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K. SENG SENG CORPORATION BERHAD

(Company No.: 133427-W)

annual report **2018**

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Koh Seng Kar @ Koh Hai Sew
Chairman/Managing Director
(Demised on 23 March 2019)

Koh Seng Lee
Deputy Managing Director

Tsen Ket Shung @ Kon Shung
Executive Director

Lim Ho Kin
Senior Independent Non-Executive Director

Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff
Independent Non-Executive Director

Yap Siok Teng
Independent Non-Executive Director

AUDIT AND RISK MANAGEMENT COMMITTEE

Chairman
Yap Siok Teng
Members
Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff
Lim Ho Kin

REMUNERATION COMMITTEE

Chairman
Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff
Members
Yap Siok Teng
Lim Ho Kin

NOMINATION COMMITTEE

Chairman
Lim Ho Kin
Members
Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff
Yap Siok Teng

COMPANY SECRETARIES

Lim Seck Wah
(MAICSA NO.: 0799845)
M. Chandrasegaran A/L S. Murugasu
(MAICSA NO.: 0781031)

REGISTERED OFFICE

Level 15-2
Bangunan Faber Imperial Court
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel : 03-2692 4271
Fax : 03-2732 5388

SHARE REGISTRAR

Mega Corporate Services Sdn Bhd *(187984 H)*
Level 15-2, Bangunan Faber Imperial Court
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel : 03-2692 4271
Fax : 03-2732 5388

PRINCIPAL BANKERS

Citibank Berhad
Hong Leong Bank Berhad
Malayan Banking Berhad

SOLICITORS

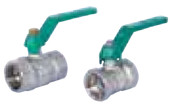
Teh Cheng Aik & Co

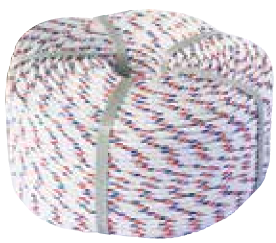
AUDITORS

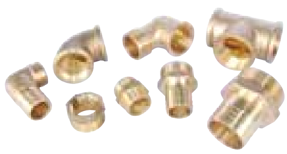
Baker Tilly Monteiro Heng PLT *(LLP0019411-LCA & AF 0117)*
Chartered Accountants
Baker Tilly Tower
Level 10 Tower 1 Avenue 5
Bangsar South City
59200 Kuala Lumpur, Malaysia
Website: www.bakertilly.my
Tel : 03-2297 1000
Fax : 03-2282 9980

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia
Securities Berhad
STOCK CODE: 5192







CORPORATE STRUCTURE

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K. SENG SENG CORPORATION BERHAD
(Company No.: 133427-W)

- 100% K. Seng Seng Industries Sdn Bhd (KSSI) (490138-K)
- 100% PTM Stainless Steel Industry Sdn Bhd (f.k.a. PTM Steel Industry Sdn Bhd) (244942-P)
- 100% Three & Three Hardware Sdn Bhd (TTH) (352333-P)
- 100% K Seng Seng Parts Sdn Bhd (KSSP) (722242-D)
- 100% KSG Engineering Sdn Bhd (KSG) (922460-A)
  - 100% K.Seng Seng Manufacturing Sdn Bhd (KSSM) (791541-W)
- 75% Koseng Sdn Bhd (970606-A)
- 50% EIE Asian Holding Sdn Bhd (EIE) (569526-P)

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATING ACTIVITIES

The Group is primarily engaged in the manufacturing of secondary stainless steel and stainless steel related products, trading of industrial hardware including marine hardware and consumables; engineering works, fabrication and installation of glove dipping line and trading of glove dipping line parts. The Holding Company is principally engaged in investment holding related activities.

The key business segment of the Group are as follows:

a) The stainless steel products segment is in the business of manufacture and sales of stainless steel tubes and pipes, and processing of stainless steel sheets products;

b) The marine hardware & consumable segment is in the business of trading of marine hardware includes, amongst others, PP and PE ropes, stainless steel bars, stainless steel fasteners, GI wire, wire ropes and wire netting, nylon trammel and PE nets, copper tubes, chain, brass stern gland and propellers, square boat and shank spikes, packing and asbestos sheets, stainless steel electrode and rigging hardware such as zincked block, pulley, pin shaft, hooks and chain block;

c) The other industrial hardware segment is in the business of trading of industrial hardware including, amongst others, bronze shaft, brass tubes, other steel industrial fasteners such as HT, MS and GI bolts and nuts, screws, washers and shackles, ductile iron pipe and fittings such as flange, valves, tapers, hose clips and clamps, industrial hoses such as spring hose, PVC hose, black rubber suction and water hose and PVC reinforced air hose, alloy chain, stainless steel wire mesh, colour cotton rag, rubber conveyor belt, industrial wipes, safety absorbent and fibre ceramic blanket; and

d) The engineering works segment is in the business of manufacturing and installation of Double or Single former on-line chlorination nitrile glove dipping lines and Double or Single former rubber glove dipping lines, trading of dipping lines part sand consumable including, amongst others, conveyor chain and conveyor chain parts, former holder set, worm gear and motor, and engineering services including machining, cutting, dismantle and cleaning of conveyor chain.

The Group will continue to enhance the Group marketing strategy through expansion of the Engineering Works Segment and increase the Group products offering to increase revenue. Barring the economic uncertainty, the Board strives for the betterment.

REVIEW OF OPERATING ACTIVITIES OF EACH BUSINESS SEGMENT OF THE GROUP

	Stainless steel products	Marine hardware & consumable	Other industrial hardware	Engineering Works	Total
12 months ended 31/12/2018	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenues from external customers	35,655	30,145	32,427	8,537	106,764
Reportable segment gross profit.	2,832	8,294	6,818	1,201	19,145
12 months ended 31/12/2017					
Revenues from external customers	39,734	33,342	28,103	22,040	123,219
Reportable segment gross profit	5,252	9,018	6,636	2,706	23,612

MANAGEMENT DISCUSSION AND ANALYSIS
continued

The Group revenue for the financial year 2018 had decreased by 13.5% from RM123.22 million as reported in the prior financial year 2017 to RM106.76 million.

Sales of Stainless Steel Products segment and Marine Hardware & Consumable segment accounted for approximately 61.63% of total revenue. Revenue from Other Industrial Hardware segment and Engineering Works segment constituted approximately 30.37% and 8% respectively of total revenue.

During the financial year under review, the Company generated revenue of RM35.66 million or decreased by 10.27% for Stainless Steel Products segment as compared to RM39.73 million as reported in prior financial year. The Company generated revenue of RM8.54 million or decreased by 61.27% for Engineering Works segment as compared to RM22.04 million as reported in corresponding in prior financial year. This was principally due to completion of the fabrication & installation of Gloves Dipping Line in the corresponding prior financial year compare to current year under review.

Revenue from Other Industrial Hardware segment increased marginally from RM28.1 million to RM32.43 million or 15.39% as compared to prior year. However this segment contributed gross profit margin of RM6.82 million approximately same as prior year of RM6.64 million.

In spite of the decreased revenue in Marine Hardware & Consumable segment amounting from RM30.15 million or 9.59% as compared to prior year of RM33.34 million, this segment contributed gross profit margin of RM8.29 million as compared to prior year RM9.02 million.

	12 months ended		
	31/12/2018	**31/12/2017**	**Changes**
	RM'000	**RM'000**	**%**
Revenue	106,764	123,219	(13.35)
Operating Profit	**2,560**	**8,709**	**(70.61)**
Profit Before Interest and Tax	2,831	9.062	(68.76)
Profit Before Tax	1,184	7,629	(84.48)
Profit After Tax	**1,036**	**5,696**	(81.81)
Profit Attributable to Ordinary Equity Holders of the Parent holders of the parent	1,018	5,475	(81.41)

The Group profit before tax for the year had decreased from RM7.63 million in the corresponding preceding year to RM1.18 million, representing decreased of 84.48%. This was mainly attributable to lower revenue as described in the above and impairment loss in trade receivable of RM1.26 million.

PROCESS OF ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

The Group has established the process work flow on accounts receivables. There is a team of credit control personnel to closely monitor the accounts receivables. All sales orders and delivery orders were duly verified and billings are issued on timely basis. All these were carried out by three different departments to avoid any conflict of interest.

The accounts payable must be supported with purchase order and relevant invoices, verified by the respective heads of department before payment is made in accordance with the credit terms.

There is an internal audit regularly in place to check and control the flow of the work.

MANAGEMENT DISCUSSION AND ANALYSIS
continued

MANUFACTURE OF STAINLESS PRODUCTS

The Management takes heed on the safety and health of the employees by adhering to regulations under Section 24 of the Occupational Safety and Health Act 1994 and recommended actions from our internal audit. The workers are subject to relevant on job training and safety awareness.

PROSPECT OF OUR GROUP

With the strengthening of US dollar against Malaysia Ringgit couple with foreign labour wages, it affects the cost of doing business and erodes the margin of the Group.

The Board will continue to enhance the Group marketing strategy through expansion of the Engineering Works and Stainless Steel Segments in order to increase the Group products offering and thereby to increase Company's revenue. Barring the economic uncertainty, the Board strives for the betterment.

CHALLENGES AHEAD

Following China's move to slash its output and clamp down on illegal mills, steel prices have improved. However, the business prospects for the Group are expected to remain challenging.

The weakening of the Ringgit, shrinking market share and growing capacities in ASEAN countries mainly Vietnam will further aggravate the concern to the local steel producers. The concern over excess capacity and the influx of cheap imports from China although still a concern has somewhat alleviated with China's planned reduction in excess steel capacity.

On the domestic front, steel demand will continue to be supported by the Malaysian Government plans to increase investment in infrastructure through mega projects such as Greater KL, High Speed Rail Transit, Mass Rapid Transit, East Coast Railway Line as well as new highways, including Pan Borneo Highway. All these projects would boost demand for steel products and sustain a positive outlook for the Malaysian steel industry.

Moving forward, the Group will remain focus and continue to undertake prudent measures to improve efficiencies on manufacturing costs, procurement strategies, sales and working capital management. The Group will further enhance its technical capabilities for higher value added products and continuously expand products range to remain in the forefront of the steel industry in Malaysia as well as Southeast Asia.

DIVIDEND

Our Group has adopted Dividend Policy of 40% of the Distributable Profit. Our Group has been distributing Dividend since Listing.

The Board of Directors would like to reward the valued shareholders for their support by proposing a first and final single tier dividend of 0.5 sen per ordinary share for the financial year ended 31 December 2018. The proposed dividend, if approved by shareholders at the AGM, to be held on 21 May 2019, will be paid on 12 June 2019 to those registered as at 28 May 2019.

SUSTAINABILITY STATEMENT

INTRODUCTION

The Board of Directors ("Board") of K.Seng Seng Corporation Berhad ("KSSC") is proud to present the Sustainability Statement for the financial year ended 31 December 2018. This Statement reflects the economic, environmental and social considerations upon the KSSC's business. In our strategy to deliver sustainable performance, we place emphasis on managing those economic, environmental and social implications from our business, especially those which significantly reflect KSSC's impact as well as those which substantively influence the assessment and decision of KSSC's key stakeholders.

This Statement is prepared in the manner prescribed by Bursa Malaysia Securities Berhad ("Bursa") in its Main Market Listing Requirements ("Listing Requirements") and taking into consideration the Sustainability Reporting Guide – 2nd Edition and its accompanying Toolkits issued by Bursa.

KSSC is an investment holding company. The activities of the KSSC Group include manufacturing of secondary stainless steel products namely welded stainless steel tubes and pipes, stainless steel industrial fasteners, rigging accessories and components; processing of secondary stainless steel flat and long products namely stainless steel sheets, stainless steel round bars, stainless steel flats bars as well as stainless steel angles bars; trading of industrial hardware including marine hardware and consumables; engineering works, fabrication and installation of glove dipping line and trading of glove dipping line parts.

Our "Sustainability Policy" supports our commitment to reaching an equilibrium between being at the forefront of our industry and meeting the commercial expectations of our stakeholders. The said Sustainability Policy entails:

- Compliance of highest ethical standards by suppliers;
- Compliance to environmental and occupational safety and health regulations;
- "Green" principles in procurement and manufacturing practices;
- Management and disposal of waste in a responsible manner;
- Commitment to ensure a safe and healthy working environment;
- Fair and just treatment of employees;
- Training and development of employees;
- Contributions towards local authorities and communities;
- Uphold business excellence and continuity;
- On-going development of clients for long-term partnerships; and
- Compliance to better practices under the Malaysian Code of Corporate Governance.

SCOPE

This report focuses on key operations in the Balakong main plant, i.e. covering 6 wholly-owned subsidiaries, operating across manufacturing and processing of stainless-steel products, other industrial hardware such as bronze and copper, and engineering works. These operations amount to approximately 71.7% of the total revenue contribution to the Group. As KSSC develops maturity in its sustainability management and reporting process, it will seek to expand the coverage of the Group's sustainability reporting scope.

SUSTAINABILITY STATEMENT
continued

GOVERNANCE STRUCTURE

The task of managing economic, environmental and social matters, including implementation of sustainability strategy and initiatives approved by the Board falls on the Sustainability Working ("SW") Committee, which comprises key staff from various departments of the operating companies nominated by the Sustainability Steering ("SS") Committee. The SW Committee reports sustainability matters to the SS Committee as and when required or at least annually.

The SS Committee, a delegate of the Board, comprises senior Heads of Department of relevant operations and chaired by the Group Managing Director, is responsible to oversee implementation of sustainability strategy and initiatives by the SW Committee. The SS Committee reports to the Board as and when required or at least annually, whom is ultimately responsible for ensuring that KSSC's business strategy considers sustainability, including the economic, environmental and social impacts on KSSC. The Board is also responsible in providing leadership by approving KSSC's sustainability strategy and initiatives and oversees the performance of the management of MSM.

APPROACH TO CONSIDERING KSSC'S SUSTAINABILITY MATTERS

In considering the material sustainability matters of KSSC, the Management has deployed the materiality process as promulgated by Bursa's Sustainability Reporting Guide – 2nd Edition and its accompanying Toolkits. The materiality process focuses on identification, assessment and prioritisation of KSSC's stakeholders and sustainability matters, with the aim of understanding how material each economic, environmental or social matter is to KSSC's business and its key stakeholders. Material Sustainability Matters ("MSM") are identified, assessed and determined largely based on the criteria prescribed by Bursa in Paragraph 6.3, Practice Note 9 of the Listing Requirements, as follows:

- MSMs which reflect KSSC's significant economic, environmental and social impact; and/ or
- MSMs which substantially influence the assessment and decision of KSSC's key stakeholders.

KEY STAKEHOLDERS

We believe in, and appreciates, the value stakeholder engagement brings, towards enhancing the value of the Company and the Group, not only in financial terms but also in the context of the economy, environment and society. Engagement with key stakeholders enables us to understand how our business may affect stakeholders as well as how stakeholders may have influence over our business. It facilitates informed decision making for us as a responsible business in its pursuit to deliver optimal value for stakeholders and ensure business continuity.

Each stakeholder group is unique, and we have adopted engagement strategies and methods customised to effectively and efficiently engage with each stakeholder group. A summary of how stakeholders are engaged, including some of the focus areas raised or discussed during engagements, are summarised as follows:

Stakeholders	Mode of engagement	Frequency of engagement	Sustainability material matters	Sustainability issues of concern
Shareholders & Investors	- Annual General Meeting - Announcements on Bursa Malaysia - Press releases - Financial statements - Annual report	- Annually - Quarterly	- Industry environment - Profitability - Dividend - Return on Investment - Financial performance - Share performance - Ethics & integrity - Corporate governance & transparency	- Growth trajectory - Acquisitions & expansion - Market diversification - Risk management - Corporate governance - EES indicators - Sustainability performance & tracking - Reporting standards

SUSTAINABILITY STATEMENT
continued

Stakeholders	Mode of engagement	Frequency of engagement	Sustainability material matters	Sustainability issues of concern
Customers	- Face to face interaction - Customer feedback - Customer buy-off - Marketing promotions - Engagement surveys - Customer audits	- Weekly - Monthly - Half yearly - Annually - As needed	- Customer satisfaction & brand reputation	- Product quality - Pricing - Quality & workmanship - Product safety - Goods delivery/logistics - Manufacturing capacity - Customer visit & survey - Customer service & experience - Equitable business operations
Employees	- Management meeting - Employee performance appraisals - Training programme - Employees feedback	- Weekly - Monthly - Half yearly - Annually - As needed	- Learning & development - Occupational Safety & Health - Employee welfare - Talent retention - Skilled labour	- Job security - Remuneration & benefits - Career development & training opportunities - Workplace health & safety - Labour & human rights - Work-life balance
Suppliers	- supplier audit & evaluation - Supplier visit/ interviews - Supplier appraisal/ pre-evaluation - Face to face interaction - Legal compliance	- Monthly - Half yearly - Annually - As needed	- Quality of trading materials - Timely delivery of goods/ logistics - Raw material availability	- Legal compliance - Payment schedule - Pricing of services - Product quality & inventory supply commitment - Agreeable contracts - Maintaining partnerships
Government & Regulators	- Regulatory requirement - On-going interaction - Formal & informal meetings - Government programmes & initiatives	- Periodically	- Compliance	- Manufacturing issues & policies - Compliance to applicable laws - Security issues - Waste Management - Public nuisance issues - Labour practices - Environmental issues - Occupational Safety & Health - Economic, environmental & social impacts
Local communities	- Donations & financial aid - Contribution to environment & social enhancement - Sustainability related programmes	- As needed	- Community development	- Social & environmental issues in relation to business operation - Support towards community development - Job creation for local community - Undertaking business in a responsible manner

SUSTAINABILITY STATEMENT
continued

MATERIAL SUSTAINABILITY MATTERS

Guided by the definition of materiality prescribed by Bursa, KSSC's Senior Management has, with the facilitation of an external consultant, undertaken a materiality assessment of KSSC's sustainability matters. The MSM identified from the assessment are as follows:

ECONOMIC

- **Corporate governance and ethical behaviour**

  KSSC is committed to maintaining the highest standards in relation to corporate governance, ethics and compliance. We believe that sound and effective corporate practices are fundamental to the smooth, effective and transparent operation of a Company. This is pivotal to protect the interest of other stakeholders.

