis of preparation and summary of significant accounting policies (contd)

2.23 Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

(a) As a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group or the Company is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group or the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

(b) As a lessor

Leases which do not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.24 Revenue and other income

(a) Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements.

Sale of goods

Revenue from sale of goods consists of a single performance obligation and is recognised at a point in time when control of the goods is transferred to the customer, generally on delivery of the goods or collection by customers.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Basis of preparation and summary of significant accounting policies (contd)

2.24 Revenue and other income (contd)

(a) Revenue from contracts with customers (contd)

Sale of goods (contd)

(i) Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Volume rebates

One of the Group's foreign subsidiaries provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Group then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

The Group has determined that its refund liability is not contract liability.

(ii) Significant financing component

A foreign subsidiary of the Group receives short-term advances from its customers. Using the practical expedient in MFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

(b) Assets and liabilities arising from rights of return

(i) Right of return assets

Right of return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

(ii) Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of the financial year.

(c) Interest income

Interest income is recognised on an accrual basis unless collectability is in doubt.

(d) Dividend income

Dividend income is recognised when the Group's and the Company's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Basis of preparation and summary of significant accounting policies (contd)

2.24 Revenue and other income (contd)

(e) Management fees

Management fees are recognised when services are rendered.

(f) Rental income

Rental income is accounted for a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

2.25 Taxes

(a) Current income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- in respect of deductible temporary differences associated with investment in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Basis of preparation and summary of significant accounting policies (contd)

2.25 Taxes (contd)

(b) Deferred tax (contd)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(c) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the amount of GST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

The GST in Malaysia was abolished and replaced by the sales and services tax effective from 1 September 2018.

2.26 Segment reporting

For management purposes, the Group is organised into operating segments based on geographical areas which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segments' managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance.

2.27 Share capital and share issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

2.28 Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium.

2.29 Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group and the Company.

Contingent liabilities and assets are not recognised in the statements of financial position of the Group and the Company.

3. Significant accounting judgements and estimates

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

3.1 Critical judgements made in applying accounting policies

The management did not make any critical judgment in the process of applying the Group's accounting policies that have a significant effect on the amounts recognised in these financial statements.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of intangible assets

Intangible assets are tested for impairment annually and at other times when such indicators exist. This requires an estimation of the value in use of the cash-generating units to which intangible assets are allocated.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of the carrying value, the key assumptions applied in the impairment assessment of intangible assets and sensitivity analysis to changes in the assumptions are disclosed in Note 17.

(b) Impairment of property, plant and equipment

Property, plant and equipment are tested for impairment when there is an indication that they may be impaired. The recoverable amounts of the property, plant and equipment are estimated based on value in use.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details on the key assumptions applied and sensitivity analysis are disclosed in Note 13.

(c) Inventories valuation

The Group reviews the adequacy of write down of inventories at each reporting date to ensure the inventories are stated at lower of cost and net realisable value. In assessing the extent of write down for slow moving inventories, the directors, having considered all available information, are of the opinion that these goods can be realised in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

4. Revenue

The significant categories of revenue during the year are analysed as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	RM'000	RM'000	RM'000
Revenue from contracts with customers				
- sales of goods	394,356	411,456	-	-
- delivery services	7,806	8,460	-	-
Dividend income				
- unquoted securities in Malaysia	564	362	564	362
- subsidiaries	-	-	9,730	12,207
Management fees from subsidiaries	-	-	1,056	1,056
	402,726	420,278	11,350	13,625

The performance obligation arising from sale of goods is satisfied upon delivery of goods and payment is generally due within 30 to 120 days from delivery. Returns from customers and refund liabilities arising from return rebates are not material. There are no material remaining performance obligation to be recognised within or more than one year, whether unsatisfied or partially unsatisfied.

5. Other income

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	RM'000	RM'000	RM'000
Amortisation of deferred capital grant (Note 29)	203	203	-	-
Gain on disposal of other investments	126	265	126	265
Gain on disposal of investment property	-	2,062	-	-
Gain on disposal of property, plant and equipment	793	222	173	-
Gain on fair value changes on instruments at fair value through profit or loss				
- derivatives (Note 26)	-	426	-	-
- other investments	-	3,344	-	3,344
Gain on foreign exchange				
- realised	1,584	1,214	-	33
- unrealised	127	462	-	-
Interest income				
- subsidiaries	-	-	4,791	4,818
- others	276	766	104	68
Reversal of credit losses on trade receivables (Note 19)	21	-	-	-
Rental income	710	791	227	227
Rental income from investment properties	-	1,006	-	-
Reversal of write down on inventories	114	108	-	-
Miscellaneous	2,683	3,048	1	-
	6,637	13,917	5,422	8,755

6. Finance costs

	Group	
	2018	**2017**
	RM'000	RM'000
Interest expense on:		
Bank overdraft	45	34
Hire purchase liabilities	-	1
Term loan	1,220	1,402
	1,265	1,437

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

7. (Loss)/profit before tax

The following amounts have been included in arriving at (loss)/profit before tax:

	Group		Company	
	2018 RM'000	**2017** RM'000	**2018** RM'000	**2017** RM'000
Auditors' remuneration:				
Statutory audit				
- current year	615	724	85	85
- (over)/under provision in previous years	(1)	11	-	5
Other services	136	455	19	233
Credit losses on trade receivables (Note 19)	401	481	-	-
Depreciation of investment properties (Note 14)	349	609	349	349
Depreciation of property, plant and equipment (Note 13)	23,431	22,012	1,464	1,472
Employee benefits expense (Note 8)	86,023	82,886	4,669	4,765
Hiring of plant and machinery	19	21	-	-
Impairment loss on investment in subsidiaries	-	-	160	-
Impairment loss on intangible assets (Note 17)	9,218	-	-	-
Impairment loss on property, plant and equipment (Note 13)	19,200	-	-	-
Inventories written down	5,285	4,405	-	-
Inventories written off	47	44	-	-
Loss on disposal of property, plant and equipment	2	-	-	-
Loss on fair value changes on instruments at fair value through profit or loss				
- derivatives	1,351	-	-	-
- other investments	2,847	-	2,847	-
Loss on foreign exchange - realised	1,612	1,912	434	-
- unrealised	1,621	3,268	583	488
Non-executive directors' remuneration (Note 9)	99	99	99	99
Property, plant and equipment written off	5	30	-	-
Rental expense	8,109	10,008	-	-

8. Employee benefits expense

	Group		Company	
	2018 RM'000	**2017** RM'000	**2018** RM'000	**2017** RM'000
Wages and salaries	72,830	70,267	3,914	3,929
Defined contribution plan	7,788	7,388	690	696
Social security contributions	692	744	12	11
Other staff related costs	4,713	4,487	53	129
	86,023	82,886	4,669	4,765

Included in employee benefits expense of the Group and of the Company are Executive Directors' remunerations, excluding benefits-in-kind amounting to RM8,447,000 (2017: RM8,585,000) and RM3,694,000 (2017: RM3,729,000), respectively, as further disclosed in Note 9.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

9. Directors' remunerations

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	RM'000	RM'000	RM'000
Executive Directors' remunerations				
Fees	165	165	165	165
Other emoluments	8,282	8,420	3,529	3,564
	8,447	8,585	3,694	3,729
Non-Executive Directors' remunerations				
Fees	99	99	99	99
Total directors' remunerations	8,546	8,684	3,793	3,828
Estimated monetary value of benefits-in-kind	197	159	77	52
Total directors' remunerations including benefits-in-kind	8,743	8,843	3,870	3,880

The details of remunerations receivable by directors of the Group and of the Company during the year are as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	RM'000	RM'000	RM'000
Executive:				
Salaries and bonuses	7,004	7,123	2,937	2,967
Defined contribution plan	1,274	1,293	589	595
Social security contributions	4	4	3	2
	8,282	8,420	3,529	3,564
Fees	165	165	165	165
	8,447	8,585	3,694	3,729
Estimated monetary value of benefits-in-kind	197	159	77	52
	8,644	8,744	3,771	3,781
Non-Executive (Note 7):				
Fees	99	99	99	99
	8,743	8,843	3,870	3,880

10. Income tax expense

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	RM'000	RM'000	RM'000
Statements of comprehensive income:				
Current income tax:				
Malaysian income tax	1,234	3,346	671	794
Foreign tax	3,243	8,365	-	-
(Over)/under provision in previous years:				
Malaysian income tax	(106)	85	(231)	7
Foreign tax	(1,540)	347	-	-
	2,831	12,143	440	801
Deferred income tax (Note 25):				
Relating to origination and reversal of temporary differences	(1,791)	(3,759)	(7)	(10)
Under/(over) provision in previous years	5,391	324	-	(26)
	3,600	(3,435)	(7)	(36)
Income tax expense recognised in profit or loss	6,431	8,708	433	765

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2017: 24%) of the estimated assessable profit for the year.

Income tax for other jurisdictions is calculated at the rate prevailing in the respective jurisdictions. The reconciliation below is prepared by aggregating separate reconciliations for each national jurisdiction.