  With the introduction of the corporate liability set out in Section 17A of the amended Malaysian Anti-Corruption Commission Act 2009 and given that good governance and ethical conduct is critical to building and maintaining trust and confidence, KSSC has embarked on several on-going initiatives across all businesses, including in the midst of establishing the Anti-Bribery Management System and relevant anti-bribery related policies and procedures, guided by the Guidelines on Adequate Procedures introduced by the Prime Minister's Department. The expected implementation timeline is as follows:

Quarter 3, year 2019	Quarter 4, year 2019	Quarter 1, year 2020
• Gap identification	• Setting up of the anti-bribery management system and relevant policies and procedures • Perform Risk Assessment and thereafter relevant action plans	• Board approval of the anti-bribery management system and relevant policies

  We take cognisance of the importance of continually developing our practices to ensure that we conduct our activities in accordance with the laws, rules and regulations of the local authorities as well as support our employees to consistently uphold the highest standards of integrity and accountability.

  KSSC has in place Code of Ethics and Conduct that sets out the ethical principles to guide decisions and behaviours of all the Directors and employees (including for subsidiaries). The Code of Ethics and Conduct specifies the delineation between acceptable and non-acceptable practices, including types and severity of punishments for any non-compliances. Furthermore, the Company has in place a whistle-blowing policy, providing an avenue for internal and external parties to report of suspected misconduct, fraud, corruption or any other illegal acts. The policy also assures confidentiality of the whistle-blower and prohibits retaliation. Our policies are reviewed regularly to ensure they reflect any changes in legislative requirements and the business environment.

  There were no cases of ethics and integrity practices breaches reported for the past three (3) financial years, i.e. Financial Year 2016 ("FY 2016"), Financial Year 2017 ("FY 2017") and Financial Year 2018 ("FY 2018").

ENVIRONMENT

We acknowledge our responsibility towards managing our environment-related impacts and are committed to carrying out operations whilst preserving the environment, by complying with environmental related regulations in all our practices and keeping abreast of industry better practices. Our fundamental aim is to sustainably uphold operational excellence across our business value chain, which in return warrants the prudent use of natural resources.

SUSTAINABILITY STATEMENT
continued

- **Waste Management**

  Given the nature and size of our manufacturing operations, the processes entail the production of wastes. The main production wastes are the rags contaminated with scheduled wastes, spent lubricant oil, spent hydraulic oil and spent mineral oil-water emulsion. As we consistently strive to improve waste management in our manufacturing plant, we have undertaken various efforts and tasked the Safety Department to manage, continuously reduce and monitor our waste. We have also engaged a licensed scheduled waste collector to collect and dispose these wastes ethically twice a year.

  Furthermore, KSSC is subject to periodic assessments by the Department of Environment ("DOE") which ensures that we conduct business in an environmentally friendly and responsible manner.

  There were no cases of non-compliances, fines, penalties or warnings issued by the DOE pertaining to waste management for the past three (3) financial years, i.e. FY2016, FY2017 and FY2018.

- **Noise Pollution Control**

  Noise is inevitable in some of KSSC's processes, for example, the polishing and slitting process. The noise generated from these processes may be considered as medium, i.e. approximately from 78dB to 95dB. It may cause damage to physiological health (e.g. hypertension or high-stress levels) but is unlikely to cause hearing loss.

  Nevertheless, to reduce the noise pollution or impact arising from noise pollution, we have the following in place:

  - Engineering controls as far as reasonably practicable, such as machinery being constructed with noise reducing specifications;
  - Ensuring Personal Protective Equipment (PPE) such as hearing protection is worn by employees, especially at sections with higher noise exposure; and
  - Audiometry tests for machine operators carried out annually to monitor employee's risk of detrimental exposure to noise. All employees tested for the past three (3) financial years, i.e. FY2016, FY2017 and FY2018 passed the test.

  Additionally, noise levels generated from our manufacturing plant are subjected to periodic assessments by an environmental consultant approved by the Department of Occupational Safety & Health ("DOSH").

  There were no cases of non-compliances, fines, penalties or warnings issued by the DOE and DOSH pertaining to noise for the past three (3) financial years, i.e. FY2016, FY2017 and FY2018.

- **Air Emissions**

  The nature of our industry does not generate significant air emissions but that does not exclude us from meeting regulatory standards set by the DOE pursuant to the Clean Air Regulation (2014). The main air emission from our operations is dust, arising from polishing of stainless-steel products.

  To reduce the dust discharged into the air, we have installed a dust collector and mandate our workers to put wear mask at all times during work. The dust collector collects approximately 80KG to 100KG of dust per month.

  There were no cases of non-compliances, fines, penalties or warnings issued by the DOE pertaining to air emission for the past three (3) financial years, i.e. FY2016, FY2017 and FY2018.

SUSTAINABILITY STATEMENT
continued

- **Energy Management/Electrical Energy Consumption**

  As a responsible corporate citizen, we believe in taking a proactive approach in managing energy related environmental impact arising from our operations. As any reduction in the use of energy will lead to the abatement of greenhouse gas emissions, we therefore promote efficient use of energy within the Group.

  We also believed that effective energy consumption will lead to reduction in utility costs and optimise capital expenditure. Hence, we have taken the following energy saving related initiatives:

  – Replace lighting tubes with LED tubes and the usage of timer control for lightings;
  – Consistently service air-conditioners (including the filter);
  – The use of inverter control for motors and the usage of timer control for blower fan;
  – Effective manufacturing planning to optimise energy usage and shutdown of plant machinery when not in use; and
  – Conduct energy efficiency awareness briefing to all staff, including daily monitoring of energy consumption.

SOCIAL

At KSSC, we recognise the need to maintain a conducive and inclusive workplace to better position ourselves and exceed customers' expectations. We also believe that our employees are an important driving force to ensure sustainability across our operations. Our goal to support the company's strategy in relation to human resources is to build a trustworthy and honest workforce committed to provide excellent services to our valued customers.

- **Occupational Health and Safety**

  Workplace safety is essential to the sustainability of any corporation. At KSSC, the Company's value proposition starts, first and foremost, with an unrelenting commitment to employee safety. Hence, continuous efforts have been put in place to ensure a sustainable safe workplace environment.

  We have set up the following health and safety practices based on occupational health and safety risks of our Group, and have considered the requirements of relevant Environment, Health & Safety ("EHS") legislations:

  – established Safety Operating Procedures ("SOP") for each work activity;
  – ensure compliance with applicable EHS requirements such as Occupational Safety & Health Act 1994, Factory and Machinery Act 1967, Fire Service Acts, and its associated Regulations and Orders;
  – implement Technical and Administrative controls for the production and machinery sector;
  – monthly inspection on non-compliances of employees on safety requirements;
  – established Safety and Health Committee, with periodic Safety and Health Committee member meetings, discussing amongst others, safety at the workplace;
  – periodic safety training provided to employees and hold individual employees accountable for any non-compliances on safety requirements;
  – an established management system in place to manage safety related risks by identifying, assessing, monitoring and controlling potential hazards;
  – communicate openly with employees, government and the community on occupational health and safety issues;
  – periodically review occupational health and safety policy to ensure its effectiveness and suitability to the nature of work; and
  – incorporate safety as one of the standing agenda items in our management meetings, for us to update, be aware and discuss on any safety related issues.

  There were no cases of OHS incidences for the past three (3) financial years, i.e. FY2016, FY2017 and FY2018.

SUSTAINABILITY STATEMENT
continued

- **Fair employment practices**

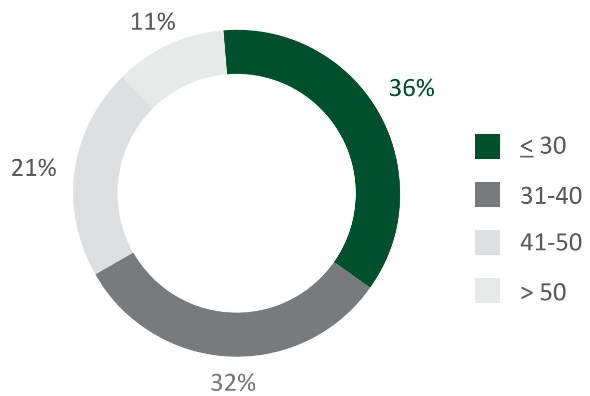
In addition to developing a healthy and safe workplace, we strive to provide our employees with a diverse and inclusive working environment where their human rights are respected and protected. In upholding human rights of our employees and to prevent human rights violations, we practised and also put in place policies and procedures to ensure a healthy, fair, just and secure workplace.

The following are key policies and measures enshrined in our Code of Ethics (dos and don'ts) policy statement as well as our employee handbook.

i. Equal Employment Opportunity

In the appointment and recruitment process of KSSC, we pride ourselves in being an employer that provides equal opportunities and continuously seek to promote it regardless of religious belief, age, creed, marital status, gender, family status or any disability, as evident by the hiring of an employee with disabilities during the financial year under review. In our belief of providing and encouraging equal employment opportunities, we are looking to further increase the hiring of employees with disabilities in the future, where possible. Our commitment in that respect applies to all areas of the work environment.

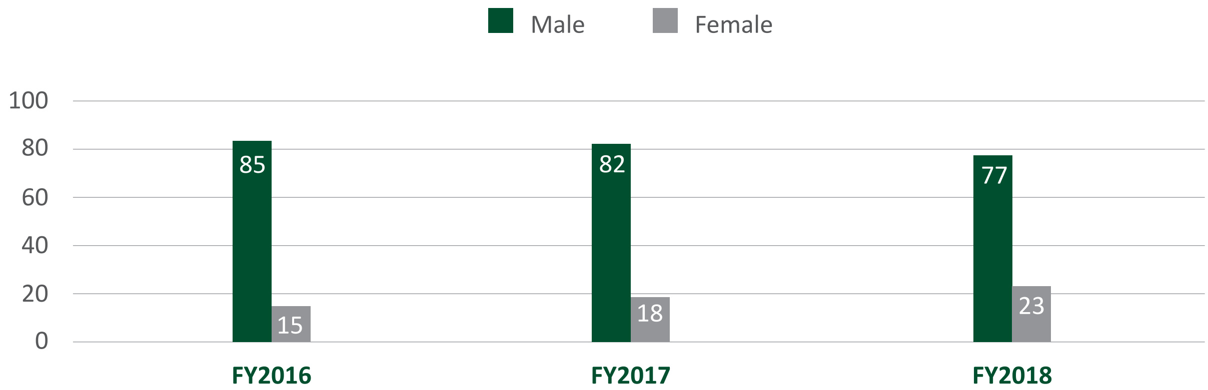
Further to the above, we do not discriminate against or favour employees of a certain age group, despite majority of our current workforce are of the age of 40 and below. Our hiring and retention of employees are based on merit. The current employee demographic by age is as follows:



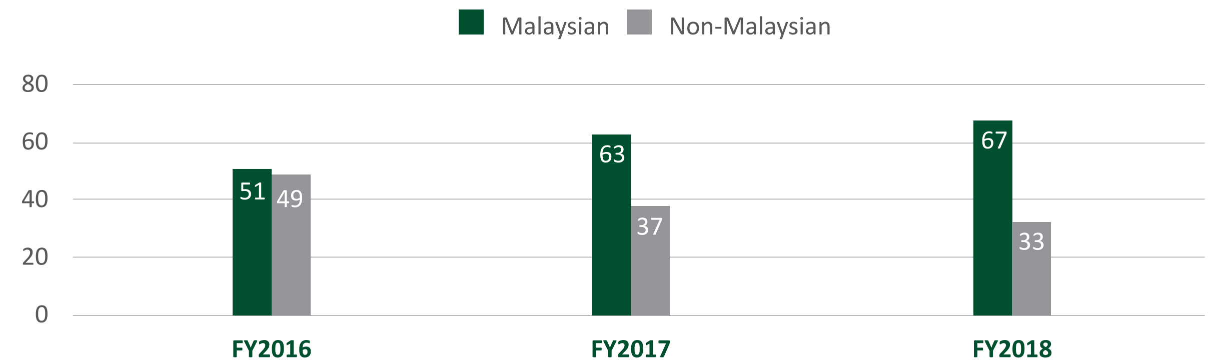
ii. Workforce Diversity

We believe in keeping our employees engaged with the aim to bring forth their full potential and enabling a satisfying career for each of them. At the same time, we are inclusive and are mindful to encourage balanced participation of female employees in our Group, evidenced by the decreasing gap between the number of male and female employees (in percentage) for the past three (3) financial years as follows:

SUSTAINABILITY STATEMENT
continued



Furthermore, we continue to promote and attract talents from the local community or within the same state which we operate in. We are proud to contribute to the local economies by creating employment in the communities and country in which we operate, evidenced by the increased in Malaysian employees as compared to Non-Malaysian employees (in percentage) for the past three (3) financial years are as follows:



iii. Prohibition of Discrimination and Harassment

The Group already set in policy, rules, regulations and work ethics on prohibition of discrimination and harassment. Any employee found guilty of such misconduct will be subject to disciplinary actions which may result in dismissal.

There were no cases of discrimination and harassment at the workplace for the past three (3) financial years, i.e. FY2016, FY2017 and FY2018.

iv. Prevention of Child Labour

We observe Children and Young Persons (Employment) (Amendment) act 2010. Hence, we have a strict recruitment policy against employing minor, i.e. persons below the age of 18 years old. This practice is in line with the policies of the international labour organisation.

- **Employee welfare**

We value the contributions of our diverse employees and continuously attract talents to join us by providing a supportive working environment as well as development opportunities. We provide an integrated welfare system and treat all employees equally on all of our sites.

SUSTAINABILITY STATEMENT
continued

i. **Benefits and Compensation**

To reward employees and to promote work-life integration, we provide our employees with, amongst others, benefits such as travel allowances, subsidies for medical benefits, Group Personal Accidents insurance, communications expenses, uniform and personal protective appliances, application of residence permits for current employees, staff compensation leave, festive gifts and events.

ii. **Training and Development**

We recognise that a strong workforce not only benefits personal growth and development of our employees, but it also improves the company's growth as a whole. Accordingly, we are committed to providing an environment for our employees to enhance their skills and knowledge within the industry. We therefore encourage our employees to expand their knowledge and to foster personal growth and development by taking on new roles and responsibilities.

Training is an essential element to increase and improve our employees' competencies, which will improve their work quality and delivery output. Training required will be suggested or identified through the training needs analysis incorporated into the employee performance evaluation process. We provide our employees with internal training, external training as well as on-the-job training.

Examples of training provided to employees throughout the financial year are:

- Sustainability Reporting;
- Budget 2019 Malaysia: Income Tax, Real Property Gains Tax ("RPGT"), Sales and Service Tax ("SST") latest updates and tax planning;
- Forklift operator and safety training course 2018; and
- Safety briefing including the use of personal protective equipment and safety of overhead crane.

CONCLUSION

Pursuant to our aim in delivering sustainability performance, we will continue to adopt practical measures and initiatives as part of our corporate strategy towards addressing issues on economic, environmental and social elements that have a material impact on our business on an ongoing basis. This Sustainability Statement is made in accordance with the resolution of the Board of Directors dated 1 April 2019.

DIRECTORS' PROFILE

KOH SENG KAR @ KOH HAI SEW
Chairman/Managing Director
(Demised on 23 March 2019)

KOH SENG LEE
Deputy Managing Director

TSEN KET SHUNG @ KON SHUNG
Executive Director

TUAN HAJI ZAINAL RASHID BIN HAJI MOHD EUSOFF
Independent Non-Executive Director

LIM HO KIN
Senior Independent Non-Executive Director

YAP SIOK TENG
Independent Non-Executive Director

DIRECTORS' PROFILE
continued

KOH SENG KAR @ KOH HAI SEW
Male, Aged 75, Malaysian
Chairman/Managing Director (Demised on 23 March 2019)

Mr. Koh Seng Kar @ Koh Hai Sew is the Company's Chairman and Managing Director. He was appointed to our Board on 15 January 1985. He brings with him approximately thirty-four (34) years of experience in the trading of steel industrial fasteners, marine hardware and consumables, and industrial hardware as well as the manufacturing and processing of secondary stainless steel products. As our Managing Director and the founder of our Company, he has been instrumental in the development, growth and success of our Group.

Under his leadership and guidance, we have grown from a small marine hardware and consumable trading company to a one-stop supply centre for secondary stainless steel products. He is presently responsible for the overall operations of our Group with emphasis on strategic business planning and development. He implements and executes the Group's strategic plans.

He does not hold any directorship in any other public listed company.

KOH SENG LEE
Male, Aged 57, Malaysian
Deputy Managing Director

Mr. Koh Seng Lee is the Company's Deputy Managing Director. He was appointed to our Board on 26 May 1986, subsequently he was re-designated to an Executive Director and Deputy Managing Director of KSSC on 24 March 2010 and 26 March 2010 respectively. He is not a member of any Board Committee.

He brings with him approximately thirty-three (33) years of experience in the trading of steel industrial fasteners, marine hardware and consumables, industrial hardware as well as the manufacturing and processing of secondary stainless steel products. As our Deputy Managing Director, his overall management and supervision has contributed significantly to the development, growth and success of our Group. He is currently responsible for overseeing our day-to-day manufacturing, processing and trading operations as well as the sales and marketing activities of our Group.

He does not hold any directorship in any other public listed company.

DIRECTORS' PROFILE
continued

TSEN KET SHUNG @ KON SHUNG
Male, Aged 48, Malaysian
Executive Director

Mr. Tsen Ket Shung is the Company's Executive Director. He was appointed to our Board on 19 June 2009. He is a Chartered Accountant, a member of the Malaysian Institute of Accountants (MIA) and a Fellow of the Association of Chartered Certified Accountant (FCCA). He is currently responsible for overseeing our Group's overall financial, corporate information and information technology. He is not a member of any Board Committee.

He does not hold any directorship in any other public listed company.

LIM HO KIN
Male, Aged 73, Malaysian
Senior Independent Non-Executive Director

Lim Ho Kin has been an Associate Member of The Chartered Institute of Bankers, London. He began his career at Bank Negara Malaysia in 1965 and served till 1978. Thereafter, he joined a commercial bank, and had held senior positions handling various areas of the bank's operations. He retired from the bank in 2001 as an Assistant General Manager. Later, he was engaged by Elken Sdn. Bhd. as Assistant Vice President and Head of Group Internal Audit on contract until April 2011.

He was appointed as an Independent Non-Executive Director of KSSC on 24 March 2010. He serves as the Chairman of Nomination Committee and is a member of Audit Committee and Remuneration Committee. He is the Senior Independent Non-Executive Director.

He does not hold any directorship in any other public listed company and/or listed issuers.

DIRECTORS' PROFILE
continued

TUAN HAJI ZAINAL RASHID BIN HAJI MOHD EUSOFF
Male, Aged 78, Malaysian
Independent Non-Executive Director

Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff was appointed to our Board on 24 March 2010. He is a member in both Audit Committee and Nomination Committee, and the Chairman of the Remuneration Committee.

He has more than thirty (30) years experience working with the Royal Malaysian Customs Department ("RMCD") where he held various positions within the Department. He held the position of Senior Assistant Director in RMCD prior to his retirement in 1996.

He does not hold any directorship in any other public listed company.

YAP SIOK TENG
Female, Aged 59, Malaysian
Independent Non-Executive Director

Mdm. Yap Siok Teng is a Fellow member of the Association of Chartered Certified Accountant (FCCA), a member of Malaysian Institute of Accountant (MIA) and Chartered Tax Institute of Malaysia. Presently, she is a practicing accountant in Yap & Associates. She is also an audit partner in Cheong Lim & Associates.

She was appointed to our Board on 24 March 2010. She is the Chairperson to Audit Committee, and member of the Remuneration and Nomination Committees. She brings with her approximately thirty (30) years working experience in the field of audit, accountancy, general management and corporate advisory. Her qualifications and vast experience as an accountant will benefit our Group in the financial and corporate governance aspects.

She does not hold any directorship in any other public listed company.

Other Information:

1. ***Family Relationship with any Director and/or Substantial Shareholder***

   Mr. Koh Seng Kar @ Koh Hai Sew and Mr. Koh Seng Lee are bothers and substantial shareholders. None of the Directors have any family relationship with any Director and/or Substantial Shareholders of the Company.

2. ***Directors' Shareholdings***

   Details of the Directors' shareholdings in the Company are provided in the Analysis of Shareholdings Section in this Annual Report.

3. ***Conflict of Interest with the Group***

   None of the Directors of the Company have any conflict of interest with the Group.

4. ***Convictions for Offences***

   None of the Directors of the Company have been convicted of any offences within the past five (5) years. There was no public sanction or penalty imposed by the relevant regulatory bodies during the financial year ended 31 December 2018.

5. ***Number of Board Meeting Attended***

   Details of the Board meeting attendance of each director are disclosed in the Statement on Corporate Governance in the Annual Report.

KEY SENIOR MANAGEMENT PROFILE

1. **KOH SENG KAR @ KOH HAI SEW**
   Male, Chairman / Managing Director (Aged 75, Malaysian)
   (Demised on 23 March 2019)

   Please refer to his Director's Profile appearing in Page 17 of the Annual Report 2018.

2. **KOH SENG LEE**
   Male, Deputy Managing Director (Aged 57, Malaysian)

   Please refer to his Director's Profile appearing in Page 17 of the Annual Report 2018.

3. **TSEN KET SHUNG @ KON SHUNG**
   Male, Executive Director (Aged 48, Malaysian)

   Please refer to his Director's Profile appearing in Page 18 of the Annual Report 2018.

4. **TAN LIAN CHOON**
   Female, Group Accountant (Aged 40, Malaysian)

   Tan Lian Choon is the Company's Group Accountant. She is a Chartered Accountant, a member of the Malaysia Institute of Accountants (MIA) and Fellow of the Association of Chartered Certified Accountant (FCCA). She joined our Group in 2002 and was promoted to Group Accountant in early 2009. She is currently responsible for the accounting and finance function of our Group.

   She does not hold any directorship in any other public listed company.

   She holds 276,700 shares in KSSC.

5. **HIEW CHEE HAW**
   Male, Sales Manager (Aged 44, Malaysian)

   Hiew Chee Haw is the sales manager of the subsidiary of the Company, Three & Three Hardware Sdn. Bhd. He graduated in 2001 with a Bachelor in Finance with Second Class Honours. He has more than thirteen (13) years of experience in the Trading of industrial hardware.

   He does not hold any directorship in any other public listed company.

6. **CHIA AI PENG**
   Male, Director (Aged 48, Malaysian)

   Chia Ai Peng is a Director of the subsidiary of the Company, Koseng Sdn. Bhd. He has seven (7) years of experience in the Trading of steel industrial fasteners, marine hardware and consumers, industrial hardware. As Director, he oversees day-to-day trading operations, sales activities of the team as well as business planning and development of Koseng Sdn. Bhd.

   He does not hold any directorship in any other public listed company.

KEY SENIOR MANAGEMENT PROFILE
continued

7. TEOH KIM LAN
Female, Operations Manager (Aged 57, Malaysian)

Teoh Kim Lan is the operations manager of the subsidiary of Company, PTM Stainless Steel Industry Sdn. Bhd. She joined KSSC Group in 1994 as a Procurement and Operation Manager. She was seconded to PTM Stainless Steel Industry Sdn. Bhd. in 2006 as Operations Manager. She is currently responsible for the overall manufacturing and production operations, which includes, production planning, organizing, controlling, and overseeing manufacturing and production activities.

She does not hold any directorship in any other public listed company.

8. CHONG YEAN SANG
Male, Project Manager (Aged 63, Malaysian)

Chong Yean Sang is the project manager of the subsidiary of the Company, KSG Engineering Sdn. Bhd. He has eleven (11) years of experience in the manufactures hardware products such as bearing motors, speed reducers, sprocket gears, belting pulley, and couplings. As Project Manager, he oversees day-to-day operations, business planning and development of KSG Engineering Sdn. Bhd.

He does not hold any directorship in any other public listed company.

Other Information :

1. Family Relationship with any Director and/or Substantial Shareholder

Mr. Koh Seng Kar @ Koh Hai Sew and Mr. Koh Seng Lee are bothers. None of the other Directors/key senior management have any family relationship with any Director and/or Substantial Shareholders of the Company.

2. Conflict of Interest with the Group

None of the other Directors/key senior management of the Company have any conflict of interest with the Group.

3. Convictions for Offences

None of the Directors/key senior management of the Company have been convicted of any offences within the past five (5) years. There was no public sanction or penalty imposed by the relevant regulatory bodies during the financial year ended 31 December 2018.

5-YEAR FINANCIAL HIGHLIGHTS

QUARTERLY PERFORMANCE

2018	Q1	Q2	Q3	Q4	Full Year
Sales Revenue (RM'000)	25,174	23,701	31,201	26,688	**106,764**
Profit Before Taxation (RM'000)	428	668	12	76	**1,184**
Net Profit (RM'000)	317	476	359	(116)	**1,036**
Net Earnings Per Share (Sen)	0.24	0.47	0.46	(0.11)	**1.06**
Net Dividend Per Share (Sen)	-	-	-	0.50	**0.50**

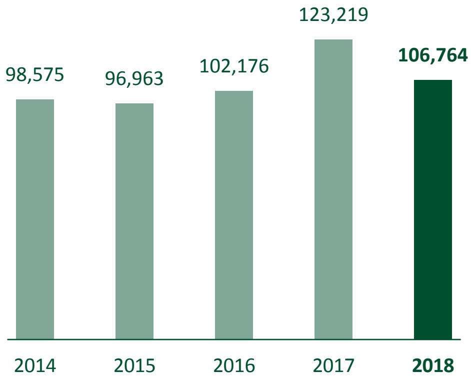
2017	Q1	Q2	Q3	Q4	Full Year
Sales Revenue (RM'000)	24,756	27,124	31,574	39,765	**123,219**
Profit Before Taxation (RM'000)	1,782	320	1,749	3,778	**7,629**
Net Profit (RM'000)	1,694	242	1,093	2,667	**5,696**
Net Earnings Per Share (Sen)	1.72	0.18	1.00	2.80	**5.70**
Net Dividend Per Share (Sen)	-	-	-	2.00	**2.00**

5-YEAR FINANCIAL HIGHLIGHTS

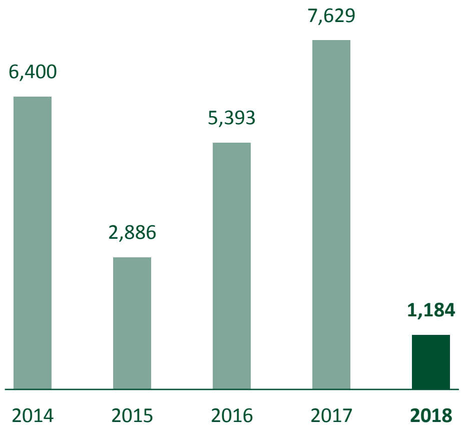
	2014	2015	2016	2017	2018
Sales Revenue (RM'000)	98,575	96,963	102,176	123,219	**106,764**
Profit Before Taxation (RM'000)	6,400	2,886	5,393	7,629	**1,184**
Net Profit (RM'000)	4,896	2,174	4,040	5,696	**1,036**
Net Earnings Per Share (Sen)	4.58	1.97	3.97	5.70	**1.06**
Net Dividend Per Share (Sen)	2.00	0.80	1.50	2.00	**0.50**
Net Assets Per Share (Sen)	0.78	0.78	0.81	0.85	**0.84**

5-YEAR FINANCIAL HIGHLIGHTS
continued

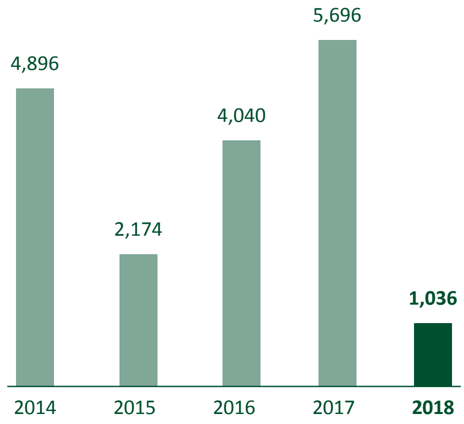
SALES REVENUE
(RM'000)



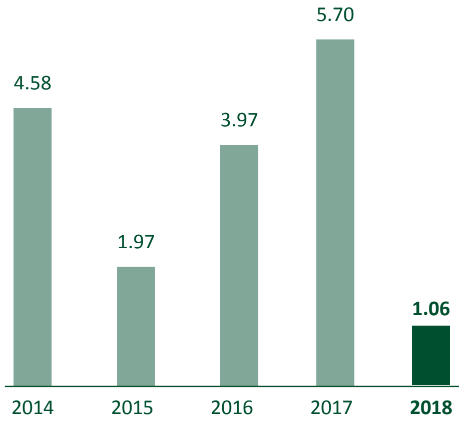
PROFIT BEFORE TAXATION
(RM'000)



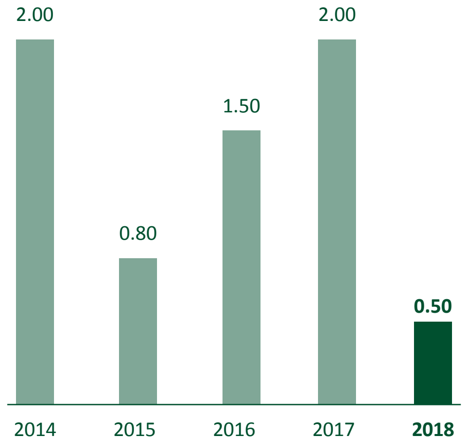
NET PROFIT
(RM'000)



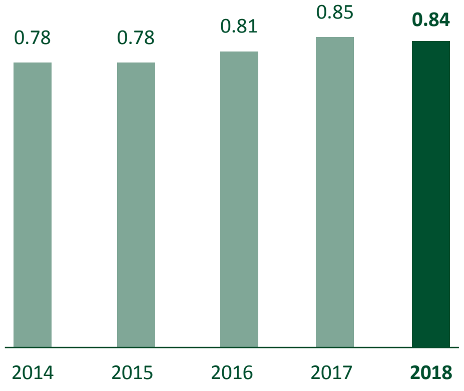
NET EARNINGS PER SHARE
(Sen)



NET DIVIDEND PER SHARE
(Sen)



NET ASSETS PER SHARE
(RM)



CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors ("the Board") of **K. SENG SENG CORPORATION BERHAD** ("the Company") recognises the importance of practicing and maintaining good corporate governance in managing and directing the board matters and business conduct throughout the Company and its subsidiaries ("the Group") to ensure sustainable long-term growth and enhancement of shareholders' value and financial performance.

The Board believes that good corporate governance practices are pivotal towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interests of other stakeholders. Hence, the Board is fully dedicated to continuously appraise the Group's corporate governance practices and procedures to ensure that the principles and recommendations in corporate governance are applied and adhered to in the best interests of the stakeholders.

This statement sets out the manner in which the Group has applied the three (3) principles prescribed in the Malaysian Code on Corporate Governance issued on 26 April 2017 ("MCCG") and the extent to which it has complied with the MCCG:-

Principle A: Board Leadership and Effectiveness;
Principle B: Effective Audit and Risk Management; and
Principle C: Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders.

This Corporate Governance Overview Statement should be read together with the Company's Corporate Governance Report for the financial year ended 31 December 2018, which is available on Bursa Malaysia Securities Berhad's website at http://www.bursamalaysia.com. The Corporate Governance Report has disclosed to what extent the Company has applied the Practices set out in the Malaysian Code on Corporate Governance.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

I. Board Responsibilities

1.0 Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

1.1 The Board takes full responsibility for the oversight and overall performance of the Group and provides leadership within a framework of prudent and effective controls which enables risk to be appropriately assessed and managed. The Board sets the strategic direction, ensuring that the necessary resources are in place for the Company to meet its objectives and deliver sustainable performance. The Board is entrusted with the responsibility in leading and directing the Group towards achieving its strategic goals and realizing long-term shareholders' values.

The Board has assumed the following principal responsibilities in discharging its fiduciary duties:

(a) Reviewing and adopting a strategic plan for the Company, addressing the sustainability of the Group's business;
(b) Overseeing the conduct of the Group's businesses and evaluating whether or not its businesses are being properly managed;
(c) Identify principal business risks faced by the Group and ensuring the implementation of appropriate internal controls and mitigating measures to address such risks;
(d) Ensuring that all candidates appointed to Senior Management positions are of sufficient caliber, including the orderly succession of Senior Management personnel;
(e) Reviewing the adequacy and integrity of the Group's internal control and management information systems;
(f) Carrying out periodic review of the Group's financial performance and operating results and major capital commitments; and

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *continued*

I. Board Responsibilities *continued*

1.0 Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company. *continued*

(g) Reviewing and approving any major corporate proposals, new business ventures or joint ventures of the Group.

To ensure the effective discharge of its function and responsibilities, the Board has delegated specific responsibilities to the following Committees:-

(a) Audit and Risk Management Committee
(b) Nomination Committee
(c) Remuneration Committee

All committees have written terms of reference. These Committees are formed in order to enhance business and operational efficiency as well as efficacy. The Chairman of the respective Committees will report to the Board the outcome of the Committees meetings for the Board's considerations and approvals and extracts of such reports are incorporated in the minutes of the Board meetings. The Board retains full responsibility for the direction and control of the Company and the Group.