The reconciliation between tax expense and the product of accounting (loss)/profit multiplied by the applicable corporate tax rate for the years ended 31 December 2018 and 2017 are as follows:

	2018	**2017**
	RM'000	RM'000
Group		
Accounting (loss)/profit before tax	(55,116)	18,259
Tax at Malaysian statutory tax rate of 24% (2017: 24%)	(13,228)	4,382
Effect of different tax rates in other countries	449	1,762
Effect of non-deductible expenses for tax purpose	6,044	4,452
Effect of income not subject to tax	(436)	(434)
Effect of utilisation of previously unrecognised deferred tax assets	-	(394)
Deferred tax assets recognised on capital allowances	-	(1,459)
Deferred tax assets not recognised	9,981	-
Utilisation of current year reinvestment allowance	(124)	(357)
(Over)/under provision of income tax in respect of previous years	(1,646)	432
Under provision of deferred tax in respect of previous years	5,391	324
Income tax expense recognised in profit or loss	6,431	8,708
Tax savings recognised during the year arising from:		
Utilisation of previously unrecognised capital allowances and tax losses	-	394

10. Income tax expense (contd)

	2018 RM'000	2017 RM'000
Company		
Accounting profit before tax	4,536	13,513
Tax at Malaysian statutory tax rate of 24% (2017: 24%)	1,089	3,243
Effect of income not subject to tax	(2,599)	(3,326)
Effect of non-deductible expenses for tax purpose	2,402	867
Effect of utilisation of group loss relief	(228)	-
(Over)/under provision of income tax in respect of previous years	(231)	7
Over provision of deferred tax in respect of previous years	-	(26)
Income tax expense recognised in profit or loss	433	765

The Group has the following tax losses, capital allowances and reinvestment allowances available for offset against the future taxable profits subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation:

	Group	
	2018 RM'000	**2017** RM'000
Unutilised tax losses	159,300	151,600
Unabsorbed capital allowances	24,500	12,500
Unutilised reinvestment allowances	32,100	32,700
	215,900	196,800

The unutilised tax losses and reinvestment allowance of the Group's subsidiaries in Malaysia are set to expire in year 2025.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

11. (Loss)/earnings per share (sen)

Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit for the year attributable to owners of the parent by the weighted average number of ordinary shares in issue during the financial year, excluding treasury shares held by the Company.

The following table reflects the (loss)/profit and share data used in the computation of basic (loss)/earnings per share for the years ended 31 December:

	Group	
	2018	**2017**
(Loss)/profit net of tax attributable to owners of the parent (RM'000)	(62,292)	8,022
Number of ordinary shares in issuance as of 1 January ('000)	155,616	155,616
Number of treasury shares ('000)	(15,377)	(15,377)
Weighted average number of ordinary shares for basic earnings per share computation ('000)	140,239	140,239
Basic (loss)/earnings per share (sen)	(44.42)	5.72

The diluted earnings per share is the same as the basic earning per share as there are no dilutive potential ordinary shares outstanding.

There have been no other transactions involving ordinary shares between the reporting date and the date of authorisation of these financial statements.

12. Dividends

	Group and Company	
	2018 RM'000	**2017** RM'000
Declared and paid:		
Dividends on ordinary shares:		
Interim dividend for 2018: 2.0 sen per ordinary share, tax exempt (2.0 sen net per ordinary share)	2,805	-
Interim dividend for 2017: 3.0 sen per ordinary share, tax exempt (3.0 sen net per ordinary share)	-	4,207
Final dividend for 2016: 3.0 sen per ordinary share, tax exempt (3.0 sen net per ordinary share)	-	4,207
	2,805	8,414

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13. **Property, plant and equipment**

	Freehold land, buildings, drainage and roads RM'000	Short term leasehold land RM'000	Long term leasehold land RM'000	Plant, machinery and equipment RM'000	Motor vehicles RM'000	Furniture, fittings and office equipment RM'000	Capital work-in-progress RM'000	Total RM'000
Group								
At 31 December 2018								
Cost								
At 1 January 2018	186,518	49,574	19,501	359,388	18,948	35,809	5,685	675,423
Additions	918	-	-	5,060	1,062	2,912	3,455	13,407
Disposals/write off	(1,375)	-	-	(44)	(1,073)	(691)	(47)	(3,230)
Reclassification	5,085	-	-	2,837	-	576	(8,498)	-
Translation differences	(1,295)	(453)	-	(1,459)	(147)	(791)	(27)	(4,172)
At 31 December 2018	189,851	49,121	19,501	365,782	18,790	37,815	568	681,428
Accumulated depreciation and impairment								
At 1 January 2018	97,774	18,170	6,178	293,616	15,059	23,740	-	454,537
Depreciation charge for the year (Note 7)	3,981	1,201	246	13,471	1,251	3,281	-	23,431
Impairment during the year (Note 7)	-	-	-	19,200	-	-	-	19,200
Disposals/write off	(554)	-	-	(25)	(1,073)	(670)	-	(2,322)
Reclassification	-	-	-	(169)	-	169	-	-
Translation differences	(902)	(135)	-	(1,064)	(87)	(361)	-	(2,549)
At 31 December 2018	100,299	19,236	6,424	325,029	15,150	26,159	-	492,297
Net carrying amount								
At 31 December 2018	89,552	29,885	13,077	40,753	3,640	11,656	568	189,131

13. **Property, plant and equipment (contd)**

	Freehold land, buildings, drainage and roads RM'000	Short term leasehold land RM'000	Long term leasehold land RM'000	Plant, machinery and equipment RM'000	Motor vehicles RM'000	Furniture, fittings and office equipment RM'000	Capital work-in-progress RM'000	Total RM'000
Group								
At 31 December 2017								
Cost								
At 1 January 2017	183,067	50,083	19,501	343,896	18,973	30,302	8,844	654,666
Additions	2,145	-	-	11,769	271	3,453	4,556	22,194
Disposals/write off	-	-	-	(147)	(186)	(693)	-	(1,026)
Reclassification	2,757	-	-	4,038	-	849	(7,644)	-
Translation differences	(1,451)	(509)	-	(168)	(110)	1,898	(71)	(411)
At 31 December 2017	186,518	49,574	19,501	359,388	18,948	35,809	5,685	675,423
Accumulated depreciation								
At 1 January 2017	94,716	17,103	5,932	280,171	13,996	19,803	-	431,721
Depreciation charge for the year (Note 7)	3,940	1,213	246	12,655	1,241	2,717	-	22,012
Disposals/write off	-	-	-	(118)	(184)	(252)	-	(554)
Reclassification	-	-	-	568	-	(568)	-	-
Translation differences	(882)	(146)	-	340	6	2,040	-	1,358
At 31 December 2017	97,774	18,170	6,178	293,616	15,059	23,740	-	454,537
Net carrying amount								
At 31 December 2017	88,744	31,404	13,323	65,772	3,889	12,069	5,685	220,886

13. Property, plant and equipment (contd)

	Buildings, drainage and roads RM'000	Short term leasehold land RM'000	Long term leasehold land RM'000	Plant, machinery and equipment RM'000	Motor vehicles RM'000	Furniture, fittings and office equipment RM'000	Capital work-in-progress RM'000	Total RM'000
Company								
31 December 2018								
Cost								
At 1 January 2018	16,958	27,808	115	1,078	1,257	6,474	13	53,703
Additions	-	-	-	-	-	70	-	70
Disposals	(845)	-	-	-	-	-	-	(845)
At 31 December 2018	16,113	27,808	115	1,078	1,257	6,544	13	52,928
Accumulated depreciation								
At 1 January 2018	9,060	11,409	114	1,078	736	5,416	-	27,813
Depreciation charge for the year (Note 7)	280	744	-	-	164	276	-	1,464
Disposals	(24)	-	-	-	-	-	-	(24)
At 31 December 2018	9,316	12,153	114	1,078	900	5,692	-	29,253
Net carrying amount								
At 31 December 2018	6,797	15,655	1	-	357	852	13	23,675

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13. Property, plant and equipment (contd)

	Buildings, drainage and roads RM'000	Short term leasehold land RM'000	Long term leasehold land RM'000	Plant, machinery and equipment RM'000	Motor vehicles RM'000	Furniture, fittings and office equipment RM'000	Capital work-in-progress RM'000	Total RM'000
Company								
31 December 2017								
Cost								
At 1 January 2017	15,353	27,808	115	1,078	1,268	6,429	1,580	53,631
Additions	19	-	-	-	(11)	45	19	72
Reclassification	1,586	-	-	-	-	-	(1,586)	-
At 31 December 2017	16,958	27,808	115	1,078	1,257	6,474	13	53,703
Accumulated depreciation								
At 1 January 2017	8,776	10,665	114	1,078	573	5,135	-	26,341
Depreciation charge for the year (Note 7)	284	744	-	-	163	281	-	1,472
At 31 December 2017	9,060	11,409	114	1,078	736	5,416	-	27,813
Net carrying amount								
At 31 December 2017	7,898	16,399	1	-	521	1,058	13	25,890

NOTES TO THE FINANCIAL STATEMENTS
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13. Property, plant and equipment (contd)

Analysis of land, buildings, drainage and roads:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	RM'000	RM'000	RM'000
At net carrying amount				
Freehold land	14,128	14,128	-	-
Leasehold land	42,962	44,727	15,656	16,400
Buildings and improvements	75,104	74,272	6,797	7,898
Drainage and roads	320	344	-	-
	132,514	133,471	22,453	24,298

(a) Included in property, plant and equipment of the Group are assets with a net carrying amount of RM41,300,564 (2017: RM43,653,029) which are pledged as security for the Group's loans and borrowings as disclosed in Note 24.