1.2 The Chairman/Group Managing Director leads the Board and is responsible for the effective performance of the Board. He ensures that all relevant issues and quality information to facilitate decision making and effective running of the Group's business are included in the meeting agenda.

The roles of the Chairman/Group Managing Director as well as terms of reference of the committees are spelt out in detail in the Board Charter which is made available for reference at the Company's website at www.kssc.com.my. The last review and update of Board Charter was on 1 April 2019.

1.3 The Board has delegated to the Chairman/Group Managing Director, the authority and responsibility for implementing of the Board policies, strategies and decisions adopted by the Board. The Chairman/Group Managing Director takes on primary responsibility to spearhead and manage the overall business activities of the various business divisions of the Group. The Chairman/Group Managing Director is assisted by Executive Directors, senior key management and head of each division in implementing and running the Group's day-to-day business operations.

The roles of the Chairman and Group Managing Director are held by the same Director.

The presence of the Independent Directors fulfills a pivotal role of corporate accountability. They provide unbiased and independent advice, alternative viewpoints, challenge perceptions and judgment as appropriate to take account of the interest of the Group, shareholders, employees and any party with whom the Group conducts business.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *continued*

I. Board Responsibilities *continued*

1.0 Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company. *continued*

1.4 The Board is supported by qualified and competent name Company Secretaries who facilitate overall compliance with the Companies Act 2016, the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad and other laws and regulations. The secretaries are the members of the Malaysian Institute of Chartered Secretaries and Administrators.

The Company Secretaries carry out the following tasks:

(a) Attend and ensure proper conduct and procedures at all Board Meetings, Board Committee Meetings, Annual General Meeting, Extraordinary General Meeting and any other meetings that require the attendance of Company Secretary and ensure that meetings are properly convened;
(b) Ensure that the quarterly financial results, audited financial statements, annual reports, circulars, etc and all relevant announcements are announced to Bursa Malaysia Securities Berhad on a timely basis;
(c) Ensure that deliberations at the meetings are well captured and minuted;
(d) Ensure that the Company complies with the MMLR and the requirements of the relevant authorities;
(e) Inform and keep the Board updated of the latest enhancement in corporate governance, changes in the legal and regulatory framework, new statutory requirements and best practices;
(f) Remind the Directors and principal officers of the closed period and no trading in the Company's shares;
(g) Ensure proper record and maintenance of the Company's proceedings, resolutions, statutory records, register books and documents;
(h) Assist the Chairman to organize and co-ordinate in all the Board Committee, Board and General meetings;
(i) Attend all the Board Committee, Board and General meetings;
(j) To upkeep and update the statutory records;
(k) To liaise with internal and external auditors to furnish them with the statutory records for audit purposes; and
(l) As the adviser to the Board and compliance officer of the Company.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *continued*

I. Board Responsibilities *continued*

1.0 Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company. *continued*

1.5 The Board meets on a quarterly basis, with additional meetings convened as and when necessary.

All Directors are notified with the notice of Board Meetings at least 7 days in advance. The agenda and a set of board papers were issued at least 3 days from the date of Board Meetings so as to ensure that the Directors can appreciate the issues to be deliberated and to obtain further explanations, where necessary, to expedite the decision-making process effectively.

During the financial year ended 31 December 2018, five (5) Board Meetings were held. A brief profile of each member of the Board are set out in the Directors' Profile section of this Annual Report.

The Board recognizes that the decision making process is highly contingent on the quality of information furnished. As such, all Directors have unrestricted access to any information pertaining to the Company and the Group. All the Directors are supplied with relevant information and reports on financial, operational, corporate, regulatory, business development and audit matters, by way of Board reports or upon specific requests, for decisions to be made on an informed basis and effective discharge of Board's responsibilities.

The Executive Directors and/or other relevant Board members will furnish comprehensive explanation on pertinent issues and recommendations by Management. The issues are then deliberated and discussed thoroughly by the Board prior to decision making. In addition, the Board members are updated on the Company's activities and its operations on a regular basis.

External advisers are invited to attend meetings to provide insights and professional views, advice and explanation on specific items on the meeting agenda, when required. Senior management team from different business units are also invited to participate at the Board meetings to enable all Board members to have equal access to the latest updates and developments of business operations of the Group presented by the senior management team.

All proceedings at the Board meetings are properly recorded in the minutes of meetings by the Company Secretary, circulated in a timely manner and duly signed by the Chairman of the meetings.

The Board also resolved and approved the Company's matters through circular resolutions during the financial year.

Every Director has also unhindered access to the advice and services of the Company Secretaries as and when required to enable them to discharges their duties effectively.

There is a formal procedure sanctioned by the Board, whether as a full Board or in their individual capacity to take independent professional advice at the Group's expense, where necessary in furtherance of their duties.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *continued*

I. Board Responsibilities *continued*

2.0 There is demarcation of responsibilities between the board, board committees and management. There is clarity in the authority of the board, its committees and individual directors.

The Board is guided by a Board Charter which sets out the principles governing the Board of Directors of the Company and adopts the principles of good governance and practice in accordance with applicable laws, rules and regulations in Malaysia. The Board Charter also sets out the respective roles and responsibilities of the Board, board committees, individual directors and managements; and issues and decisions reserved for the Board.

The Board will periodically review the Board Charter and make any changes whenever necessary. The Board Charter is published on the Company's corporate website at www.kssc.com.my. The Board Charter was last reviewed on 1 April 2019.

3.0 The Board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness. The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

3.1 The Board has formalised a Code of Ethics and Conduct that set out the basic principles to guide all the directors, employees and its subsidiary and associate companies. The Board shall observe and adhere to the Company's Code of Ethics and Conduct for Directors which provide guidance regarding ethical and behavioral considerations or actions in discharging their duties and responsibilities.

The Board will periodically review the Code of Ethics and Conduct to ensure it remains relevant and appropriate. The details of the Code of Ethics and Conduct are available for reference at the Company's website at www.kssc.com.my. The Code of Ethics and Conduct was last reviewed on 1 April 2019.

3.2 The Board has put in place an avenue for employees and stakeholders to report genuine concerns about unethical behavior, malpractices and illegal acts on failure to comply with regulatory requirements without fear of reprisal. All cases shall be independently investigated and appropriate actions taken where required.

The details of the whistle-blowing policy are available for reference at the Company's website at www.kssc.com.my. The whistle-blowing policy was last reviewed on 1 April 2019.

3.3 The Board shall endeavour to implement sustainability strategies which yield environmental, economic and social benefits to all its various stakeholder and the communities in which it operate to ensure long-term viability and sustainability of the Company's business.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *continued*

II. Board Composition

4.0 Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

4.1 The Board consists of six (6) members; comprising one (1) Chairman/Group Managing Director, one (1) Deputy Managing Director, one (1) Executive Director, one (1) Senior Independent Non-Executive Director and two (2) Independent Non-Executive Directors. The composition of the Board complies with paragraph 15.02 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

At least half of the board comprises of the Independent Directors which is in compliance with the MCCG 2017.

The Group is led and controlled by an experienced Board, many of whom have vast knowledge of the business. Currently, the Board is led by the Chairman/Group Managing Director, Koh Seng Kar @ Koh Hai Sew and two (2) Executive Directors. The three (3) Non-Executive Directors contribute significantly in areas such as policy and strategy, performance monitoring, allocation of resources as well as improving governance and controls and provide unbiased and independent views to safeguard the interest of the shareholders. Together with the Executive Directors who has in-depth knowledge of the business, the Board constitutes of individuals who are committed to business coupled with integrity and professionalism in all its activities.

The Board considers that the current size of the Board is adequate and facilitates effective decision-making. The Nomination Committee has reviewed the present composition of the Board and the three main existing committees and is satisfied that they have adequately carried out their functions within their scope of work.

4.2 The Board noted the MCCG 2017 recommends that the tenure of an independent Director should not exceed a cumulative term of nine years. Upon completion of the nine years, an independent director may continue to serve on the Board subject to his re-designation as a non-independent director. In the event such Director is to be retained as an independent director, the Board must first justify and seek annual shareholders' approval. If the Board continues to retain the independent director after the twelfth year, annual shareholders' approval must be sought through a two-tier voting process to retain the said director as an independent director. For resolution(s) requiring 'two-tier voting' process, the effective date will be for resolution(s) to be tabled at general meetings after 1 January 2018.

Presently, Lim Ho Kin, Yap Siok Teng and Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff as Independent Non-Executive Directors of the Company whose tenure have exceeded a cumulative term of nine (9) years.

Lim Ho Kin, Yap Siok Teng and Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff, who have served on the Board as Independent Non-Executive Directors of the Company to be retained as Independent Non-Executive Director of the Company was deliberated at the Nomination Committee Meeting held on 26 February 2019. The Nomination Committee members were satisfied that Lim Ho Kin, Yap Siok Teng and Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff maintain their independency despite their long service extended to the Company and recommended to the Board to seek for shareholders' approval at the forthcoming Annual General Meeting.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *continued*

II. Board Composition *continued*

4.0 Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights. *continued*

The Board believes that although Lim Ho Kin, Yap Siok Teng and Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff, have served more than nine (9) years on the Board, they remain unbiased, objective and independent in expressing his opinions and in participating in decision making of the Board. The length of his service on the Board has not in any way interfered with his objective and independent judgement in carrying out his role as member of the Board and Committees. Accordingly, the Board is making a recommendation to shareholders for approval at the forthcoming Thirty-Fourth Annual General Meeting of the Company that Lim Ho Kin, Yap Siok Teng and Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff remain as Independent Non-Executive Directors.

4.3 The Board recognises the importance of independence and objectivity in the decision-making process. The Board is committed to ensure that the independent directors are capable to exercise independent judgment and act in the best interests of the Group. The Independent Directors of the Company fulfill the criteria of "Independence". They act independently of management and are not involved in any other relationship with the Group that may impair their independent judgment and decision making. Each Director has a continuing responsibility to determine whether he has a potential or actual conflict of interest in relation to any material transactions.

The Director is required to immediately disclose to the Board and to abstain from participating in discussions, deliberations and decisions of the Board on the respective matters. The Board, via Nomination Committee and guided by the Corporate Governance Guide–Towards Boardroom Excellence has developed the criteria to assess independence and formalised the current independence assessment practice. The evaluation process also involved a peer and self-review assessment, where Directors will assess their own performance and that of their fellow Directors. These assessments and comments by all Directors were summarised and discussed at the Nomination Committee meeting which were then reported to the Board at the Board Meeting held thereafter. Each independent director abstained from deliberation on his own assessment. The Nomination Committee was satisfied that the Independent Directors still maintain their independence.

4.4 The Board appoints its members through a formal and transparent selection process, which is consistent with the Constitution of the Company. This process has been reviewed, approved and adopted by the Board. New appointees will be considered and evaluated by the Nomination Committee ("NC"). The NC will then recommend the candidates to be approved and appointed by the Board. The Company Secretaries will ensure all appointments are properly made and that legal and regulatory requirements are met.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *continued*

II. Board Composition *continued*

4.0 Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights. *continued*

The appointment process of a new Director is summarized as follows:

(i) The candidate identified upon the recommendations from the Directors and Management or their contacts in related industries, finance accounting or legal professions and/or major shareholders;

(ii) In evaluating the suitability of candidates to the Board, the Nomination Committee considers, inter-alia, the required mix of skills, expertise, experience, time commitment and contribution of the candidates can bring to the Board. In the case of candidates proposed for appointment as Independent Non-Executive Directors, the candidate's independency will be considered;

(iii) Recommendation to be made by Nomination Committee to the Board. This also includes recommendation for appointment as a member of the various Board Committees, where necessary; and

(iv) Decision to be made by the Board on the proposed new appointment including appointment to the various Board committees.

4.5 The Board acknowledges the importance of boardroom diversity and is supportive of the recommendation of MCCG 2017 to the establishment of boardroom and workforce gender diversity policy. The Board currently has one (1) female Director and two (2) females key senior management which the Board is of the view, is in line with the gender diversity recommended by MCCG 2017.

The Group does not adopt any formal gender diversity policy in the selection of new Board candidates and does not have specific policies on setting target for female candidates in the workforce. The evaluation of the suitability of candidates as the new Board member or as a member of the workforce is based on the candidates' competency, skills, character, time commitment, knowledge, experience and other qualities in meeting the needs of the Group, regardless of gender.

The Group gives an equal opportunity to all its employees and does not practise discrimination of any form, whether based on age, gender, race and religion, throughout the organisation.

4.6 The Constitution of the Company provides that all Directors of the Company are subject to retirement. At least one third (1/3) of the Directors for the time being, or the number nearest from office at the Annual General Meeting, provided always that all Directors shall retire from office at least once in every three (3) years. A retiring Director shall be eligible for re-election. This provides an opportunity for shareholders to renew their mandates. Newly appointed directors shall hold office only until the next annual general meeting and shall be eligible for re-election.

The election of each director is voted on separately. To assist shareholders in their decision, sufficient information such as personal profile, meetings attendance and their shareholdings in the Group of each Director standing for election are furnished in the Annual Report accompanying the Notice of Annual General Meeting.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *continued*

II. Board Composition *continued*

4.0 Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights. *continued*

The Nomination Committee is also responsible for recommending to the Board those Directors who are eligible to stand for re-election/re-appointment based on the reviews of their performance and their contribution to the Board through their skills, experience, qualities and ability to act in the best interests of the Company in decision making.

The Nomination Committee assessed and was satisfied and made recommendations to the Board for re-election/re-appointments with regards to the following:

(i) The re-election of the director, Tsen Ket Shung @ Kon Shung, who is due to retirement but shall be eligible for re-election pursuant to Article 83 of the Company's Constitution at the forthcoming AGM;

(ii) The re-election of the director, Lim Ho Kin, who is due to retirement but shall be eligible for re-election pursuant to Article 83 of the Company's Constitution at the forthcoming AGM;

(iii) Re-election of Lim Ho Kin, whose tenure of service as senior independent non-executive Director has exceeded a cumulative term of nine (9) years, for recommendation to shareholders for their approval based on the attributes necessary in discharging his role and functions as an independent Director;

(iv) Re-election of Yap Siok Teng, whose tenure of service as an independent non-executive Director has exceeded a cumulative term of nine (9) years, for recommendation to shareholders for their approval based on the attributes necessary in discharging her role and functions as an independent Director; and

(v) Re-election of Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff, whose tenure of service as an independent non-executive Director has exceeded a cumulative term of nine (9) years, for recommendation to shareholders for their approval based on the attributes necessary in discharging his role and functions as an independent Director.

The profiles of these Directors are set out on pages 16 to 19 of the Annual Report.

There are no changes to the composition of the Board during the financial year under review.

4.7 All directors of the Company do not hold more than five directorships under paragraph 15.06 of the Main Market Listing Requirements.

The Board meets at least four (4) times a year at quarterly intervals with additional meetings convened when urgent and important decisions need to be taken between the scheduled meetings. Besides Board meetings, the Board also exercises control on matters that require Board's approval through Directors' Circular Resolutions. Amongst others, key matters such as approval of annual and quarterly results, financial statements, major acquisitions and disposals, major investments, appointment of Directors are discussed and decided by the Board.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *continued*

II. Board Composition *continued*

4.0 Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights. *continued*

The dates scheduled for Board meetings, Board Committee meetings and Annual General Meeting are set in advance and circulated to the Directors to facilitate the Directors' time planning. The Directors' Circular Resolutions are used for determination of urgent matters arising in between meetings. In accordance with Article 128 of the Constitution of the Company, a signed and approved resolution by a majority of the Directors present in Malaysia and who are sufficient to form a quorum, shall be as valid and effectual as if it had been passed at a meeting of the Directors duly called and constituted.

During the financial year ended 31 December 2018, the Board held five (5) meetings and the details of each Director's attendance are set out below :

Name of Directors	Meetings attended
KOH SENG KAR @ KOH HAI SEW (Chairman/Managing Director)	5/5
KOH SENG LEE (Deputy Managing Director)	5/5
TSEN KET SHUNG @ KON SHUNG (Executive Director)	5/5
LIM HO KIN (Senior Independent Non-Executive Director)	5/5
YAP SIOK TENG (Independent Non-Executive Director)	5/5
TUAN HAJI ZAINAL RASHID BIN HAJI MOHD EUSOFF (Independent Non-Executive Director)	5/5

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *continued*

II. Board Composition *continued*

4.0 Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights. *continued*

4.8 All Directors have completed the Mandatory Accreditation Programme prescribed by Bursa Malaysia Securities Berhad. Directors are encouraged to attend various external professional programmes deemed necessary to ensure that they are kept abreast of various issues facing the changing business environment within which the Group operates. Directors are also encouraged to evaluate their own training needs on a continuous basis and recommend to the Board for the relevant programmes, seminars, briefings or dialogues available that would best enable them to enhance their knowledge and contributions to the Board by actively participate in Board deliberation and effectively discharge their duties.