(b) During the financial year, the Group conducted an impairment review of its property, plant and equipment. Arising from this review, the Group impaired RM19,200,000 of its plant and equipment belonging to Kim Hin Ceramic (Seremban) Sdn. Bhd. ("KHCS") and Ceramica Indah Sdn. Bhd. ("CISB"). The carrying amounts of the plant and equipment in KHCS and CISB have been written down to their estimated recoverable amount of RM95,600,000 and RM10,600,000, respectively. Key assumptions used in the estimation of value in use KHCS are similar to those disclosed in Note 17.

In respect of CISB, the significant assumptions used are as follow:

(i) Budgeted gross margin

The budgeted gross margin used ranged from 5% to 15% over a 10 years period. The budgeted gross margins is derived based on historical trends and utilisation of production capacity for the past 4 years.

(ii) Growth rate

CISB did not impute any growth rate in view of the declining sales rate for the past 4 years.

(iii) Discount rate

The pre-tax discount rate used was 10.75%. Discount rates represent the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

Any further decline in the sales growth rate and margin or increase in the discount rate used will result in further impairment of the plant and equipment. Management is of the opinion that the assumptions used are prudent and reasonable.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

14. Investment properties

	Freehold land RM'000	Buildings RM'000	Total RM'000
Group			
At 31 December 2018			
Cost			
At 1 January	4,160	17,437	21,597
Additions	-	7,689	7,689
31 December	4,160	25,126	29,286
Accumulated depreciation			
At 1 January	-	1,383	1,383
Depreciation charge for the year (Note 7)	-	349	349
At 31 December	-	1,732	1,732
Net carrying amount	4,160	23,394	27,554
Fair value of investment properties			37,500
At 31 December 2017			
Cost			
At 1 January	4,160	47,652	51,812
Disposal	-	(30,931)	(30,931)
Translation differences	-	716	716
31 December	4,160	17,437	21,597
Accumulated depreciation			
At 1 January	-	5,195	5,195
Depreciation charge for the year (Note 7)	-	609	609
Disposal	-	(4,559)	(4,559)
Translation differences	-	138	138
At 31 December	-	1,383	1,383
Net carrying amount	4,160	16,054	20,214
Fair value of investment properties			31,000

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

14. Investment properties (contd.)

	Freehold land RM'000	Buildings RM'000	Total RM'000
Company			
31 December 2018			
Cost			
At 1 January and 31 December 2018	4,160	17,437	21,597
Accumulated depreciation			
At 1 January	-	1,383	1,383
Depreciation charge for the year (Note 7)	-	349	349
At 31 December	-	1,732	1,732
Net carrying amount	4,160	15,705	19,865
Fair value of investment properties			30,000
31 December 2017			
Cost			
At 1 January and 31 December 2017	4,160	17,437	21,597
Accumulated depreciation			
At 1 January	-	1,034	1,034
Depreciation charge for the year (Note 7)	-	349	349
At 31 December	-	1,383	1,383
Net carrying amount	4,160	16,054	20,214
Fair value of investment properties			31,000

The estimated fair value of the properties are based on directors' valuation based on transacted dealings of comparable properties.

	Group		Company	
	2018 RM'000	**2017** RM'000	**2018** RM'000	**2017** RM'000
Rental income derived from investment properties	-	1,006	-	-
Direct operating expenses generating rental income	-	(883)	-	-
Direct operating expenses that did not generate rental income	(461)	(453)	(461)	(453)
Loss arising from investment properties	(461)	(330)	(461)	(453)

The Group and the Company have no restriction on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

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15. Investment in subsidiaries

	Company 2018 RM'000	Company 2017 RM'000
Unquoted shares, at cost	197,531	162,521
Less: accumulated impairment	(160)	-
	197,371	162,521

During the financial year, the Company increased its investment in several wholly-owned subsidiaries by way of capitalisation of amount due from these subsidiaries totalling RM35,010,000. Effective equity interest in the subsidiaries remain unchanged.

There were no new business combinations during the financial year.

The impairment of RM160,000 in respect of those inactive subsidiaries during the financial year is not material to the Company's financial statements.

Details of the subsidiaries are as follows:

Names of subsidiaries	Principal activities	Country of incorporation	Proportion of ownership interest 2018	Proportion of ownership interest 2017
Held by the Company:				
Ceramica Indah Sdn. Bhd.*	Manufacture and sale of ceramic floor, homogeneous and monoporosa tiles	Malaysia	100%	100%
Kimgres Marketing Sdn. Bhd.*	Trading in building materials	Malaysia	100%	100%
Kim Hin Ceramic (Seremban) Sdn. Bhd.*	Manufacture and sale of ceramic tiles	Malaysia	100%	100%
Kim Hin Ceramics (Shanghai) Co. Ltd.**	Manufacture and sale of ceramic tiles	People's Republic of China	79.5%	79.5%
Kim Hin Properties Sdn. Bhd.*	Property and investment holding	Malaysia	100%	100%
Kim Hin Investment Pty. Ltd.***	Property letting	Australia	100%	100%
Tileworld Sdn. Bhd.*	Investment holding	Malaysia	100%	100%
Refined Koalin Industries Sdn. Bhd.*	Inactive	Malaysia	100%	100%
Unicorn Ceramics Sdn. Bhd.*	Inactive	Malaysia	100%	100%
World Ceramics International Sdn. Bhd.*	Property letting	Malaysia	100%	100%
Johnson Tiles Malaysia Sdn. Bhd.*	Trading in building materials	Malaysia	100%	100%

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15. Investment in subsidiaries (contd)

Names of subsidiaries	Principal activities	Country of incorporation	Proportion of ownership interest 2018	2017
Held through Ceramica Indah Sdn. Bhd.:				
Kimgres Australia Pty. Ltd***	Wholesaler and retailer of ceramic tiles	Australia	100%	100%
Outset Holdings Pty. Ltd**	Investment holding	Australia	100%	100%
Held through Outset Holdings Pty. Ltd.				
Amber Group Australia Pty. Ltd. **	Wholesaler and retailer of pavers, tiles, natural stone and retaining walls	Australia	100%	100%
Held through Amber Group Australia Pty. Ltd.				
Norcorp Pty. Ltd.**	Retailer of pavers, tiles, natural stone and retaining walls	Australia	100%	100%
Held through Kimgres Marketing Sdn. Bhd.:				
Kimgres Vietnam Trading Co. Ltd.***	Trading in building materials	Vietnam	70%	70%
Held through Kim Hin Ceramics (Shanghai) Co. Ltd.				
Shanghai Kuching Realty Co. Ltd.***	Investment holding	People's Republic of China	100%	-
Held through Tileworld Sdn. Bhd.:				
Kim Hin Australia Pty. Ltd.**	Investment holding	Australia	100%	100%
Held through Kim Hin Australia Pty. Ltd.:				
Johnson Tiles Pty. Ltd.**	Importing and distributing of ceramic wall and floor files	Australia	100%	100%
Held through Johnson Tiles Pty. Ltd.:				
Coramic Australia Pty. Ltd.**	Inactive	Australia	100%	100%

* Audited by Ernst & Young, Malaysia
** Audited by member firms of Ernst & Young Global in the respective countries
*** Audited by firms other than Ernst & Young

15. Investment in subsidiaries (contd)

(b) Summarised financial information of Kim Hin Ceramics (Shanghai) Co. Ltd. And Kimgres Vietnam Trading Co. Ltd.

The Group's material non-controlling interests relate to its subsidiaries, Kim Hin Ceramics (Shanghai) Co. Ltd. and Kimgres Vietnam Trading Co. Ltd.. Hence, the summarised financial information of the two companies, before elimination of any intra-group transactions, are presented below.

(i) Summarised statements of financial position

	Kim Hin Ceramics (Shanghai) Co. Ltd.		Kimgres Vietnam Trading Co. Ltd.		Total	
	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Non-current assets	38,829	32,904	176	233	39,005	33,137
Current assets	52,137	66,840	3,390	3,532	55,527	70,372
Total assets	90,966	99,744	3,566	3,765	94,532	103,509
Current liabilities	(10,128)	(13,701)	(2,426)	(2,998)	(12,554)	(16,699)
Net assets	80,838	86,043	1,140	767	81,978	86,810
Equity attributable to owners of the Company	64,267	68,403	797	537	65,064	68,940
Non-controlling interests	16,571	17,640	343	230	16,914	17,870
	80,838	86,043	1,140	767	81,978	86,810

15. Investment in subsidiaries (contd)

(b) Summarised financial information of Kim Hin Ceramics (Shanghai) Co. Ltd. And Kimgres Vietnam Trading Co. Ltd. (contd)

(ii) Summarised statements of profit or loss and other comprehensive income

	Kim Hin Ceramics (Shanghai) Co. Ltd.		Kimgres Vietnam Trading Co. Ltd.		Total	
	2018 RM'000	**2017** RM'000	**2018** RM'000	**2017** RM'000	**2018** RM'000	**2017** RM'000
Revenue	57,180	64,925	6,234	6,502	63,414	71,427
Profit for the year	3,102	6,904	367	376	3,469	7,280
Other comprehensive income for the year	(2,258)	(2,976)	7	(63)	(2,251)	(3,039)
Total comprehensive income for the year	844	3,928	374	313	1,218	4,241
Total comprehensive income attributable to:						
Owners of the Company	673	3,122	261	219	934	3,341
Non-controlling interests	171	806	113	94	284	900
	844	3,928	374	313	1,218	4,241
Profit for the year attributable to non-controlling interests	634	1,416	111	113	745	1,529
Dividend paid to non-controlling interests	1,240	2,071	-	-	1,240	2,071