During the financial year under review, the Directors had participated in the following training programmes:-

Name of Directors	Date	Training attended
KOH SENG KAR @ KOH HAI SEW	10 January 2018	Sustainability Reporting
KOH SENG LEE	10 January 2018	Sustainability Reporting
TSEN KET SHUNG @ KON SHUNG	10 January 2018	Sustainability Reporting
	4 and 5 December 2018	Budget 2019 Malaysia : Income Tax. RPGT, SST Latest Updates and Tax Planning
LIM HO KIN	10 January 2018	Sustainability Reporting
TUAN HAJI ZAINAL RASHID BIN HAJI MOHD EUSOFF	10 January 2018	Sustainability Reporting
YAP SIOK TENG	10 January 2018	Sustainability Reporting
	23 & 24 July 2018	Malaysian Corporate Tax Practices & Principle - Part 1
	27 July 2018	Sales & Services Tax 2018: Understanding the Mechanism and the Impact on Business
	31 October 2018	Practical Issues, Problems and Pitfalls in Registering A Limited Liability Partnership
	14 & 15 November 2018	Persidangan Cukai Kebangsaan 2018
	21 November 2018	The 2019 Budget Seminar

5.0 Stakeholders are able to form an opinion on the overall effectiveness of the board and individual directors.

The Company conducts an annual assessment to evaluate the effectiveness of the board and the Board Committees as well as the performance of each individual Director through the Nomination Committee.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *continued*

II. Board Composition *continued*

5.0 Stakeholders are able to form an opinion on the overall effectiveness of the board and individual directors. *continued*

The Nomination Committee ("NC") of the Company comprises exclusively Independent Non-Executive Directors and its composition are as follows:

- Mr. Lim Ho Kin (Chairman, Senior Independent Non-Executive Director)
- Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff (Member, Independent Non-Executive Director)
- Mdm. Yap Siok Teng (Member, Independent Non-Executive Director)

The NC held one (1) meeting during the financial year ended 31 December 2018. The details of the terms of reference of NC are available for reference at the Company's website at www.kssc.com.my.

The evaluation involves individual Directors and Committee members completing separate evaluation questionnaires regarding the processes of the Board and its Committees, their effectiveness and where improvements could be considered. The criteria for the evaluations are guided by the Corporate Governance Guide–Towards Boardroom Excellence. The Audit and Risk Management Committee and the Remuneration Committee each carried out its evaluation with the view to maximize the performance of the individual committees in the interest of the Company. The evaluation process also involved a peer and self-review assessment, where Directors will assess their own performance and that of their fellow Directors. These assessments and comments were summarised and discussed at the NC meeting which were then reported to the Board at the Board Meeting held thereafter. The NC evaluated all the above Assessment Forms at the NC Meeting held on 26 February 2019 and was satisfied with the performance of the Board and Board Committees as well as the performance of individual Directors.

During the financial year under review, the NC carried out the following assessments and satisfied with the results of the assessments:

(i) reviewed and assessed the structure, size, required mix of skills, experience, diversity and other qualities, including core competencies and effectiveness of the Board, as a whole and the Board Committees;

(ii) reviewed and assessed the contribution of each individual Director based on criteria, responsibilities, strength, time commitment and ability to act in the best interests of the Company in decision making;

(iii) reviewed and recommended to the Board the re-election of Directors who retired in accordance with the Constitution of the Company;

(iv) reviewed and recommended to the Board for re-appointment of Director who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine years and to seek shareholders' approval at the forthcoming Annual General Meeting;

(v) reviewed the term of office and performance of the Audit and Risk Management Committee and each of its members to determine whether the Audit and Risk Management Committee and its members have carried out their duties in accordance with their terms of reference;

(vi) assessed the independence of each of the existing Independent Directors with each Director abstaining from deliberation on his own assessment; and

(vii) review the Terms of Reference of NC.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *continued*

III. Remuneration

6.0 The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives. The remuneration policies and decisions are made through a transparent and independent process.

6.1 The Remuneration Committee ("RC") of the Company comprises all Independent Non-Executive Directors and its composition is as follows:

- Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff (Chairman, Independent Non-Executive Director)
- Mdm. Yap Siok Teng (Member, Independent Non-Executive Director)
- Mr. Lim Ho Kin (Member, Senior Independent Non-Executive Director)

The RC held one (1) meeting during the financial year to carry out its function as stated within the terms of reference. The details of the terms of reference of RC are available for reference at the Company's website at www.kssc.com.my.

6.2 The primary function of the RC is to set up and review the policy of remuneration framework and recommend to the Board the remuneration packages of all the Directors according to the skills, level of responsibilities, experience and performance of the Directors.

The remuneration of Directors is to determine at levels which enables the Company to attract and retain Directors with the relevant experience and expertise to manage the business of the Group effectively. The RC reviews the Board remuneration policy and terms of conditions of service of each Director annually taking into consideration market conditions and comparisons, responsibilities held, business strategy, long term objectives and the overall financial performance of the Group.

The Remuneration Committee is also responsible to review the remuneration packages of the Executive Directors and senior management of the Company and thereafter recommend to the Board for their consideration. Non-Executive Directors are paid by way of fixed monthly fees and a meeting allowance for each meeting attended. Individual Director is not allowed to participate in discussion of his/her own remuneration.

The Board will then recommend the Directors' fees and other benefits payable to Directors to the shareholders for approval at the AGM in accordance with Section 230(1) of the Companies Act 2016.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *continued*

III. Remuneration *continued*

7.0 Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

The details of the Directors' remuneration comprising remuneration received/receivable from the Company and subsidiaries respectively in financial year ended 31 December 2018 are as follows:

7.1 Aggregate remuneration of Directors categorised into appropriate components are as follows:

	Salaries & Bonuses (RM)	Fees (RM)	Other emoluments* (RM)	Benefits-in-kind (RM)
Company				
Executive Directors	1,972,850	-	249,683	51,150
Non-Executive Directors	-	163,200	10,500	-
Total :	**1,972,850**	**163,200**	**260,183**	**51,150**
Group				
Executive Directors	1,972,850	-	249,683	51,150
Non-Executive Directors	-	163,200	10,500	-
Total :	**1,972,850**	**163,200**	**260,183**	**51,150**

* *Other emoluments consist of monthly salary, bonuses and contribution in SOCSO.*

7.2 Directors' remunerations are broadly categorised into the following bands:

	Company Number of Directors		Group Number of Directors	
Range of remuneration	**Executive Directors**	**Non-Executive Directors**	**Executive Directors**	**Non-Executive Directors**
Below RM50,000	-	2	-	2
RM50,001 to RM100,000	-	1	-	1
RM450,001 to RM500,000	1	-	1	-
RM750,001 to RM800,000	1	-	1	-
RM800,001 to RM850,000	1	-	1	-

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *continued*

III. Remuneration *continued*

7.0 Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance. *continued*

7.3 Aggregate remuneration of Key Senior Management categorised into appropriate components are as follows:

	Company		Group	
	Number of Senior Management		Number of Senior Management	
Range of Remuneration	Executive	Non-Executive	Executive	Non-Executive
RM150,001 to RM200,000	1	-	1	-
RM200,001 to RM250,000	1	-	1	-
RM250,001 to RM300,000	2	-	2	-
RM300,001 to RM350,000	1	-	1	-

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

I. Audit and Risk Management Committee

8.0 There is an effective and independent audit committee. The board is able to objectively review the audit and risk management committee's findings and recommendations. The company's financial statement is a reliable source of information.

8.1 The Audit Committee was renamed as the Audit & Risk Management Committee with effect from 21 November 2017.

Mdm. Yap Siok Teng, an Independent Non-Executive Director is the Chairman of the ARMC whilst the Chairman of the Board is Mr Koh Seng Kar @ Koh Hai Sew.

The composition of ARMC are as follows:

1. Mdm. Yap Siok Teng (Independent Non-Executive Director) – *Chairman*
2. Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff (Independent Non-Executive Director) - *Member*
3. Mr. Lim Ho Kin (Senior Independent Non-Executive Director) - *Member*

The details of the terms of reference of the ARMC are available for reference at the Company's website at www.kssc.com.my.

Details of the activities carried out by the Audit and Risk Management Committee in 2018 are set out in the Audit and Risk Management Committee Report in the Annual Report.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT *continued*

I. Audit and Risk Management Committee *continued*

8.0 There is an effective and independent audit committee. The board is able to objectively review the audit and risk management committee's findings and recommendations. The company's financial statement is a reliable source of information. *continued*

8.2 The Board aims to provide and present a balanced and meaningful assessment of the Group's financial performance and prospects at the end of the financial year, primarily through the annual financial statements and quarterly announcement of financial results. The Board is assisted by the Audit and Risk Management Committee to oversee the Group's financial reporting processes and the quality of its financial reporting.

8.3 The Board is responsible for ensuring that the financial statements of the Group give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of their results and cash flows for the financial year then ended. In preparing the financial statements, the Directors have ensured that Applicable Approved Accounting Standards in Malaysia and the provisions of the Companies Act 2016 and the Listing Requirements of the Bursa Securities have been applied.

In preparing the financial statements, the Directors have selected and applied consistently appropriate accounting policies and made reasonable and prudent judgments and estimates where applicable.

The Directors also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Board is satisfied that it has met its obligation to present a balanced and comprehensive assessment of the Company's position and prospects in the Directors' Report and the Financial Statements of this Annual Report.

8.4 An internal compliance framework exists to ensure that the Group meets its obligations relating to related party transactions under the Listing Requirements. The Board through its Audit and Risk Management Committee, reviews and reports to the Board any related party transactions (including recurrent related party transactions) and conflict of interest situations that may arise within the Company or Group. A Director who has an interest in a transaction must abstain from deliberation and voting on the relevant resolution in respect of such transaction at the Board and any general meeting convened to consider such matters.

Further details of these transactions are set out in the Recurrent Related Party Transactions Circular to Shareholders dated 30 April 2019.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT *continued*

I. Audit and Risk Management Committee *continued*

8.0 There is an effective and independent audit committee. The board is able to objectively review the audit and risk management committee's findings and recommendations. The company's financial statement is a reliable source of information. *continued*

8.5 The Audit and Risk Management Committee assesses the suitability and independence of the external auditors on an annual basis. Areas of assessment including amongst others, the external auditor's objectivity and independence, audit fees, size and competency of the audit team, audit strategy, audit reporting and partner involvement. The inputs/opinions from the Company's personnel who had constantly contacted with the external audit team throughout the year would also be used as a tool in the judgement of the suitability of the external auditor.

The External Auditors, in supporting their independence, will provide the Audit and Risk Management Committee with a written assurance confirming their independence throughout the conduct of the audit engagement in accordance with the relevant professional and regulatory requirements. The External Auditors have provided such declaration in their annual audit plan presented to the Audit and Risk Management Committee of the Company during the financial year.

The external auditors of the Company fulfill an essential role on behalf of Company's shareholders in giving an assurance to the shareholders on the reliability of the financial statements of the Company and the Group.

The external auditors have an obligation to bring to the attention of the Board of Directors, the Audit and Risk Management Committee and Company management any significant defects in the Group's systems of reporting, internal control and compliance with Applicable Approved Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The external auditors of the Company are invited to attend at least two (2) meetings with the Audit and Risk Management Committee a year to discuss their audit plan and audit findings on the Company's yearly financial statements. In addition, the Audit and Risk Management Committee will also have private sessions with the external auditors without the presence of the management to enable exchange of views on issues requiring attention.

During the financial year, the amount of audit fee and non-audit fee paid and payable to the External Auditors of the Company during the financial year ended 31 December 2018 were as follows:-

	Group (RM'000)	**Company (RM'000)**
Audit Fees	166	63
Non-audit Fees	5	5
Total	171	68

The non-audit fees were paid to External Auditors for the review of statement on risk management and internal control.

In considering the nature and scope of non-audit fees, the Audit and Risk Management Committee was satisfied that they were not likely to create any conflict or impair the independence and objectivity of the External Auditors.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT *continued*

I. Audit and Risk Management Committee *continued*

8.0 There is an effective and independent audit committee. The board is able to objectively review the audit and risk management committee's findings and recommendations. The company's financial statement is a reliable source of information. *continued*

The Audit and Risk Management Committee and the Board are satisfied with the performance, competence and independence of the external auditors and the Board had recommended their re-appointment to the shareholders' approval at the forthcoming Annual General Meeting.

The key features underlying the relationship of the Audit and Risk Management Committee with external auditors are included in the Audit Committee's terms of reference as detailed in Audit and Risk Management Committee section of this Annual Report.

II. Risk Management and Internal Control Framework

9.0 Company makes informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives. The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

9.1 The Board has ultimate responsibility for reviewing the Company's risks, approving the risk management framework and policy and overseeing the Company's strategic risk management and internal control framework to achieve its objectives within an acceptable risk profile as well as safeguarding the interest of stakeholders and shareholders and the Group's assets.

9.2 The Audit and Risk Management Committee is headed by the Group Managing Director, assisted by Independent Directors and members of key management team of the respective division. The primary responsibility and purpose of the Audit and Risk Management Committee is to assist the Board in fulfilling its responsibility with respect to evaluating, reviewing and monitoring the Group's risk management framework and activities on on-going basis. The Audit and Risk Management Committee reports to the Board regarding the Group's risk exposures, including review risk assessment model used to monitor the risk exposures and Management's view on the acceptable and appropriate level of risks faced by the Group's Business Unit.

The key features of the Audit and Risk Management Framework are presented in the Statement on Risk Management and Internal Control of the Company as set out on page 49 to 51 of this Annual Report.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT *continued*

II. Risk Management and Internal Control Framework *continued*

10.0 Company has an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

The internal audit function is to outsourced to a professional firm who reports directly to the Audit and Risk Management Committee.

The Statement on Risk Management and Internal Control furnished on page 49 to 51 of the Annual Report provides an overview on the state of internal controls within the Group, in an effort to manage risk.

The Board is aware of the need to establish corporate disclosure policies and procedures to enable comprehensive, accurate and timely disclosures of material information relating to the Company and its subsidiaries to be made to the regulators, shareholders and stakeholders. On this basis, the Board has formalized pertinent policies and procedures not only to comply with the disclosure requirements as stipulated in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, but also setting out the persons authorised and responsible to approve and disclose material information to regulators, shareholders and stakeholders.

The release of material information will be made publicly via Bursa Malaysia Securities Berhad. Members of the public can also obtain the full financial results and the Company‘s announcements from the Bursa Malaysia Securities Berhad‘s website.

The Company‘s website at www.kssc.com.my is regularly updated and provides relevant information on the Company which is accessible to the public to make informed investment decision.

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

I. Communication with Stakeholders

11.0 There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other‘s objectives and expectations. Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

The Board believes that a constructive and effective investor relationship is essential in enhancing shareholder value and recognizes the importance of timely dissemination of information to shareholders.

In addition to shareholders participation at general meetings, the Board also encourages other channel of communication with shareholders.

The policy of the Company is to maintain an active dialogue with its shareholders with the intention of giving its shareholders as clear and complete information of the Company‘s financial performance, major developments and position as possible. Such information is communicated through the Annual Report, the various disclosures and announcements to Bursa Securities, including quarterly and annual results and corporate website.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
continued

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS *continued*

II. Conduct of General Meetings

12.0 Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at general meetings.

12.1 The Annual General Meeting is the principal forum for dialogue and interaction with shareholders.

The key element of the Company's dialogue with its shareholders is the opportunity to gather views of, and answer questions from, both the individual and institutional investors on all aspects relevant to the Company at the Annual General Meeting. It is also a requirement for the Company to send the Notice of the Annual General Meeting and related circular to its shareholders at least twenty one (21) days before the meeting. At the Annual General Meeting, shareholders are encouraged to ask questions both about the resolutions being proposed or about the Group's operations in general to seek more information. Where it is not possible to provide immediate answers, the Chairman will undertake to furnish the shareholders with a written answer after the Annual General Meeting.

12.2 All resolutions set out in the notice of general meetings will be carried out by poll voting. The Board make announcement of the detailed results showing the number of votes cast for and against each resolution at general meetings to facilitate greater shareholder participation.

COMPLIANCE STATEMENT

Saved as disclosed above, the Board is satisfied that throughout the financial year ended 31 December 2018, the Company has applied the principles and recommendations of the corporate governance set out in MCCG 2017, where necessary and appropriate.

This Statement is made at the Board of Directors' Meeting held on 1 April 2019.

AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

1. COMPOSITION

The Audit Committee was established by the Board on 26 March 2010. The Committee was renamed as the Audit and Risk Management Committee ("ARMC" or the "Committee") with effect from 21 November 2017. The Committee comprises the following three (3) members of the Board, who are all Independent Non-Executive Directors:

Chairperson	:	MDM. YAP SIOK TENG *(member of the Malaysian Institute of Accountants)*	Independent Non-Executive Director
Members	:	MR. LIM HO KIN	Senior Independent Non-Executive Director
	:	TUAN HAJI ZAINAL RASHID BIN HAJI MOHD EUSOFF	Independent Non-Executive Director

2. MEETINGS

There were five (5) Audit and Risk Management Committee meetings held during the financial year 2018. The details of attendance of Committee members are as follows:-

Name of Committee Members	Designation	Attendance
MDM. YAP SIOK TENG	Chairperson	5/5
MR. LIM HO KIN	Member	5/5
TUAN HAJI ZAINAL RASHID BIN HAJI MOHD EUSOFF	Member	5/5

In addition to the ARMC members, the Head of Finance, the Head of Departments, the Internal Auditors and Company Secretary shall attend the meetings as invitees. Representatives of the External Auditors shall attend the meeting where matters relating to the audit of the statutory accounts are to be discussed and to present the Audited Financial Statements at the specific meeting. Other Board members, Senior Management and Employees may attend the meeting upon the invitation of the ARMC Chairman. The ARMC shall meet with the External Auditors without the presence of the Executive Directors and the Management at least once a year. The External Auditors are free to express any issue of concern to the ARMC.

The Company Secretary shall be the secretary of the ARMC. Notice of meeting and supporting documents are to be circulated to the ARMC members at least seven (7) days prior to the meeting so as to provide the ARMC members with relevant and timely information for effective discussions during the meeting. The ARMC Chairman shall report on each meeting to the Board.

Any resolution in writing signed by all the members of the ARMC shall be as valid and effectual as if it had been passed at a meeting of the ARMC duly convened and held and may consist of several documents in the like form, each signed by one or more members of the ARMC.

The ARMC members have undergone relevant trainings during the financial year to be apprised of regulatory changes as well as to stay abreast with contemporary issues that may affect the Group. Details of the ARMC members' trainings are spelt out in the Company's Corporate Governance Statement in this Annual Report.

AUDIT AND RISK MANAGEMENT COMMITTEE REPORT
continued

3. ROLE OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

The ARMC has been entrusted by the Board with the following responsibilities that encompass overseeing the financial reporting process and the audit processes:

- to review the Group's quarterly financial statements;
- to assess the Group's risks profile and to mete it out with the appropriate internal audit plan and internal control system;
- to receive risks reports and update reports from the Risk Officers and respective Head of Division;
- to review the independence of the Group's internal and external auditors and the processes adopted by the auditors;
- to review the Recurrent Related Party Transactions to ensure they are not detrimental to the minority; and
- to review the Company's compliance of accounting system.

4. SUMMARY OF ACTIVITIES UNDERTAKEN BY THE AUDIT AND RISK MANAGEMENT COMMITTEE DURING THE FINANCIAL YEAR

In line with the Terms of Reference of the ARMC, the following activities were carried out by the ARMC during the financial year ended 31 December 2018 in discharging its functions and duties :-

Financial Performance & Reporting

- Reviewed the unaudited quarterly financial announcements and annual financial statements of the Group prior to submission to the Board of Directors for their perusal and approval. This was to ensure compliance of the financial statements with the provisions of the Companies Act 2016, Malaysian Financial Reporting Standards, International Financial Reporting Standards and applicable Listing Requirements of Bursa Malaysia Securities Berhad.
- Reported to the Board on any significant audit issues and concerns discussed during the ARMC meetings which have significant impact of the Group from time to time, for consideration and deliberation by the Board.
- Reviewed the ARMC Report and Statement on Risk Management and Internal Control prior to submission of the same to the Board for consideration and inclusion in the Annual Report of the Company.
- The dates the AC met during the financial year to deliberate on financial reporting matters are as detailed below :

Date of meetings	Financial Reporting Statements Reviewed
26 February 2018	Unaudited quarterly report on consolidated results of the Company and its Group of Companies for the Fourth quarter ended 31 December 2017 and the Audit and Risk Management Committee Report for the Board's approval and disclosure in the Company's Annual Report 2017.
22 March 2018	Audited Financial Statements for the financial year ended 31 December 2017 and the Statement on Risk Management and Internal Control for the Board's approval and disclosure in the Company's Annual Report 2017.
21 May 2018	Unaudited quarterly report on consolidated results of the Company and its Group of Companies for the First quarter ended 31 March 2018.
21 August 2018	Unaudited quarterly report on consolidated results of the Company and its Group of Companies for the Second quarter ended 30 June 2018.
28 November 2018	Unaudited quarterly report on consolidated results of the Company and its Group of Companies for the Third quarter ended 30 September 2018.
26 February 2019	Unaudited quarterly report on consolidated results of the Company and its Group of Companies for the Fourth quarter ended 31 December 2018.

AUDIT AND RISK MANAGEMENT COMMITTEE REPORT
continued

4. SUMMARY OF ACTIVITIES UNDERTAKEN BY THE AUDIT AND RISK MANAGEMENT COMMITTEE DURING THE FINANCIAL YEAR *continued*

External Auditors

- Discussed and reviewed the external auditors' audit planning memorandum for the financial year ended 31 December 2018 outlining their auditors' responsibilities, engagement team, background of the group, business highlights, materiality, audit risk assessment, significant risks and areas of audit focus, consideration of fraud, internal control plan and involvement of internal auditors, involvement of component auditors, timetable, engagement quality control, independence policies and procedures and audit fees.
- Deliberated on the external auditors' report at its meeting with regard to the relevant disclosures in the annual audited financial statement for financial year ended 31 December 2018.
- Reviewed the external auditors' findings arising from audits, particularly comments and response in management letters in order to be satisfied that appropriate action is being taken.
- Discussed and reviewed with the external auditors the applicability and the impact of the new accounting standards and new financial reporting regime issued by the Malaysian Accounting Standards Board.
- Dialogue session with the external auditors, without the presence of the Executive Director and management.
- Reviewed and evaluated the performance and effectiveness and Independence of the external auditors. The Audit and Risk Management Committee assessed the integrity, capability, professionalism and work ethics of the external auditors. The Audit and Risk Management Committee was satisfied with the external auditor's performance and therefore, the Audit and Risk Management Committee had recommended to the Board, the re-appointment of the external auditors at the Annual General Meeting.
- The AC had numerous meetings with the External Auditors during the financial year ended 31 December 2018 on 26 February 2018, 22 March 2018, 28 November 2018 and 26 February 2019 respectively to discuss audit matters.

Internal Audit

- Reviewed the scope of work and audit plans for the Group prepared by the Internal Auditors.
- Reviewed the Internal Audit Report for the financial year ended 31 December 2018 from Internal Auditors and assessed the internal audits' findings, recommendations together with the Management's comments.
- Reviewed and assessed Internal Auditors based on staff strength, resources, professional integrity, independence, familiarity with Group's operation as well as reputation and recommended to the Board the re-appointment of Internal Auditors.
- Reviewed the adequacy and performance of Internal Audit function and its comprehensiveness of the coverage of activities within the Group.
- The AC had numerous meetings with the Internal Auditors during the financial year ended 31 December 2018 on 26 February 2018, 21 August 2018 and 26 February 2019 respectively to discuss internal audit matters.

Related Party Transactions and Conflict of Interest

All Board members will disclose if they have any RPT transaction during the quarter at every quarterly Board meeting.

At each quarterly meeting, the ARMC reviewed the Related Party Transactions ("RPT") and Conflict of Interest ("COI") situation that may arise within the Company and its Group including any transaction, procedure or course of conduct that raises questions of management integrity.

AUDIT AND RISK MANAGEMENT COMMITTEE REPORT
continued

4. SUMMARY OF ACTIVITIES UNDERTAKEN BY THE AUDIT AND RISK MANAGEMENT COMMITTEE DURING THE FINANCIAL YEAR *continued*

Related Party Transactions and Conflict of Interest *continued*

The ARMC reviewed and determined whether the RPT and COI situation presented by the Management is fair, reasonable and on normal commercial terms and in the best interest of the Company prior to the Company entering into such transaction.

It is the duty of AC to review the RPT and RRPT, if there are fair, reasonable and on normal commercial terms and in the best interest of the Company prior to the Company entering into such transaction. All RRPT must be at arm's length transaction.

The ARMC must ensure :

(a) Adequate oversight over the controls on the identification of the interested parties and identification of the RPT and possible COI situations; and

(b) Assess and address the reasonableness of the RPT and COI situation to ensure that interested parties do not abuse their powers to gain unfair advantages.

During the financial year under review, there were no RPT and COI situation reported.

INTERNAL AUDIT FUNCTION

The Group outsources its internal audit function to Messrs Moore Stephens Associates PLT, a professional firm which provides advisory services. The Internal Auditors were engaged with various Head of Division to conduct the entrepreneur risk management, to meet the risks appetites with the internal control and control plan. The Internal Auditors regularly reviews and appraisals on the effectiveness of the internal control system, governance and risk management within the Company and the Group.

The Internal Auditors report directly to the ARMC and they are given full access to all the documents relating to the Company and the Group's governance, financial statements and operational assessments.

It was recognised that the internal audit function is important in assisting the ARMC to execute its oversight function and discharge its duties and responsibilities by performing independent reviews to ensure adequacy and effectiveness of the internal control and risk management systems established by the Group.

The internal audit report issued for the financial year was deliberated by the ARMC and recommendations were duly acted upon by the Management.

The internal audit plan covers review of the adequacy of financial and operational controls, compliance with laws and regulations and risk monitoring activities.

The primary responsibility of the internal audit function is to assist the Board and the ARMC in reviewing and assessing whether the management systems of internal control procedures are effective and provide recommendations to strengthen these internal control procedures so as to foster a strong management control environment.

The Internal Auditors have organized their work in accordance to the principles of the internal auditing standards covering the conduct of the audit planning, execution, documentations, communication of findings and consultation with key stakeholders on the audit concerns.

AUDIT AND RISK MANAGEMENT COMMITTEE REPORT
continued

INTERNAL AUDIT FUNCTION *continued*

The Internal Auditors conducted the risk management profile to map out the proposed action plan to address those high priority risks. Thereafter, the Internal Auditors would recommend and present the internal audit plan is presented to the ARMC for approval annually before commencement of the internal audit work. During the quarterly meetings following the presentation of the internal audit report, the ARMC review the progress and coverage of the internal audit plan to ensure that the audit direction remains relevant and is in line with the expectations of the ARMC.

Prior to the presentation of reports and findings to the ARMC, comments from the Management were obtained and incorporated into the internal audit findings and report.

The internal audit report also covered the follow-up by the Management on the implementation of recommendations in their earlier reports.

The details of the internal audit functions during the period under review is stated in the Statement on Risk Management and Internal Control of this Annual Report.

The total cost incurred for the internal audit function of the Group for the financial year ended 31 December 2018 was RM40,000

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Introduction

Paragraph 15.26 (b) of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa") stipulates that a listed issuer must ensure that its board of directors makes a statement ("Risk Management and Internal Control Statement" or "Statement") about the state of risk management internal control of the listed issuer as a group. Accordingly, the Board of Directors (the "Board") is pleased to provide the Internal Control Statement, which outlines the nature and scope of the risk management and internal control system in the Group (comprising the Company and its subsidiaries) for the financial year ended 31 December 2018 and up to the date of approval of this Statement for inclusion in the Annual Report of the Company. For the purpose of disclosure, this Statement takes into consideration the "Statement on Risk Management and Internal Controls - Guidelines for Directors of Listed Issuers", a publication of Bursa which provides guidance to boards of directors on the issuance of the Internal Control Statement.

The Board acknowledges its ultimate responsibility over the Group's system of risk management and internal control to safeguard shareholders' investment and the assets of the Group as well as reviewing the adequacy, effectiveness and integrity of those systems. The Board in discharging its responsibilities in overseeing the overall management in line with Practice 1.1 of the Malaysian Code on Corporate Governance 2017 ("MCCG 2017"). Accordingly, the Board, collectively and individually, are aware of the principal responsibilities, as outlined in the Guidance of the MCCG 2017, include, inter-alia, the following:

- reviewing the adequacy and integrity of the management information and ensuring there is a sound framework for internal controls system and risk management.
- understanding and identifying principal risks of the Company's business and ensuring the implementation of appropriate controls and mitigation measures;
- sets the risk appetite within which the management is expected to operate and ensure that there is an appropriate risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks.

The Group has in place a risk management process to identify and evaluate significant risks, comprising strategic, financial and operational risks as well as a system of internal control to mitigate such risks. In view of the limitations inherent in any system of risk management and internal control, the system is designed to manage, rather than to eliminate, the risk of failure to achieve the Group's business and corporate objectives. The system can therefore only provide reasonable, but not absolute assurance, against any material misstatement, financial loss or fraudulent practice.

Risk Management Process

The Board recognises the importance of risk management to safeguard shareholders' investment and the Group's assets. Accordingly, it has deployed a process to identify and evaluate significant business risks faced by the Group with a view to manage them during the financial year under review and up to the date of approval of this statement. Management is entrusted to identify such risks for onward reporting to the Board so that remedial measures may be taken to mitigate the risks as appropriate. For each risk identified, the risk management process includes assessing the likelihood of its occurrence and the impact thereof. The significant risks faced by the Group, including action plans to mitigate risks within acceptable levels, are reported by Management to the Board annually.

The Board also had established an Enterprise Risk Management framework to identify, evaluate, control, report and monitor significant risks faced by the Group. Such a framework also includes pertinent risk management policies and guidelines to provide structured guidance to personnel across the Group in addressing risk management. The risk appetite of the Group is articulated via the use of risk parameters in the framework, covering financial and non-financial metrics, to assess the likelihood of risks occurring and the impact thereof should the risks crystallise. Internal controls deployed by Management are linked to, and mitigate, the business risks identified.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

continued

Internal Control System

The Group has an established organisational structure with clearly defined lines of responsibilities and appropriate levels of delegation and authority. Key duties are segregated amongst different personnel for major operational functions such as sales and collections, procurement and payment, production, financial management and reporting, capital expenditure management and investments. A process of hierarchical reporting is established which provides for a documented and auditable trail of accountability.

The system of internal control entails, inter-alia, the proper delegation of duties and responsibilities from the Board to the Managing Director, Executive Directors and Senior Management (collectively, the "Management"), with specified limits of authority, in running the main operating functions of the Group. In this respect, Management essentially comprises personnel with many years of "hands-on" experience who are in a position to identify and manage business risks relevant to the Group and design appropriate internal controls to manage these risks.

Management also holds various management and operations discussion to discuss matters of concern in relation to the day-to-day activities, ageing of inventory and receivables and strategic marketing plan.

Internal Audit Function

The Group's internal audit function is outsourced to Messrs Moore Stephens Associate PLT, an independent professional firm, which adopts the International Professional Practices Framework ("IPPF") in carrying out internal audit assignments on the Group. The IPPF includes, inter-alia, the attribute and performance standards for internal auditing promulgated by the Institute of Internal Auditors, a global professional body for internal auditors. The internal audit function, which reports directly to the Audit Committee, assists the Board in assessing the adequacy and integrity of the internal control system established by Management based on an agreed scope of work as outlined in an Internal Audit Plan tabled to, and approved by the Audit Committee. There is no restriction placed upon the scope of the Internal Audit function's work and the internal auditor is allowed full, free and unrestricted access to the records and relevant personnel of the Group.

During the financial year under review, the Audit Committee reviewed the work of the internal audit function, its observations and recommendations to ensure that it obtained the necessary level of assurance with respect to the adequacy and operating effectiveness of internal controls. The internal audit function reviewed the Group's system of internal controls and reported its observations, including Management's response and action plans thereof, directly to the Audit Committee. The internal audit function also followed up and reported to the Audit Committee the status of implementation by Management on the recommendations highlighted in its internal audit reports.

During the financial year under review, the internal audit function covered the following key processes of the Group to assess the adequacy and operating effectiveness of internal controls to address the business risks therein:

- Sales to Receipt Process; and
- Production Operation Process.

The outsourced internal audit function is headed by Mr. Dennis Chong, a Chartered Member of Institute of Internal Audit (CMIIA), Malaysia. All the internal audit activities were performed during the financial year 2018, and average of 2 internal auditors were deployed.

The total costs incurred in managing the internal audit functions in respect of the financial year 31 December 2018 amounted to approximately RM40,000.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

continued

Assurance by the Deputy Managing Director and Executive Director, Finance on the adequacy and effectiveness of the risk management and internal control system

The Board has received assurance from the Deputy Managing Director and the Executive Director – Finance that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects, for the financial year under review and up to the date of approval of this Statement for inclusion in the Annual Report.

Board's comments on the adequacy and effectiveness of the Group's risk management and internal control system

The Board, through its Audit Committee, has reviewed the adequacy and effectiveness of the risk management and internal control systems, and that relevant actions have been or are being taken, as the case may be, to remedy internal control weaknesses identified from the review, which was largely based on the outcome of observations raised by the internal auditors directly to the Audit Committee.

The Board is of the view that there have been no weaknesses in the system of internal control that resulted in material losses, contingencies or uncertainties that would require mention in the Company's Annual Report 2018. Management of the Group continues to take measures to strengthen the internal control environment from time to time based on recommendations of the internal audit function as well as the external auditors.

For the purpose of this Statement on Risk Management and Internal Control Statement, the associate of the Group has not been taken into account. The Group's interests in this associate are served through representation on the Board of the associate as well as through the review of management financial statements.

This statement is issued in accordance with a resolution of the Board dated 1 April 2019.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by paragraph 15.23 of the Main Market Listing Requirements of Bursa Malaysia, the external auditors have reviewed the Statement on Risk Management and Internal Control in accordance with the Audit and Assurance Practice Guide 3, ("AAPG 3") (previously RPG 5 (Revised 2015)), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the annual report of the Group for the year ended 31 December 2018 and reported to the Board that nothing had come to their attention that causes them to believe that the statement intended to be included in the annual report of the Group, in all material respects:

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

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

OTHER DISCLOSURE REQUIREMENTS PURSUANT TO THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

1. UTILISATION OF PROCEEDS RAISED FROM CORPORATE EXERCISE

During the financial year, there were no proceeds raised by the Company from any corporate exercise.