15. Investment in subsidiaries (contd)

(b) Summarised financial information of Kim Hin Ceramics (Shanghai) Co. Ltd. And Kimgres Vietnam Trading Co. Ltd. (contd)

(iii) Summarised statements of cash flows

	Kim Hin Ceramics (Shanghai) Co. Ltd.		Kimgres Vietnam Trading Co. Ltd.		Total	
	2018 RM'000	**2017** RM'000	**2018** RM'000	**2017** RM'000	**2018** RM'000	**2017** RM'000
Net cash generated from/(used in) operating activities	2,739	4,366	(78)	114	2,661	4,480
Net cash (used in)/generated from investing activities	(6,542)	6,580	1	1	(6,541)	6,581
Net cash used in financing activities	(6,052)	(10,101)	-	-	(6,052)	(10,101)
Net (decrease)/increase in cash and cash equivalents	(9,855)	845	(77)	115	(9,932)	960
Effect of foreign exchange rate changes	(599)	(783)	(7)	(19)	(606)	(802)
Cash and cash equivalents at beginning of the year	40,271	40,209	291	195	40,562	40,404
Cash and cash equivalents at end of the year	29,817	40,271	207	291	30,024	40,562

16. Other investments

	Group		Company	
	2018 RM'000	**2017** RM'000	**2018** RM'000	**2017** RM'000
Non-current				
Financial assets measured at fair value through profit or loss				
Unquoted securities in Malaysia:				
Unit trusts, at cost	11,175	12,043	11,175	12,043
Fair value changes	8,227	11,685	8,227	11,685
Unquoted securities outside Malaysia:				
Unit trusts, at cost	2,839	2,278	2,839	2,278
Fair value changes	(71)	1,764	(71)	1,764
	22,170	27,770	22,170	27,770
Current				
Financial assets measured at fair value through profit or loss				
Unquoted structured products:				
Outside Malaysia	-	2,496	-	-
Total other investments	22,170	30,266	22,170	27,770
Fair value as at 31 December:				
Unquoted securities	22,170	27,770	22,170	27,770
Unquoted structured products	-	2,496	-	-

17. Intangible assets

	Goodwill RM'000	**Arrangements with franchisee** RM'000	**Brand** RM'000	**Total** RM'000
Group				
Cost				
At 1 January / 31 December 2018	9,838	10,892	4,857	25,587
Accumulated impairment				
At 1 January	620	-	-	620
Impaired during the year	9,218	-	-	9,218
At 31 December	9,838	-	-	9,838
Net carrying amount				
At 31 December 2018	-	10,892	4,857	15,749
At 31 December 2017	9,218	10,892	4,857	24,967

17. Intangible assets (contd)

Intangible assets arising from business combinations has been allocated to cash-generating units ("CGU") for impairment testing. The carrying amount of the intangible assets are allocated to two CGUs for impairment testing as follows:

- KHCS (Note 13) that is primarily involved in manufacturing and sale of ceramic tiles.
- Outset Holdings Pty. Ltd. ("OHPL") that is primarily involved in wholesale and retail of tiles, pavers, natural stone and retaining walls in Australia.

	KHCS		OHPL		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Goodwill	-	9,218	-	-	-	9,218
Arrangements with franchisee	-	-	10,892	10,892	10,892	10,892
Brand	-	-	4,857	4,857	4,857	4,857

Impairment testing of intangible assets

The recoverable amount of these CGUs have been determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a ten-year period. As a result of the impairment review, the entire goodwill arising from the business combination with KHCS were fully impaired. This is consistent with the weak financial performance of KHCS amidst the challenging business environment surrounding the property sector in Malaysia. Major assumptions used are as follows:

	2018		2017	
	KHCS	**OHPL**	**KHCS**	**OHPL**
Pre-tax discount rate	11%	12% - 24%	15%	24%
Growth rate	0%	3%	0%	2%
Budgeted gross margin	19% - 26%	33%	24% - 26%	36%

(a) Budgeted gross margin

The basis used to determine the value assigned to the budgeted gross margins is the gross margins based on historical trends and utilisation of production capacity for the past 4 years. A decrease in demand can lead to a decline in gross margin. A decrease in gross margin by 0% (2017: 2.0%) and 9% (2017: 9.0%) for KHCS and OHPL respectively would result in impairment in the respective CGUs.

(b) Growth rate

The forecasted growth rate are based on the Group's estimates and do not exceed the long-term average growth rate for the industry relevant to the CGU.

(c) Discount rate

Discount rates represent the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

An increase in pre-tax discount rate to 11% (i.e. + 0%) and 26% (i.e. + 2%) for KHCS and OHPL, respectively would result in impairment.

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18. Inventories

	Group	
	2018	**2017**
	RM'000	RM'000
At cost		
Raw materials	26,047	24,812
Work-in-progress	3,240	3,959
Finished goods	108,214	115,233
Packing materials	3,208	2,857
Spare parts and stores	11,536	11,500
	152,245	158,361
At net realisable value		
Finished goods	12,999	18,604
	165,244	176,965

During the year, the amount of inventories recognised as an expense in cost of sales of the Group was RM294,469,000 (2017: RM281,709,000).

19. Trade and other receivables

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	RM'000	RM'000	RM'000
Trade receivables				
Third parties	73,514	75,432	-	-
Less: Allowances for credit losses	(3,612)	(3,421)	-	-
	69,902	72,011	-	-
Other receivables				
Amounts due from subsidiaries				
- Interest bearing	-	-	80,299	115,073
- Non-interest bearing	-	-	15,726	15,725
	-	-	96,025	130,798
Sundry receivables	6,086	29,817	379	1,162
Deposits	2,501	2,282	124	126
	8,587	32,099	96,528	132,086
Total trade and other receivables	78,489	104,110	96,528	132,086

(a) Trade receivables

The Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to group of debtors except as disclosed in Note 36(a).

The Group's normal trade credit term ranges from 30 to 90 days (2017: 30 to 90 days). Other credit terms are assessed and approved on a case-by-case basis.

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19. Trade and other receivables (contd)

(a) Trade receivables (contd)

Ageing analysis of trade receivables

The ageing analysis of the Group's trade receivables is as follows:

	Group	
	2018	**2017**
	RM'000	RM'000
Neither past due nor impaired	39,501	42,089
1 to 30 days past due not impaired	14,111	17,113
31 to 60 days past due not impaired	8,978	6,555
61 to 90 days past due not impaired	4,255	3,662
91 to 120 days past due not impaired	2,046	1,630
More than 121 days past due but not impaired	1,011	962
	30,401	29,922
Impaired	3,612	3,421
	73,514	75,432

Receivables that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group. None of the Group's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

Receivables that are past due but not impaired

The Group has trade receivables amounting to RM30,401,000 (2017: RM29,922,000) that are past due at the reporting date but not impaired.

Receivables that are impaired

The Group's trade receivables that are impaired at the reporting date and the movement of the allowance accounts used to record credit losses are as follows:

	Group Individually impaired	
	2018	**2017**
	RM'000	RM'000
Trade receivables - nominal amounts	3,612	3,421
Less: Allowance for expected credit losses	(3,612)	(3,421)
	-	-

Movement in allowance for expected credit losses:

	Group	
	2018	**2017**
	RM'000	RM'000
At 1 January	3,421	3,053
Provided for the year (Note 7)	401	481
Reversal of expected credit losses (Note 5)	(21)	-
Written off	(107)	(50)
Translation differences	(82)	(63)
At 31 December	3,612	3,421

(b) Amounts due from subsidiaries

These amounts are unsecured and repayable on demand. The interest bearing portion bore interest ranging from 4.25% to 8% (2017: 4.25% to 8%) per annum during the financial year.

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20. Other current assets

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Prepayments	4,642	5,118	9	6

The Group's prepayments for the previous financial year included down payments of RM1,107,000 for plant and machinery and raw materials procured by its subsidiaries which were delivered during the current financial year.

21. Cash and bank balances

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Cash on hand and at banks	37,114	42,083	204	1,067
Deposits with financial institutions	16,703	16,380	5,879	-
Total cash and bank balances	53,817	58,463	6,083	1,067

Deposits with financial institutions at the reporting date earned interest at rates ranging from 0.5% to 2.1% (2017: 0.50% to 3.70%) per annum. The tenure of the deposits at the reporting date are between 30 days to 1 year (2017: 60 days to 3 years).

For the purpose of cash flow statement, cash and cash equivalents comprise the following at reporting date:

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Cash and bank balances	53,817	58,463	6,083	1,067
Less: Bank overdraft (Note 24)	(1,123)	(73)	-	-
Less: Short-term deposits with maturity more than 3 months	(10,824)	(13,304)	-	-
Cash and cash equivalents	41,870	45,086	6,083	1,067

22. Share capital and treasury shares

	Number of ordinary shares		← Amount →	
	Share capital (Issued and fully paid) '000	Treasury shares '000	Share capital (Issued and fully paid) RM'000	Treasury shares RM'000
Group and Company				
At 1 January 2018 and 31 December 2018	155,616	(15,377)	206,658	(24,309)

Treasury shares

Treasury shares relate to ordinary shares of the Company that are held by the Company. This amount relates to the acquisition cost of treasury shares net of the proceeds received on their subsequent sale or issuance. During the financial year, the Company has not purchased any of its own shares. Of the total 155,616,013 (2017: 155,616,013) issued and fully paid ordinary shares as at 31 December 2018, 15,376,900 (2017: 15,376,900) are held as treasury shares by the Company. As at 31 December 2018, the number of outstanding ordinary shares in issue after the set off is therefore 140,239,113 (2017: 140,239,113) ordinary shares.