2. MATERIAL CONTRACTS INVOLVING DIRECTORS, CHIEF EXECUTIVE OR MAJOR SHAREHOLDERS‘ INTEREST

There were no contracts relating to loan and material contracts of the Company and its subsidiaries involving the Directors and major shareholders interests during the financial year or since the end of the previous financial year.

3. AUDIT AND NON-AUDIT SERVICES

The amount of audit and non-audit fees incurred for services rendered to the Company or its subsidiaries for the financial year ended 31 December 2018 by the external auditors or a firm or corporation affiliated to the auditors‘ firm were as follows :

	Group (RM‘000)	Company (RM‘000)
Audit Fees	166	63
Non-audit Fees	5	5
Total	171	68

4. RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE AND TRADING NATURE (“RRPT”)

The recurrent related party transaction of the Company during the year amounted to RM4.49 million with details as stated in Note 24(b) of the financial statements.

The names of the related parties involved and their relationship with the Company are detailed in Section 2.2.1 of the Circular to Shareholders dated 30 April 2019.

DIRECTORS' REPORT

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 activity of the Company is investment holding. The principal activities of its subsidiaries and its associate are disclosed in Notes 10 and 11 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	Group RM	Company RM
Profit net of tax	1,035,738	961,734
Profit attributable to:		
Owners of the parent	1,017,814	961,734
Non-controlling interest	17,924	-
	1,035,738	961,734

DIVIDENDS

Since the end of the previous financial year, the Company paid a first and final single-tier dividend of 2 sen per share on 96,000,000 ordinary shares amounting to RM1,920,000 on 28 May 2018 in respect of the financial year ended 31 December 2017 as reported in the directors' report of that financial year.

The directors proposed a final single-tier dividend of 0.5 sen per share on 96,000,000 ordinary shares amounting to RM480,000 in respect of the financial year ended 31 December 2018 subject to shareholders' approval at the forthcoming Annual General Meeting. The financial statements for the current financial year do not reflect the first and final dividend. Such dividend will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2019.

RESERVES OR PROVISIONS

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

DIRECTORS' REPORT
continued

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Group and of the Company were prepared, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances which would render the amount written off for bad debts or the amount of allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Group and of the Company were prepared, the directors took reasonable steps to ensure that any current assets which were unlikely to be realised in the ordinary course of business including their values as shown in the accounting records of the Group and of the Company had been written down to an amount which they might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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; and
(ii) any contingent liabilities in respect of the Group or of the Company which has arisen since the end of the financial year.

In the opinion of the directors, no contingent or other liability of the Group or of the Company 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 as and when they fall due.

CHANGE OF CIRCUMSTANCES

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

DIRECTORS' REPORT
continued

ITEMS OF MATERIAL AND UNUSUAL NATURE

In the opinion of the directors,

(i) the results of the operations of the Group and of the Company for the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; 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 and of the Company for the financial year in which this report was made.

ISSUE OF SHARES AND DEBENTURES

During the financial year, no new issue of shares or debentures were made by the Company.

DIRECTORS

The directors in office during the financial year and during the period from the end of the financial year to the date of the report are:

Koh Seng Kar @ Koh Hai Sew * (Deceased on 23.3.2019)
Koh Seng Lee *
Tsen Ket Shung @ Kon Shung *
Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff
Lim Ho Kin
Yap Siok Teng

* *Directors of the Company and certain subsidiaries*

Other than as stated above, the name of the director of the subsidiary of the Company in office during the financial year and during the period from the end of the financial year to the date of the report is Chia Ai Peng.

DIRECTORS' INTERESTS

According to the Register of Directors' shareholdings required to be kept by the Company under Section 59 of the Companies Act 2016 in Malaysia, the interests of directors in office at the end of the financial year in shares in the Company and its related corporations during the financial year were as follows:

(a) Shareholdings in the Company

	Number of Ordinary Shares			
	At 1 January 2018	Bought	Sold	At 31 December 2018
Koh Seng Kar @ Koh Hai Sew	36,960,000	-	-	36,960,000
Koh Seng Lee	15,840,000	-	-	15,840,000
Tsen Ket Shung @ Kon Shung	714,400	-	-	714,400
Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff	100,000	-	-	100,000
Lim Ho Kin	60,000	-	-	60,000
Yap Siok Teng	50,000	-	-	50,000

DIRECTORS' REPORT
continued

DIRECTORS' INTERESTS *continued*

By virtue of his interests in the ordinary shares of the Company and pursuant to Section 8 of the Companies Act 2016 in Malaysia, Koh Seng Kar @ Koh Hai Sew and Koh Seng Lee are deemed to have an interest in the ordinary shares of the subsidiaries to the extent that the Company has an interest.

Other than as stated above, none of the other directors in office at the end of the financial year had any interest in shares of the Company and its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable, by the directors as disclosed in Note 6 to the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Neither during, nor at the end of the financial year, was the Company a party to any arrangements where the object is to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 10 to the financial statements.

The available auditors' reports on the accounts of the remaining subsidiaries did not contain any qualification.

AUDITORS' REMUNERATION

The details of the auditors' remuneration are disclosed in Note 5 to the financial statements.

INDEMNITY TO AUDITORS

The Company has agreed to indemnify the auditors of the Company as permitted under Section 289 of the Companies Act 2016 in Malaysia.

DIRECTORS' REPORT
continued

AUDITORS

The auditors, Messrs Baker Tilly Monteiro Heng PLT (converted from a conventional partnership, Baker Tilly Monteiro Heng on 5 March 2019), have expressed their willingness to continue in office.

This report was approved and signed on behalf of the Board of Directors in accordance with a resolution of the directors:

KOH SENG LEE
Director

TSEN KET SHUNG @ KON SHUNG
Director

Date: 1 April 2019

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

		Group		Company	
		2018	2017	2018	2017
	Note	RM	RM	RM	RM
Revenue	4	**106,764,004**	123,218,758	**4,611,100**	4,141,200
Cost of sales		**(87,618,557)**	(99,607,080)	**-**	-
Gross profit		**19,145,447**	23,611,678	**4,611,100**	4,141,200
Other income		**455,609**	344,980	**749,481**	1,656,555
Selling and distribution costs		**(2,813,880)**	(2,958,465)	**(130,252)**	(137,359)
Administrative costs		**(10,547,381)**	(9,273,224)	**(3,381,126)**	(3,029,345)
Net impairment losses of financial assets		**(1,222,217)**	(162,642)	**-**	-
Other costs		**(2,457,103)**	(2,853,322)	**(409,742)**	(397,882)
		(17,040,581)	(15,247,653)	**(3,921,120)**	(3,564,586)
Profit from operations		**2,560,475**	8,709,005	**1,439,461**	2,233,169
Finance costs		**(1,647,179)**	(1,433,472)	**(366,251)**	(556,740)
Share of results of an associate		**270,845**	353,705	**-**	-
Profit before tax	5	**1,184,141**	7,629,238	**1,073,210**	1,676,429
Income tax expense	7	**(148,403)**	(1,932,994)	**(111,476)**	(450,130)
Profit net of tax, representing total comprehensive income for the financial year		**1,035,738**	5,696,244	**961,734**	1,226,299
Total comprehensive income attributable to:					
Owners of the parent		**1,017,814**	5,475,406	**961,734**	1,226,299
Non-controlling interest		**17,924**	220,838	**-**	-
		1,035,738	5,696,244	**961,734**	1,226,299
Earnings per share attributable to owners of the parent (sen per share)					
Basic	8	**1.06**	5.70		
Diluted	8	**1.06**	5.70		

The annexed notes form an integral part of, and should be read in conjunction with, these financial statements.

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	Group 2018 RM	Group 2017 RM	Company 2018 RM	Company 2017 RM
ASSETS					
Non-current assets					
Property, plant and equipment	9	**12,475,776**	11,297,416	**6,343,566**	6,472,597
Investments in subsidiaries	10	**-**	-	**33,010,002**	33,510,002
Investment in an associate	11	**4,579,299**	4,308,454	**820,000**	820,000
Deferred tax assets	12	**1,144,109**	760,594	**-**	-
		18,199,184	16,366,464	**40,173,568**	40,802,599
Current assets					
Inventories	13	**52,401,263**	44,240,959	**-**	-
Trade receivables	14	**38,858,879**	46,174,341	**-**	-
Other receivables, deposits and prepayments	15	**2,673,624**	1,867,192	**230,309**	181,896
Amount due from subsidiaries	16	**-**	-	**17,112,398**	24,573,886
Tax recoverable		**2,043,585**	999,470	**192,906**	46,672
Deposits, cash and bank balances	17	**10,166,400**	13,494,528	**3,335,857**	4,728,209
		106,143,751	106,776,490	**20,871,470**	29,530,663
TOTAL ASSETS		**124,342,935**	123,142,954	**61,045,038**	70,333,262

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
continued

		Group		Company	
		2018	2017	2018	2017
	Note	RM	RM	RM	RM
EQUITY AND LIABILITIES					
Share capital	18	**48,514,639**	48,514,639	**48,514,639**	48,514,639
Retained earnings		**31,155,875**	32,058,061	**245,568**	1,203,834
Equity attributable to owners of the parent		**79,670,514**	80,572,700	**48,760,207**	49,718,473
Non-controlling interest		**1,214,324**	1,196,400	**-**	-
Total equity		**80,884,838**	81,769,100	**48,760,207**	49,718,473
Liabilities					
Non-current liabilities					
Bank borrowings	19	**2,115,673**	1,481,544	**-**	-
Deferred tax liabilities	12	**132,919**	134,859	**132,919**	128,779
		2,248,592	1,616,403	**132,919**	128,779
Current liabilities					
Trade payables	21	**4,311,363**	6,555,278	**-**	-
Other payables and accruals	22	**5,233,834**	4,226,443	**1,571,773**	1,555,067
Downpayment from customers		**586,024**	-	**-**	-
Bank borrowings	19	**31,075,619**	28,859,145	**-**	-
Amount due to subsidiaries	16	**-**	-	**10,580,139**	18,930,943
Tax payable		**2,665**	116,585	**-**	-
		41,209,505	39,757,451	**12,151,912**	20,486,010
Total liabilities		**43,458,097**	41,373,854	**12,284,831**	20,614,789
TOTAL EQUITY AND LIABILITIES		**124,342,935**	123,142,954	**61,045,038**	70,333,262

The annexed notes form an integral part of, and should be read in conjunction with, these financial statements.

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

		Attributable to Owners of the Parent			Non-controlling	Total
		Share Capital	Retained Earnings	Total	Interest	Equity
	Note	RM	RM	RM	RM	RM
Group						
At 1 January 2018		48,514,639	32,058,061	80,572,700	1,196,400	81,769,100
Profit net of tax, representing total comprehensive income for the financial year		-	1,017,814	1,017,814	17,924	1,035,738
Transactions with owners						
Dividend on ordinary shares	23	-	(1,920,000)	(1,920,000)	-	(1,920,000)
At 31 December 2018		48,514,639	31,155,875	79,670,514	1,214,324	80,884,838

		Attributable to Owners of the Parent				Non-controlling	Total
		Share Capital	Share Premium	Retained Earnings	Total	Interest	Equity
	Note	RM	RM	RM	RM	RM	RM
Group							
At 1 January 2017		48,000,000	514,639	27,751,070	76,265,709	1,732,147	77,997,856
Profit net of tax, representing total comprehensive income for the financial year		-	-	5,475,406	5,475,406	220,838	5,696,244
Transactions with owners							
Dividend on ordinary shares	23	-	-	(1,440,000)	(1,440,000)	-	(1,440,000)
Changes in ownership interests in a subsidiary	10(b)	-	-	271,585	271,585	(756,585)	(485,000)
Total transactions with owners		-	-	(1,168,415)	(1,168,415)	(756,585)	(1,925,000)
Transition to no-par value regime ^		514,639	(514,639)	-	-	-	-
At 31 December 2017		48,514,639	-	32,058,061	80,572,700	1,196,400	81,769,100

^ *Refer to Note 18 for details.*

The annexed notes form an integral part of, and should be read in conjunction with, these financial statements.

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

	Note	Share Capital RM	Share Premium RM	Retained Earnings RM	Total Equity RM
Company					
At 1 January 2017		48,000,000	514,639	1,417,535	49,932,174
Profit net of tax, representing total comprehensive income for the financial year		-	-	1,226,299	1,226,299
Transactions with owners					
Dividend on ordinary shares	23	-	-	(1,440,000)	(1,440,000)
Transition to no-par value regime ^		514,639	(514,639)	-	-
At 31 December 2017/1 January 2018		48,514,639	-	1,203,834	49,718,473
Profit net of tax, representing total comprehensive income for the financial year		-	-	961,734	961,734
Transactions with owners					
Dividend on ordinary shares	23	-	-	(1,920,000)	(1,920,000)
At 31 December 2018		48,514,639	-	245,568	48,760,207

^ *Refer to Note 18 for details.*

The annexed notes form an integral part of, and should be read in conjunction with, these financial statements.

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

		Group		Company	
		2018	2017	2018	2017
	Note	RM	RM	RM	RM
Cash Flows from Operating Activities					
Profit before tax		**1,184,141**	7,629,238	**1,073,210**	1,676,429
Adjustments for:					
Depreciation of property, plant and equipment		**1,829,807**	1,905,385	**146,895**	145,364
Dividend income		**-**	-	**(660,000)**	(50,000)
Bad debts written off		**14,625**	-	**-**	-
Impairment loss on trade receivables		**1,261,709**	162,642	**-**	-
Interest expense		**1,647,179**	1,433,472	**-**	-
Gain on disposal of property, plant and equipment		**(78,197)**	(139,620)	**-**	-
Interest income		**(311,341)**	(205,360)	**(749,481)**	(1,656,555)
Reversal of impairment loss on trade receivables		**(39,492)**	-	**-**	-
Share of results of an associate		**(270,845)**	(353,705)	**-**	-
Unrealised (gain)/loss on foreign exchange		**(66,061)**	70,825	**-**	-
Operating profit/(loss) before working capital changes		**(5,171,525)**	10,502,877	**(189,376)**	115,238
Change in working capital:					
(Increase)/Decrease in inventories		**(8,160,304)**	6,480,069	**-**	-
Decrease/(Increase) in receivables		**(5,323,009)**	(3,154,306)	**(2,184,963)**	(607,637)
(Decrease)/Increase in payables		**(620,264)**	(11,868,579)	**16,706**	398,178
Cash generated from/(used in) operations		**1,713,966**	1,960,061	**(2,357,633)**	(94,221)
Dividend received		**-**	-	**660,000**	50,000
Interest received		**311,341**	205,360	**749,481**	1,656,555
Tax paid		**(2,176,909)**	(1,960,422)	**(415,103)**	(308,334)
Tax refunded		**485,018**	204,568	**161,533**	-
Net cash generated from/(used in) operating activities		**333,416**	409,567	**(1,201,722)**	1,304,000

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

continued

		Group		Company	
		2018	**2017**	**2018**	**2017**
	Note	**RM**	**RM**	**RM**	**RM**
Cash Flows from Investing Activities					
(Additional)/Disposal of investment in subsidiaries		**-**	(485,000)	**500,000**	(534,998)
Repayment from subsidiaries		**-**	-	**9,598,038**	2,684,321
Proceeds from disposal of property, plant and equipment		**78,200**	139,623	**-**	-
Purchase of property, plant and equipment	9	**(1,315,918)**	(876,398)	**(17,864)**	(36,719)
Net cash (used in)/generated from investing activities		**(1,237,718)**	(1,221,775)	**10,080,174**	2,112,604
Cash Flows from Financing Activities	**(a)**				
Net proceed from bankers' acceptances		**2,015,508**	5,445,955	**-**	-
Payment of finance lease		**(859,850)**	(670,932)	**-**	-
Repayment to subsidiaries		**-**	-	**(8,350,804)**	(1,481,509)
Dividend paid		**(1,920,000)**	(1,440,000)	**(1,920,000)**	(1,440,000)
Interest paid		**(1,659,484)**	(1,458,704)	**-**	-
Net cash (used in)/generated from financing activities		**(2,423,826)**	1,876,319	**(10,270,804)**	(2,921,509)
Net (decrease)/increase in cash and cash equivalents		**(3,328,128)**	1,064,111	**(1,392,352)**	495,095
Cash and cash equivalents at beginning of the financial year		**13,494,528**	12,430,417	**4,728,209**	4,233,114
Cash and cash equivalents at end of the financial year	17	**10,166,400**	13,494,528	**3,335,857**	4,728,209

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
continued

(a) Reconciliation of liabilities arising from financing activities:

Group	1 January 2018 RM	Cash flows RM	Non-cash RM	31 December 2018 RM
Bankers' acceptances	28,081,438	2,015,508	2,693	30,099,639
Finance lease payables	2,259,251	(859,850)	1,692,252	3,091,653
	30,340,689	1,155,658	1,694,945	33,191,292

Group	1 January 2017 RM	Cash flows RM	Non-cash RM	31 December 2017 RM
Bankers' acceptances	22,674,655	5,445,955	(39,172)	28,081,438
Finance lease payables	2,168,188	(670,932)	761,995	2,259,251
	24,842,843	4,775,023	722,823	30,340,689

Changes in liabilities arising from financing activities of the Company are changes from cash flows.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, listed on the Main Market of the Bursa Malaysia Securities Berhad.