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23. Other reserves

	Group	
	2018	**2017**
	RM'000	RM'000
Reserve and Enterprise Expansion Funds		
At 1 January	4,219	3,675
Transfer from retained earnings	374	544
At 31 December	4,593	4,219
Translation adjustment account		
At 1 January	11,842	15,715
Translation difference in subsidiaries	(4,427)	(3,873)
Transfer to retained earnings	(12)	-
At 31 December	7,403	11,842
Total other reserves	11,996	16,061

The nature and purpose of each category of reserve are as follows:

(a) Reserve and Enterprise Expansion Funds

The Reserve and Enterprise Expansion Funds are maintained in compliance with the governing authority of the People's Republic of China for the purpose of working capital and expansion respectively.

(b) Translation adjustment account

The translation adjustment account represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

24. Loans and borrowings

		Group	
	Maturity	**2018**	**2017**
		RM'000	RM'000
Current			
Bank overdrafts, unsecured (Note 21)	On demand	1,123	73
Term loans, secured:			
RM loan at BLR - 2.2% p.a.	2019	1,140	1,094
RM loan at BLR - 1.75% p.a.	2019	1,755	1,722
		4,018	2,889
Non-current			
Term loans, secured:			
RM loan at BLR - 2.2% p.a.	2020 - 2023	4,913	6,047
RM loan at BLR - 1.75% p.a.	2020 - 2026	14,050	15,775
		18,963	21,822
Total loans and borrowings		22,981	24,711

24. Loans and borrowings (contd)

The remaining maturities of the loans and borrowings are as follows:

	Group	
	2018	**2017**
	RM'000	RM'000
On demand or not later than 1 year	4,018	2,889
Later than 1 year and not later than 2 years	3,047	2,955
Later than 2 years and not later than 5 years	9,900	9,767
Later than 5 years	6,016	9,100
	22,981	24,711

Term loans

The term loans are secured by way of fixed charge over landed properties of a subsidiary as disclosed in Note 13 and corporate guarantees from the Company.

Bank overdrafts

The bank overdrafts are secured by corporate guarantees from the Company.

25. Deferred tax (assets)/liabilities

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	RM'000	RM'000	RM'000
At 1 January	(2,274)	1,120	77	113
Recognised in profit or loss (Note 10)	3,600	(3,435)	(7)	(36)
Translation differences	199	41	-	-
At 31 December	1,525	(2,274)	70	77

Presented after appropriate offsetting as follows:

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Deferred tax assets	(3,270)	(7,076)	-	-
Deferred tax liabilities	4,795	4,802	70	77
	1,525	(2,274)	70	77

The components of deferred tax (assets)/liabilities are as follows:

Analysed as:

Deferred tax assets

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Unutilised reinvestment and capital allowances	9,128	10,914	-	-
Unutilised business losses	3	380	-	-
Provisions	1,727	3,350	-	-
	10,858	14,644	-	-

Deferred tax liabilities

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Property, plant and equipment	7,658	7,645	70	77
Intangible assets	4,725	4,725	-	-
	12,383	12,370	70	77

25. Deferred tax (assets)/liabilities (contd)

The components and movements of deferred tax (assets)/liabilities during the financial year are as follows:

Deferred tax (assets)/liabilities of the Group:

	Unutilised reinvestment and capital allowances RM'000	**Unutilised business losses** RM'000	**Provisions** RM'000	**Property, plant and equipment** RM'000	**Intangible assets** RM'000	**Total** RM'000
At 1 January 2017	(9,020)	(380)	(1,560)	7,355	4,725	1,120
Recognised in profit or loss	(1,894)	-	(1,790)	249	-	(3,435)
Translation differences	-	-	-	41	-	41
At 31 December 2017	(10,914)	(380)	(3,350)	7,645	4,725	(2,274)
Recognised in profit or loss	1,786	377	1,623	(186)	-	3,600
Translation differences	-	-	-	199	-	199
At 31 December 2018	(9,128)	(3)	(1,727)	7,658	4,725	1,525

Presented after appropriate offsetting as follows:

Deferred tax assets	(1,540)	(3)	(1,727)	-	-	(3,270)
Deferred tax liabilities	(7,588)	-	-	7,658	4,725	4,795
	(9,128)	(3)	(1,727)	7,658	4,725	1,525

25. Deferred tax (assets)/liabilities (contd)

Deferred tax liability of the Company

	Property, plant and equipment RM'000
At 1 January 2017	113
Recognised in profit or loss (Note 10)	(36)
At 31 December 2017	77
Recognised on profit or loss (Note 10)	(7)
At 31 December 2018	70

As at 31 December 2018 and 2017, deferred tax assets were not recognised in respect of the following unutilised tax losses and unabsorbed capital allowances as it is not probable that future taxable profits will be available against which the unutilised tax losses and unabsorbed capital allowances can be utilised:

	2018 RM'000	**2017** RM'000
Unutilised tax losses	159,300	151,600
Unabsorbed capital allowances	18,600	12,200
Others	34,200	7,800
	212,100	171,600
Deferred tax asset at 24%, if recognised	50,904	41,184

26. Derivative (liabilities)/assets

	Group			
	2018		**2017**	
	Contract/ notional amount RM'000	**Liabilities** RM'000	**Contract/ notional amount** RM'000	**Assets** RM'000
Non-hedging derivatives:				
Current				
Forward currency contracts	21,844	(930)	13,213	426

The Group uses forward currency contracts to manage some of the transaction exposure. These contracts are not designated as cash flow or fair value hedges and are entered into for periods consistent with currency transaction exposure and fair value changes exposure. Such derivatives do not qualify for hedge accounting.

At 31 December 2018, forward currency contracts were used to hedge the Group's sales denominated in USD and AUD for which firm commitments, extended to October 2019 (Note 36(d)).

As at 31 December 2018, the Group recognised a net loss of RM1,351,000 (2017: net gain of RM426,000) arising from fair value changes of derivative instruments. The fair value changes are attributable to changes in foreign exchange spot and forward rate.

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27. Trade and other payables

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Trade payables				
Third parties	45,431	58,010	-	-
Other payables				
Amount due to a subsidiary	-	-	17	4,389
Sundry payables	13,452	11,861	70	851
Payroll expenses	7,222	7,000	1,845	1,785
Other accruals	5,467	5,582	64	65
	26,141	24,443	1,996	7,090
Total trade and payables	71,572	82,453	1,996	7,090

(a) Trade payables

These amounts are non-interest bearing. Trade payables are normally settled on 30 to 120 day (2017: 30 to 120 day) terms.

(b) Sundry payables

Sundry payables are normally settled on an average term of 30 days (2017: 30 days) and are generally non-interest bearing. An amount of RM675,000 (2017: RM971,590) included in the sundry payables represents Marketing Fund of Amber Group Australia Pty Ltd. ("the Fund"). The Fund receives contributions from franchisees based on a percentage of store sales and is used for the advertising and marketing of products under Amber brand.

(c) Amount due to a subsidiary

The amount is unsecured, non-interest bearing and is payable on demand.

28. Provisions

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Long service leave and annual leave				
At 1 January	4,304	4,237	71	69
Provided during the year	1,138	1,257	31	36
Utilised during the year	(983)	(1,084)	(29)	(34)
Unused amounts forfeited	(18)	(25)	-	-
Translation differences	(313)	(81)	-	-
At 31 December	4,128	4,304	73	71
Analysed as:				
Current	3,701	2,951	73	71
Non-current	427	1,353	-	-
At 31 December	4,128	4,304	73	71

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29. Deferred capital grant

	Group	
	2018	**2017**
	RM'000	RM'000
Cost:		
At 1 January / 31 December 2018	1,085	1,085
Accumulated amortisation:		
At 1 January	487	284
Amortisation (Note 5)	203	203
At 31 December	690	487
Net carrying amount:		
Current	203	203
Non-current	192	395
At 31 December	395	598

Deferred capital grant relates to the foreign government grant received by the Group's subsidiary in the People Republic of China for undertaking and implementing environmental friendly plant and machineries. There are no unfulfilled conditions or contingencies attached to these grants.

30. Commitments

Capital commitments

	Group	
	2018	**2017**
	RM'000	RM'000
Property, plant and equipment:		
Authorised and contracted for	8,501	10,709
Authorised but not contracted for	10,000	10,000

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31. Related party disclosures

In addition to the related party information disclosed elsewhere in the financial statements the following transactions between the Group and related parties took place at terms agreed between the parties during the financial year:

	Group		Company	
	2018 RM'000	**2017** RM'000	**2018** RM'000	**2017** RM'000
(a) Transactions with directors and/or companies in which certain directors and their close family members have substantial financial interest:				
Income:				
(i) Sale of ceramic tiles: Pan Chyi Construction & Development Sdn. Bhd.	19	8	-	-
Expenditure:				
(ii) Rental of office and warehouses: Kim Hin (Malaysia) Sdn. Bhd.	1,996	1,996	-	-
(iii) Purchases of sanitaryware for resale: Kam Kam Sanitaryware Sdn. Bhd.	851	902	-	-
(iv) Renovation and maintenance costs: Pan Chyi Construction & Development Sdn. Bhd.	317	554	-	-
(v) Insurance commission earned as insurance agent: Kim Hin (Malaysia) Sdn. Bhd.	120	123	4	5
(vi) Legal services: Alex, Jason & Co.	-	15	-	-
(vii) Purchase of ceramic tiles for resale: Shanghai Kim Hin United Buildings Materials Co. Ltd.	953	4,827	-	-
(viii) Rental of office and warehouse: Kimmui Investments Pty. Ltd.	-	428	-	-

(b) Transactions with subsidiaries:

	Company	
	2018 RM'000	**2017** RM'000
Dividend income	9,730	12,207
Management fees	1,056	1,056
Rental income	227	227
Interest income	4,791	4,818

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31. Related party disclosures (contd)

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	RM'000	RM'000	RM'000
Wages and salaries	17,335	18,171	3,536	3,550
Social security costs	37	35	6	5
Defined contribution plan	2,317	2,415	651	654
Benefits-in-kind	270	261	79	56
	19,959	20,882	4,272	4,265
Included in the total remuneration of key management personnel are:				
Executive directors' remuneration (Note 9)	8,447	8,585	3,694	3,729

32. Fair value of financial instruments

Determination of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair values:

	Note
Trade and other receivables (current)	19
Cash and bank balances	21
Loans and borrowings	24
Derivative (liabilities)/assets	26
Trade and other payables (current)	27

(i) Cash and bank balances, other receivables and other payables

The carrying amounts of these balances approximate their fair values due to the short term nature.

(ii) Trade receivables and trade payables

The carrying amounts of these of trade receivables and trade payables approximate their fair value because they are subject to normal trade credit terms.

(iii) Loans and borrowings

The carrying value of bank borrowings and term loans approximate their fair values as they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

(iv) Derivatives

The fair values of forward currency contracts are the amounts that would be payable or receivable on termination of the outstanding position arising and are determined by reference to the contracted rate and forward exchange rates at the reporting date for contracts with similar maturity profiles.

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33. Fair value measurement

Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The following table provides the fair value measurement hierarchy of the Group's and the Company's assets and liabilities.

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at 31 December 2018

	Note	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31 December 2018					
Group					
Assets measured at fair value					
Unquoted unit trusts	16	22,170	-	-	22,170
Assets for which fair values are disclosed					
Investment properties	14	-	-	37,500	37,500
Liabilities measured at fair value					
Derivative liabilities	26	-	(930)	-	(930)
Company					
Assets measured at fair value					
Unquoted unit trusts	16	22,170	-	-	22,170
Assets for which fair values are disclosed					
Investment properties	14	-	-	30,000	30,000
31 December 2017					
Group					
Assets measured at fair value					
Unquoted unit trusts	16	27,770	-	-	27,770
Unquoted structured products	16	-	2,496	-	2,496
Derivative assets	26	-	426	-	426
		27,770	2,922	-	30,692
Assets for which fair values are disclosed					
Investment properties	14	-	-	31,000	31,000
Company					
Assets measured at fair value					
Unquoted unit trusts	16	27,770	-	-	27,770
Assets for which fair values are disclosed					
Investment properties	14	-	-	31,000	31,000

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34. Categories of financial instruments

The table below provides an analysis of the Group's and of the Company's financial instruments as at 31 December 2018 and 31 December 2017, categorised as follows:

(a) Amortised cost ("AC")
(b) Fair value through profit or loss ("FVTPL")

	Group		Company	
	AC RM'000	FVTPL RM'000	AC RM'000	FVTPL RM'000
31 December 2018				
Financial assets				
Trade and other receivables	78,489	-	96,528	-
Other investments	-	22,170	-	22,170
Cash and bank balances	53,817	-	6,083	-
	132,306	22,170	102,611	22,170
Financial liabilities				
Loans and borrowings	22,981	-	-	-
Trade and other payables	71,572	-	1,996	-
Derivative liabilities	-	930	-	-
	94,553	930	1,996	-
31 December 2017				
Financial assets				
Trade and other receivables	104,110	-	132,086	-
Derivative assets	-	426	-	-
Other investments	-	30,266	-	27,770
Cash and bank balances	58,463	-	1,067	-
	162,573	30,692	133,153	27,770
Financial liabilities				
Loans and borrowings	24,711	-	-	-
Trade and other payables	82,453	-	7,090	-
	107,164	-	7,090	-

35. Changes in liabilities arising from financing activities

	2018 RM'000	2017 RM'000
Group's borrowings		
At 1 January	24,711	32,958
Repayment of borrowings	(2,780)	(7,640)
Drawdown/(repayment) of overdrafts	1,050	(607)
At 31 December	22,981	24,711

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36. Financial risk management objectives and policies

The Group and the Company are exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, market price risk, liquidity risk, interest rate risk and foreign currency risk.

The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the senior management. The audit committee provides independent oversight to the effectiveness of the risk management process.

The Group has not undertaken any derivatives throughout the current and previous financial year except for the use of forward currency contracts. The Group does not apply hedge accounting.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

(a) Credit risk

Customer credit risk is managed by each entity in the Group and is subject to establish policy, procedures and control. Outstanding customer receivables are regularly monitored and major shipments are generally covered by letters of credit or other forms of collaterals. As at 31 December 2018, the Group had 29 customers (2017: 29) that owed more than RM500,000 each and accounted for approximately 45% (2017: 43%) of receivables outstanding. There were two (2017: Nil) customers with balances greater than RM3,000,000 accounting for about 12% (2017: Nil) of total trade receivables.

Impairment reviews are performed regularly and at the reporting date using the simplified approach. Generally, trade receivables are provided for expected credit loss when past due for more than six months. The letters of credits and other forms of collaterals are integral part of trade receivables and considered in the calculation of impairment.

Exposure to credit risk

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by:

- The carrying amount of each class of financial assets recognised in the statements of financial position.

- A nominal amount of RM22,981,000 (2017: RM24,711,000) relating to corporate guarantees provided by the Company to banks for bank borrowings granted to certain subsidiaries of the Company.

Credit risk concentration profile

The Group does not have any significant or concentration of credit risk that may arise from exposures to a single debtor or to groups of related debtors.

(b) Liquidity risk

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements.

36. Financial risk management objectives and policies (contd)

(b) Liquidity risk (contd)

Analysis of financial instruments by remaining contractual maturities

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

	On demand or within one year RM '000	One to five years RM '000	Over five years RM '000	Total RM'000
Group				
Financial liabilities				
2018				
Trade and other payables	71,572	-	-	71,572
Derivative liabilities	930	-	-	930
Loans and borrowings	5,085	15,617	6,180	26,882
Total undiscounted financial liabilities	77,587	15,617	6,180	99,384
2017				
Trade and other payables	82,453	-	-	82,453
Loans and borrowings	4,025	15,811	9,835	29,671
Total undiscounted financial liabilities	86,478	15,811	9,835	112,124
Company				
Financial liabilities				
2018				
Other payables	1,996	-	-	1,996
Financial guarantees*	22,981	-	-	22,981
Total undiscounted financial liabilities	24,977	-	-	24,977
2017				
Other payables	7,090	-	-	7,090
Financial guarantees*	24,711	-	-	24,711
Total undiscounted financial liabilities	31,801	-	-	31,801

* Based on the maximum that can be called for under the financial guarantee contracts.

(c) Interest rate risk

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

The Group's exposure to market risk for changes in interest rates arises primarily from its long-term debt obligations with floating interest rates. Interest rate exposure is managed by maintaining a balanced mix of fixed and floating rate borrowings and regular reviews of its debt portfolio.

Information on maturity dates and effective interest rates of financial assets and liabilities are disclosed in their respective notes.

36. Financial risk management objectives and policies (contd)

(c) Interest rate risk (contd)

Sensitivity analysis for interest rate risk

At the reporting date, it is estimated that a ten (10) basis points increase in interest rate, with all other variables held constant, would decrease the Group's profit net of tax by approximately RM22,000 (2017: RM26,000), arising mainly as a result of higher interest expense on net floating borrowing position. A decrease in interest rate would have had equal but opposite effect on the aforesaid amount, on the basis that all other variables remained constant.

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment.

(d) Foreign currency risk

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

The Group has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily Ringgit Malaysia ("RM"), Australian Dollar ("AUD") and Renminbi ("RMB"). The foreign currencies in which these transactions are denominated are mainly United States Dollars ("USD"), AUD and EURO ("EUR").

The Group uses forward currency contracts to eliminate the currency exposures after it has entered into a firm commitment for a sale. The forward currency contracts must be in the same currency as the hedged item.

At 31 December 2018, the Group hedged 20% (2017: 20%) of its foreign currency denominated sales, for which firm commitments extended to October 2019.

The Group also hold cash and cash equivalents denominated in foreign currencies for working capital purposes. At the reporting date, the Group's foreign currency balances denominated in AUD and EURO amount to RM5,884,744 (2017: RM133,064) for its Malaysian operations.

The Group is also exposed to currency translation risk arising from its net investments in foreign operations, including People's Republic of China, Australia and Vietnam.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's and the Company's profit net of tax to a reasonably possible strengthening/weakening of the USD, AUD and EUR exchange rates against the functional currency of the Group and of the Company, with all other variables held constant.

			Group Profit net of tax		**Company Profit net of tax**	
			2018	**2017**	**2018**	**2017**
			RM'000	RM'000	RM'000	RM'000
USD	-	Strengthen 15% (2017: 11%)	(24)	2,640	-	-
	-	Weaken 9% (2017: 7%)	(490)	(293)	-	-
AUD	-	Strengthen 8% (2017: 9%)	655	532	525	1,496
	-	Weaken 2% (2017: 3%)	(86)	(177)	(66)	(497)
EUR	-	Strengthen 3% (2017: 6%)	(70)	562	-	-
	-	Weaken 6% (2017: 7%)	47	(282)	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

37. Capital management

The primary objective of the Group's capital management is to maintain an optimal capital structure in order to support its business and enhance its shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions, risk inherent in its business operations or expansion plan of the Group. The initiatives in maintaining the Group's capital structure include issuance of shares, adjusting dividend payment to shareholders, or returning capital to shareholders. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017.

As disclosed in Note 23(a), a subsidiary of the Group is required by the Foreign Enterprise Law of the People's Republic of China to contribute to and maintain a non-distributable reserve fund whose utilisation is subject to the approval by the relevant foreign authority. This externally imposed capital requirement has been complied with by the subsidiary for the financial years ended 31 December 2018 and 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, trade and other payables, and loans and borrowings, less cash and bank balances. Capital includes equity attributable to the owners of the parent less translation adjustment account, and the above-mentioned restricted reserve fund.

		Group		Company	
	Note	**2018** RM'000	**2017** RM'000	**2018** RM'000	**2017** RM'000
Trade and other payables	27	71,572	82,453	1,996	7,090
Loans and borrowings	24	22,981	24,711	-	-
Less: Cash and cash balances	21	(53,817)	(58,463)	(6,083)	(1,067)
Net debt		40,736	48,701	(4,087)	6,023
Equity attributable to equity holder of the Company		441,148	510,672	364,977	363,679
Less: Other reserves	23	(11,996)	(16,061)	-	-
Capital		429,152	494,611	364,977	363,679
Net debt		40,736	48,701	(4,087)	6,023
Capital		429,152	494,611	364,977	363,679
Total capital plus net debt		469,888	543,312	360,890	369,702
Gearing ratio		8.67%	8.96%	-	1.63%

38. Segmental reporting

The Group operates principally in one industry and is organised into four operating segments according to geographical locations based on information reported internally.

Management monitors the operating results of its business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on profit or loss net of tax and non-controlling interests.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Transfer prices between business segments are set on mutually agreed terms. Segment revenue, expenses and results include transfers between business segments. These transfers are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

38. Segmental reporting (contd)

	Malaysia operation RM'000	China operation RM'000	Australia operation RM'000	Vietnam operation RM'000	Total RM'000
31 December 2018					
Revenue					
Total sales	212,456	57,180	157,331	6,234	433,201
Less: Inter-segment sales	(29,398)	(1,077)	-	-	(30,475)
	183,058	56,103	157,331	6,234	402,726
Results					
Segment operating (loss)/profit	(56,873)	3,488	(924)	458	(53,851)
Finance costs	(1,226)	-	(39)	-	(1,265)
(Loss)/profit before tax	(58,099)	3,488	(963)	458	(55,116)
Income tax expense	(5,484)	(865)	10	(92)	(6,431)
(Loss)/profit for the year	(63,583)	2,623	(953)	366	(61,547)
Non-controlling interests	-	(634)	-	(111)	(745)
(Loss)/profit attributable to owners of parent	(63,583)	1,989	(953)	255	(62,292)
Assets					
Segment assets	335,841	90,233	89,237	3,566	518,877
Other investments	22,170	-	-	-	22,170
Intangible assets	-	-	15,749	-	15,749
Tax recoverable	3,162	-	1,272	-	4,434
Deferred tax assets	714	664	1,892	-	3,270
Total assets	361,887	90,897	108,150	3,566	564,500
Liabilities					
Segment liabilities	39,745	8,134	28,556	195	76,630
Loan and borrowings	22,981	-	-	-	22,981
Tax payable	-	1,599	-	38	1,637
Deferred tax liabilities	70	-	4,725	-	4,795
Deferred capital grant	-	395	-	-	395
Total liabilities	62,796	10,128	33,281	233	106,438
Other information					
Depreciation	19,441	2,645	1,639	55	23,780
Impairment loss on intangible assets	9,218	-	-	-	9,218
Impairment loss on property, plant and equipment	19,200	-	-	-	19,200
Inventories written down	4,560	725	-	-	5,285
Loss on fair value changes on instruments at fair value through profit or loss, net					
- derivatives	350	1,001	-	-	1,351
- other investments	2,847	-	-	-	2,847

38. Segmental reporting (contd)

	Malaysia operation RM'000	China operation RM'000	Australia operation RM'000	Vietnam operation RM'000	Total RM'000
31 December 2017					
Revenue					
Total sales	215,065	64,925	164,809	6,502	451,301
Less: Inter-segment sales	(28,998)	(2,025)	-	-	(31,023)
	186,067	62,900	164,809	6,502	420,278
Results					
Segment operating (loss)/profit	(3,073)	9,346	13,024	399	19,696
Finance costs	(1,284)	-	(153)	-	(1,437)
(Loss)/profit before tax	(4,357)	9,346	12,871	399	18,259
Income tax expense	(1,449)	(2,442)	(4,794)	(23)	(8,708)
(Loss)/profit for the year	(5,806)	6,904	8,077	376	9,551
Non-controlling interests	-	(1,416)	-	(113)	(1,529)
(Loss)/profit attributable to owners of parent	(5,806)	5,488	8,077	263	8,022
Assets					
Segment assets	384,371	96,676	101,370	3,765	586,182
Other investments	27,770	2,496	-	-	30,266
Intangible assets	9,218	-	15,749	-	24,967
Tax recoverable	1,884	-	-	-	1,884
Deferred tax assets	5,078	-	1,998	-	7,076
Total assets	428,321	99,172	119,117	3,765	650,375
Liabilities					
Segment liabilities	23,493	10,273	50,016	2,975	86,757
Loan and borrowings	24,711	-	-	-	24,711
Tax payable	18	2,830	2,094	23	4,965
Deferred tax liabilities	77	-	4,725	-	4,802
Deferred capital grant	-	598	-	-	598
Total liabilities	48,299	13,701	56,835	2,998	121,833
Other information					
Depreciation	18,861	2,237	1,460	63	22,621
Gain on fair value changes on instruments at fair value through profit or loss, net					
- derivatives	(283)	(143)	-	-	(426)
- other investments	(3,344)	-	-	-	(3,344)
Inventories written down	4,405	-	-	-	4,405

39. Authorisation of financial statements for issue

The financial statements for the financial year ended 31 December 2018 were authorised for issue by the Board in accordance with a resolution of the directors on 15 April 2019.

STATISTICS ON SHAREHOLDINGS
AS AT 29 MARCH 2019

Analysis by Size of Shareholdings as at 29 March 2019

Total number of issued shares	:	155,616,013
Class of shares	:	Ordinary shares
Voting rights	:	One vote per ordinary share

Category	No. of Shareholders	% of Shareholders	No. of Shares◆	% of Shares ◆
1 to 99	97	3.151	3,601	0.003
100 to 1,000	656	21.313	478,195	0.341
1,001 to 10,000	1,785	57.992	7,120,017	5.077
10,001 to 100,000	478	15.530	14,279,900	10.183
100,001 to less than 5% issued shares	60	1.949	32,167,575	22.937
5% and above of issued shares	2	0.065	86,189,825	61.459
TOTAL	**3,078**	**100.000**	**140,239,113**	**100.000**

List of Thirty (30) Largest Shareholders as at 29 March 2019

No.	Name	No. of Shares ◆	% ◆
1.	CIMSEC Nominees (Tempatan) Sdn. Bhd. CIMB For Kim Hin (Malaysia) Sdn. Bhd. (PB)	62,254,025	44.391
2.	Kim Hin (Malaysia) Sdn. Bhd.	23,935,800	17.067
3.	Lim Pei Tiam @ Liam Ahat Kiat	4,526,000	3.227
4.	Galister International Ltd	3,900,000	2.780
5.	DB (Malaysia) Nominee (Asing) Sdn. Bhd. Deutsche Bank AG Singapore For Yeoman 3-Rights Value Asia Fund (PTSL)	3,525,000	2.513
6.	UOBM Nominees (Asing) Sdn. Bhd. United Overseas Bank Nominees (Pte) Ltd For China Cruise Company Ltd	2,582,400	1.841
7.	DB (Malaysia) Nominee (Asing) Sdn. Bhd. Exempt An For Bank of Singapore Limited	2,000,000	1.426
8.	Chua Seng Huat	1,113,225	0.793
9.	Affin Hwang Nominees (Asing) Sdn. Bhd. Exempt An For DBS Vickers Securities (Singapore) Pte Ltd (Clients)	850,800	0.606
10.	HLB Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account For Lim Pay Kaon	800,000	0.570
11.	Gan Kho @ Gan Hong Leong	667,300	0.475
12.	Goh Thong Beng	667,000	0.475
13.	Nican Asia Limited	650,000	0.463
14.	Affin Hwang Nominees (Asing) Sdn. Bhd. DBS Vickers Secs (S) Pte Ltd For Lim Mee Hwa	600,000	0.427
15.	Tan Aik Choon	548,700	0.391
16.	Dato' John Chua Seng Chai	524,650	0.374
17.	Asia Selatan (M) Sdn. Bhd.	490,000	0.349
18.	Taman Bunga Merlimau Sdn. Bhd.	486,000	0.346

STATISTICS ON SHAREHOLDINGS
AS AT 29 MARCH 2019

19.	Tham Kin Foong (John)	470,100	0.335
20.	CIMSEC Nominees (Asing) Sdn. Bhd. Exempt an for CGS-CIMB Securities (Singapore) Pte. Ltd. (Retail Clients)	320,100	0.228
21.	Maybank Nominees (Tempatan) Sdn. Bhd. Chua Eng Ho Wa'a @ Chua Eng Wah	309,400	0.220
22	Tam Soon Sian	300,000	0.213
23.	Chua Seng Guan	296,000	0.211
24.	Pauline Getrude Chua Hui Lin	295,000	0.210
25.	Maybank Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account For Liau Thai Min	275,700	0.196
26.	Chua Seng Guan	270,000	0.192
27.	KAF Trustee Berhad KIFB For Altima, Inc	266,400	0.189
28.	Liew Kon Mun	218,100	0.155
29.	CIMSEC Nominees (Tempatan) Sdn. Bhd. Exempt An For CGS-CIMB Securities (Singapore) Pte. Ltd. (Retail Clients)	217,200	0.154
30.	HSBC Nominees (Asing) Sdn. Bhd. Exempt an for the Hongkong and Shangkai Banking Corporation Limited (HBAP-SGDIV-ACCL)	208,000	0.148

List of Directors' Shareholdings as at 29 March 2019

No.	Name	Direct	Indirect
1.	Chua Seng Huat	1,113,225	86,189,825*
2.	Dato' John Chua Seng Chai	524,650	86,189,825*
3.	Chua Seng Guan	566,000	86,189,825*
4.	Pauline Getrude Chua Hui Lin	328,900	86,204,175*∆
5.	Chua Yew Lin	242,400	86,189,825*
6.	Fong Tshu Kwong	20,000	-
7.	Ong Ah Ba	10,000@	-
8.	Yong Lin Lin	-	-

List of Substantial Shareholders as at 29 March 2019

		No. of shares			
No.	**Name of Substantial Shareholders**	**Direct**	**% ◆**	**Indirect**	**% ◆**
1.	Kim Hin (Malaysia) Sdn. Bhd.	86,189,825^	61.459	-	-
2.	Chua Seng Guan	566,000	0.403	86,189,825*	61.459
3.	Dato' John Chua Seng Chai	524,650	0.374	86,189,825*	61.459
4.	Chua Seng Huat	1,113,225	0.793	86,189,825*	61.459
5.	Pauline Getrude Chua Hui Lin	328,900	0.234	86,204,175* ∆	61.469
6.	Chua Yew Lin	242,400	0.172	86,189,825*	61.459
7.	Chua Seng Khoon	-	-	86,189,825*	61.459

Notes:

◆ Exclude treasury shares of 15,376,900 as at 29 March 2019

* Deemed interest by virtue of shareholdings in Kim Hin (Malaysia) Sdn. Bhd.

∆ Deemed interested by virtue of 14,350 shares held by her spouse, Mr Charles Pan Chyi.

^ Shares held through CIMSEC Nominees (Tempatan) Sdn. Bhd.<CIMB for Kim Hin (Malaysia) Sdn. Bhd (PB)> - 62,254,025

@ Shares held through BHLB Trustee Berhad Exempted – Trust Account for EPF Investment for Member Savings Scheme

PARTICULARS OF THE GROUP'S PROPERTIES

Details of the top 10 properties of the Group as at 31 December 2018, all of which are leasehold/freehold properties, set out below:

No	Location	Description / Existing Use	Year of Revaluation/ Acquisition	Approximate Age Of Building (Year)	Land/Area M2	Leasehold Expiry Date	NBV '000 (RM)
	Sarawak						
1	Lot 2124 Block 226 Kuching North Land District (KNLD)	Country Land/ Mixed Zone Land; 3 Storeys Old Office Block	1992	34	60,187	13/07/2057	11,737
	Lot 96, 929 & 930, Block 226, KNLD	Factory Building, Worker Quarters, Warehouse, 3 Storeys New Office	1992	27 27 27 23	66,330	31/12/2038	
	Johor						
2	PTD No 135903-135906 GM Lot 1284, Batu 8 Jalan Skudai, Mukim Pulai, Daerah Johore Bharu	Warehouse/Office/ Showroom	2007	12	3,554	freehold	3,987
3	PTD 106708, HS (D) 61844 (Asiatic) Mukim Senai-Kulai, Indahpura Industrial Park, Johor Bharu	Industrial Vacant Land	1997	-	16,340	freehold	4,160
	Negeri Sembilan						
4	HS(D) 43950 to HS(D) 43963 Lot 10807 To Lot 10820 Mukim Rentau District Of Seremban	Industrial Land; Factory & expansion Office Building	1989	- 29, 8 21	61,500	freehold	27,511
5	Lot 10806, GRN 116899 Tuanku Jaafar Industrial Estate Sungai Gadut District of Seremban	Industrial Land Warehouse	2013	23	44,456	freehold	15,981
6	Hakmilik PN229220, Lot 1780, Pekan Senawang, Daerah Seremban	Industrial Land;	2016		12,173	20/7/2052	26,211
	Hakmilik H.S.(D) 128462, P.T. 1329 (Plot 75B), Mukim Ampangan, Daerah Seremban	Industrial Land; Factory & Office Building	2016	31	16,187	8/7/2080	
	Hakmilik PN 48805, Lot 61215, Pekan Senawang, Daerah Seremban	Industrial Land; Factory Office Building	2016	39	40,000	11/12/2074	
	Singapore						
7	#08-10 Goodwood Residence 263, Bukit Timah Road 259704 Singapore	Condominium	2010	5	233	freehold	13,817
	The People Republic of China						
8	Zhujing Development Area Jinshan Country, Shanghai	Industrial Land, Factory/Office Building	1992	- 24	216,396	05/11/2042	17,343
9	No 3, 32nd Floor, Alley 333, Jing An Si Ji Yuan Apt, Lorong 42 Nanjing West Road Shanghai	Condominium	2008	11	193	18/7/2071	2,023
10	Unit 610, 5th Floor, No. 108 Qibao Wan Xin International Center Lane 1333, Xinlong Road, Shanghai	Office Unit	2018	-	250.79	2069	7,689

KIM HIN INDUSTRY BERHAD

(Company No. 018203-V)
(Incorporate in Malaysia)

Shareholding Represented by Proxy	

FORM OF PROXY

I/We...(Name in full) ....(IC/Company No.) of...(Address) being a member/members of KIM HIN INDUSTRY BERHAD ("the Company"), hereby appoint... (Name in full) of..(Address) or failing him/her the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf at the Forty-Sixth Annual General Meeting of the Company to be held at Kim Hin Industry Berhad's Conference Room, 4 ½ Mile, Kung Phin Road, Off Penrissen Road, 93250 Kuching, Sarawak, on Monday, 27 May 2019, at 2.00 p.m. and at any adjournment thereof.

My/our proxy is to vote as indicated below:

NO.	RESOLUTIONS	FOR	AGAINST
1.	To approve the payment of Directors' fees amounting to RM264,000.00 for the financial year ended 31 December 2018.		
2.	To re-elect Dato' John Chua Seng Chai as Director of the Company.		
3.	To re-elect Mr. Fong Tshu Kwong as Director of the Company.		
4.	To re-elect Mr. Yong Lin Lin as Director of the Company.		
5.	To re-appoint Messrs. Ernst & Young as auditors of the Company until the conclusion of the next Annual General Meeting and to authorize the Board of Directors to fix their remuneration.		
6.	To authorize Directors to allot and issue shares pursuant to Section 75 and Section 76 of the Companies Act 2016.		
7.	To approve the proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature ("Proposed Shareholders' Mandate").		
8.	To approve the retention of Mr. Fong Tshu Kwong as Independent Director of the Company.		
9.	To approve the retention of Mr. Ong Ah Ba as Independent Director of the Company.		
10.	To approve the proposed Adoption of New Constitution of the Company.		

Please indicate "X" in the appropriate box against each resolution how you wish your vote to be casted. If no specific direction as to voting is indicated, the proxy will vote or abstain at his/her direction.

....
Signature of shareholder(s)/common seal

Dated this ……………… day of May 2019

Notes

1. *A member entitled to attend, speak and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and vote in his stead. A proxy may but need not be a member of the Company and there shall be no restriction as to the qualification of the proxy. A proxy appointed to attend, speak and vote at a meeting of a Company shall have the same rights as the member to speak at the meeting.*
2. *A member of the Company entitled to attend, speak and vote at this Annual General Meeting shall not be entitled to appoint more than two (2) proxies to attend, speak and vote at the same meeting. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy.*
3. *If the appointor is a corporation, the form of proxy must be executed under its Common Seal or under the hand of an officer or attorney duly authorised.*
4. *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) 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. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA") which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.*
5. *The instrument appointing a proxy must be deposited at the Registered Office of the Company 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.*
6. *A depositor whose name appears in the Record of Depositors as at 21 May 2019 shall be entitled to attend the meeting and to speak and vote thereat.*

Affix Stamp

The Company Secretary

Kim Hin Industry Berhad (018203-V)

4 $^1/_2$ Mile, Kung Phin Road,
Off Penrissen Road,
93250 Kuching, Sarawak.

KIM HIN INDUSTRY BERHAD

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