The registered office of the Company is located at Level 15-2, Bangunan Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur.

The principal place of business of the Company is located at Lot 3707, Jalan 7/5, Taman Industri Selesa Jaya, 43300 Balakong, Selangor Darul Ehsan.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries and its associate are disclosed in Notes 10 and 11. There have been no significant changes in the nature of these activities during the financial year.

The financial statements were approved and authorised for issue in accordance with a Board of Directors' resolution dated 1 April 2019.

2. BASIS OF PREPARATION

(a) Statement of Compliance

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

(b) New MFRSs, Amendments/Improvements to MFRSs and new IC Interpretation ("IC Int")

(i) Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Int

The Group and the Company have adopted the following new MFRSs, amendments/improvements to MFRSs and new IC Int that are mandatory for the current financial year:

New MFRSs	
MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers
Amendments/Improvements to MFRSs	
MFRS 1	First-time adoption of MFRSs
MFRS 2	Share-based Payment
MFRS 4	Insurance Contracts
MFRS 128	Investments in Associates and Joint Ventures
MFRS 140	Investment Property
New IC Int	
IC Int 22	Foreign Currency Transactions and Advance Consideration

The adoption of the above new MFRSs, amendments/improvements to MFRSs and new IC Int did not have any significant effect on the financial statements of the Group and of the Company, and did not result in significant changes to the Group's and the Company's existing accounting policies except for those as discussed below.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

2. BASIS OF PREPARATION *continued*

(b) New MFRSs, Amendments/Improvements to MFRSs and new IC Interpretation ("IC Int") *continued*

(i) Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Int *continued*

MFRS 9 Financial Instruments

MFRS 9 replaced the guidance of MFRS 139, Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and liabilities, on impairment of financial assets, and on hedge accounting.

Key requirements of MFRS 9:

- MFRS 9 introduces an approach for classification and measurement of financial assets which is driven by cash flow characteristics and the business model in which an asset is held.

  In essence, if a financial asset is a simple debt instrument and the objective of the entity's business model within which it is held is to collect its contractual cash flows, the financial asset is measured at amortised cost. In contrast, if that asset is held in a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets, then the financial asset is measured at fair value in the statements of financial position, and amortised cost information is provided through profit or loss. If the business model is neither of these, then fair value information is increasingly important, so it is provided both in the profit or loss and in the statements of financial position.

- MFRS 9 introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses which replaced the "incurred loss" model in MFRS 139. Specifically, this Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The model requires an entity to recognise expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. This model eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised. Trade receivables and contract assets that do not contain a significant financing component shall always measure the loss allowance at an amount equal lifetime expected credit losses.

- MFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

The retrospective application of MFRS 9 does not require restatement of 2017 comparative financial statements. As such, the Group and the Company have not restated the comparative information, which continues to be reported under MFRS 139. The Group and the Company recognised any difference between the carrying amount of financial instruments under MFRS 139 and the restated carrying amount under MFRS 9 in the opening balance of retained earnings (or other equity components) of the annual reporting period including the date of initial application i.e. 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

2. BASIS OF PREPARATION *continued*

(b) New MFRSs, Amendments/Improvements to MFRSs and new IC Interpretation ("IC Int") *continued*

(i) Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Int *continued*

MFRS 9 Financial Instruments *continued*

Impact of the adoption of MFRS 9

The adoption of MFRS 9 resulted in changes in accounting policies and the enhanced new disclosures relating to financial instruments, which the Group and the Company have complied with in the current financial year. The adoption of this standard does not have any significant effect on the financial statements of Group and the Company, except for those discussed below.

(i) Classification and measurement

The following are the changes in the classification of the Company's financial assets:

Trade receivable and cash and bank balances previously classified as Loans and Receivables under MFRS 139 as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. Accordingly, these financial assets are classified and measured as debt instruments at amortised cost beginning 1 January 2018.

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

	MFRS 9 measurement category Amortised Cost RM
MFRS 139 measurement category	
Financial assets	
Group	
Loans and receivables	
Trade receivables	46,174,341
Other receivables and refundable deposits	358,240
Deposits, cash and bank balances	13,494,528
	60,027,109
Company	
Loans and receivables	
Other receivables and refundable deposits	106,073
Amounts due from subsidiaries	24,573,886
Deposits, cash and bank balances	4,728,209
	29,408,168

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

2. BASIS OF PREPARATION *continued*

(b) New MFRSs, Amendments/Improvements to MFRSs and new IC Interpretation ("IC Int") *continued*

(i) Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Int *continued*

MFRS 9 Financial Instruments *continued*

Impact of the adoption of MFRS 9 *continued*

(ii) Impairment

In previous financial year, trade and other receivables are impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the receivables (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the receivables ("incurred loss model"). Upon adoption of MFRS 9, the Group and the Company are recording expected credit losses on all its trade and other receivables, either on a 12-month or lifetime basis.

Other than as disclosed above, the application of MFRS 9 did not have any significant effect on the financial statements to the Group and the Company.

MFRS 15 Revenue from Contracts with Customers

The core principle of MFRS 15 is that an entity recognises revenue to 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. An entity recognises revenue in accordance with the core principle by applying the following steps:

(i) identify the contracts with a customer;
(ii) identify the performance obligation in the contract;
(iii) determine the transaction price;
(iv) allocate the transaction price to the performance obligations in the contract;
(v) recognise revenue when (or as) the entity satisfies a performance obligation.

MFRS 15 also includes new disclosures that would result in an entity providing users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The following MFRSs and IC Interpretations will be withdrawn on the application of MFRS 15:

MFRS 111	Construction Contracts
MFRS 118	Revenue
IC Interpretation 13	Customer Loyalty Programmes
IC Interpretation 15	Agreements for the Construction of Real Estate
IC Interpretation 18	Transfers of Assets from Customers
IC Interpretation 131	Revenue – Barter Transactions Involving Advertising Services

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

2. BASIS OF PREPARATION *continued*

(b) New MFRSs, Amendments/Improvements to MFRSs and new IC Interpretation ("IC Int") *continued*

(i) Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Int continued

MFRS 15 Revenue from Contracts with Customers *continued*

The Group and the Company have applied MFRS 15 using the full retrospective method of adoption. The effect of the transition on the current period has not been disclosed as permitted under the standard. The Group and the Company have elected the practical expedients to apply the standard only to contracts that are not completed as at 1 January 2017 and those contracts begin and end within the same annual reporting period. The Group and the Company also elected the practical expedient in not disclosing the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the Group and the Company expect to recognise that amount as revenue for the comparative period.

Impact of the adoption of MFRS 15

The adoption of MFRS 15 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. Other than the enhanced new disclosures relating to contracts with customers, which the Group and the Company have complied with in the current financial year, the adoption of this standard does not have any significant effect on the financial statements of the Group and the Company.

(ii) New MFRSs, Amendments/Improvements to MFRSs and new IC Int that have been issued, but yet to be effective

The Group and the Company have not adopted the following new MFRSs, amendments/improvements to MFRSs, new IC Int that have been issued, but yet to be effective:

		Effective for financial periods beginning on or after
New MFRSs		
MFRS 16	Leases	1 January 2019
MFRS 17	Insurance Contracts	1 January 2021
Amendments/Improvements to MFRSs		
MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards	1 January 2021#
MFRS 2	Share-based Payment	1 January 2020*
MFRS 3	Business Combinations	1 January 2019/ 1 January 2020*
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2021#
MFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2020*
MFRS 7	Financial Instruments: Disclosures	1 January 2021#
MFRS 9	Financial Instruments	1 January 2019
MFRS 10	Consolidated Financial Statements	Deferred

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

2. BASIS OF PREPARATION *continued*

(b) New MFRSs, Amendments/Improvements to MFRSs and new IC Interpretation ("IC Int") *continued*

(ii) New MFRSs, Amendments/Improvements to MFRSs and new IC Int that have been issued, but yet to be effective *continued*

The Group and the Company have not adopted the following new MFRSs, amendments/ improvements to MFRSs, new IC Int that have been issued, but yet to be effective: *continued*

		Effective for financial periods beginning on or after
Amendments/Improvements to MFRSs		
MFRS 11	Joint Arrangements	1 January 2019
MFRS 14	Regulatory Deferral Accounts	1 January 2020*
MFRS 15	Revenue from Contracts with Customers	1 January 2021#
MFRS 101	Presentation of Financial Statements	1 January 2020*
MFRS 107	Statements of Cash Flows	1 January 2021#
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Error	1 January 2020*
MFRS 112	Income Taxes	1 January 2019
MFRS 116	Property, Plant and Equipment	1 January 2021#
MFRS 119	Employee Benefits	1 January 2019
MFRS 123	Borrowing Costs	1 January 2019
MFRS 128	Investments in Associates and Joint Ventures	1 January 2019/ Deferred
MFRS 132	Financial instruments: Presentation	1 January 2021#
MFRS 134	Interim Financial Reporting	1 January 2020*
MFRS 136	Impairment of Assets	1 January 2021#
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2020*
MFRS 138	Intangible Assets	1 January 2020*
MFRS 140	Investment Property	1 January 2021#
New IC Int		
IC Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IC Int		
IC Int 12	Service Concession Arrangements	1 January 2020*
IC Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 January 2020*
IC Int 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2020*
IC Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2020*
IC Int 132	Intangible Assets – Web Site Costs	1 January 2020*

* *Amendments to References to the Conceptual Framework in MFRS Standards*

\# *Amendments as to the consequence of effective of MFRS 17 Insurance Contracts*

The Group and the Company plan to adopt the above applicable new MFRSs, amendments/ improvements to MFRSs, new IC Int and amendments to IC Int when they become effective. A brief discussion on the above significant new MFRSs, amendments/improvements to MFRSs, new IC Int and amendments to IC Int are summarised below.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

2. BASIS OF PREPARATION *continued*

(b) New MFRSs, Amendments/Improvements to MFRSs and new IC Interpretation ("IC Int") *continued*

(ii) New MFRSs, Amendments/Improvements to MFRSs and new IC Int that have been issued, but yet to be effective *continued*

MFRS 16 Leases

Currently under MFRS 117 Leases, leases are classified either as finance leases or operating leases. A lessee recognises on its statement of financial position assets and liabilities arising from the finance leases.

MFRS 16 eliminates the distinction between finance and operating leases for lessees. All leases will be brought onto its statement of financial position except for short-term and low value asset leases.

On adoption of this standard, the Group and the Company will be required to capitalise its rented premises and equipment on the statements of financial position by recognising them as "rights-of-use" assets and their corresponding lease liabilities for the present value of future lease payments.

The Group and the Company plan to adopt this standard when it becomes effective in the financial year beginning 1 January 2019 by applying the transitional provisions and include the required additional disclosures in their financial statements of that year. The Group is likely electing the practical expedient not to reassess whether a contract contains a lease at the date of initial application. Accordingly, existing lease contracts that are still effective on 1 January 2019 will be accounted for as lease contracts under MFRS 16.

Amendments to MFRS 9 Financial Instruments

Amendments to MFRS 9 allow companies to measure prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income if certain conditions are met.

The amendments also clarify that when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss.

Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures

These amendments address an acknowledged inconsistency between the requirements in MFRS 10 and those in MFRS 128, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business, as defined in MFRS 3. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business.

Amendments to MFRS 112 Income Taxes

Amendments to MFRS 112 clarify that an entity recognises the income tax consequences of dividends in profit or loss because income tax consequences of dividends are linked more directly to past transactions than to distributions to owners, except if the tax arises from a transaction which is a business combination or is recognised in other comprehensive income or directly in equity.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018
continued

2. BASIS OF PREPARATION *continued*

(b) New MFRSs, Amendments/Improvements to MFRSs and new IC Interpretation ("IC Int") *continued*

(ii) New MFRSs, Amendments/Improvements to MFRSs and new IC Int that have been issued, but yet to be effective *continued*

Amendments to MFRS 123 Borrowing Costs

Amendments to MFRS 123 clarify that when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that qualifying asset as part of general borrowings.

Amendments to MFRS 128 Investments in Associates and Joint Ventures

Amendments to MFRS 128 clarify that companies shall apply MFRS 9, including its impairment requirements, to account for long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint to which the equity method is not applied.

IC Int 22 Foreign Currency Transactions and Advance Consideration

IC Int 22 clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

IC Int 23 Uncertainty over Income Tax Treatments

IC Int 23 clarifies that where there is uncertainty over income tax treatments, an entity shall:

(i) assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.

(ii) reflect the effect of uncertainty in determining the related tax position (using either the most likely amount or the expected value method) if it concludes it is not probable that the taxation authority will accept an uncertain tax treatment.

Amendments to References to the Conceptual Framework in MFRS Standards

The Malaysian Accounting Standards Board has issued a revised Conceptual Framework for Financial Reporting and amendments to fourteen Standards under the Malaysian Financial Reporting Standards Framework on 30 April 2018.

The revised Conceptual Framework comprises a comprehensive set of concepts of financial reporting. It is built on the previous version of the Conceptual Framework issued in 2011. The changes to the chapters on the objective of financial reporting and qualitative characteristics of useful financial information are limited, but with improved wordings to give more prominence to the importance of providing information need to assess management's stewardship of the entity's economic resources.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

2. BASIS OF PREPARATION *continued*

(b) New MFRSs, Amendments/Improvements to MFRSs and new IC Interpretation ("IC Int") *continued*

(ii) New MFRSs, Amendments/Improvements to MFRSs and new IC Int that have been issued, but yet to be effective *continued*

Amendments to References to the Conceptual Framework in MFRS Standards *continued*

Other improvements of the revised Conceptual Framework include a new chapter on measurement, guidance on reporting financial performance, improved definitions and guidance – in particular the definition of a liability – and clarifications in important areas, such as the role of prudence and measurement uncertainty in financial reporting.

The amendments to the fourteen Standards are to update the references and quotations in these Standards which include MFRS 2, MFRS 3, MFRS 6, MFRS 14, MFRS 101, MFRS 108, MFRS 134, MFRS 137, MFRS 138, IC Int 12, IC Int 19, IC Int 20, IC Int 22 and IC Int 132.

The amendments to the nine Standards are consequence of MFRS 17 with an effective date on or after 1 January 2021, which include MFRS 1, MFRS 5, MFRS 7, MFRS 15, MFRS 107, MFRS 116, MFRS 132, MFRS 136 and MFRS 140.

(c) Functional and Presentation Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is also the Group's and the Company's functional currency. All financial information presented in RM has been rounded to the nearest RM, unless otherwise stated.

(d) Basis of Measurement

The financial statements of the Group and of the Company have been prepared on the historical cost basis, except as otherwise disclosed in Note 3.

(e) Use of Estimates and Judgement

The preparation of financial statements in conformity with MFRSs requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenue and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Group's and the Company's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(f).

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

2. BASIS OF PREPARATION *continued*

(f) Significant Accounting Estimates and Judgements

Significant areas of estimation and other major sources of uncertainty at the reporting date that have significant risks of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

(i) Inventories (Note 13) - Inventories are stated at the lower of cost and net realisable value. Reviews are made periodically by the Group on damaged inventories and quantity level of inventories. These reviews require judgement and estimates. In determining the net realisable value of the inventories, an estimation of the recoverable amount of inventories on hand is performed by the Group based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration the latest selling price or replacement cost, nature of the inventories and other relevant factors such as supply and demand of the identified inventories. Possible changes in these estimates could result in revisions to the valuation of inventories.

(ii) Impairment loss on trade receivables (Note 14) – The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rate. The Group use judgement in making these assumptions and selecting inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. The assessment of the correlation between historical observed default rates, forecast economic conditions and expected credit loss ("ECL") is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of the subsidiaries and associates used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

(i) Subsidiaries and Business Combination

Subsidiaries are entities (including structured entities) over which the Group is exposed, or has rights, to variable returns from its involvement with the acquirees and has the ability to affect those returns through its power over the acquirees.

The financial statements of subsidiaries are included in the consolidated financial statements from the date the Group obtains control of the acquirees until the date the Group loses control of the acquirees.

The Group applies the acquisition method to account for business combinations from the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(a) Basis of Consolidation *continued*

(i) Subsidiaries and Business Combination *continued*

For a new acquisition, goodwill is initially measured at cost, being the excess of the following:

- the fair value of the consideration transferred, calculated as the sum of the acquisition-date fair value of assets transferred (including contingent consideration), the liabilities incurred to former owners of the acquiree and the equity instruments issued by the Group. Any amounts that relate to pre-existing relationships or other arrangements before or during the negotiations for the business combination, that are not part of the exchange for the acquiree, will be excluded from the business combination accounting and be accounted for separately; plus
- the recognised amount of any non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date (the choice of measurement basis is made on an acquisition-by-acquisition basis); plus
- if the business combination is achieved in stages, the acquisition-date fair value of the previously held equity interest in the acquiree; less
- the net fair value of the identifiable assets acquired and the liabilities (including contingent liabilities) assumed at the acquisition date.

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

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

If the business combination is achieved in stages, the Group remeasures the previously held equity interest in the acquiree to its acquisition-date fair value, and recognises the resulting gain or loss, if any, in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss or transferred directly to retained earnings on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Group uses provisional fair value amounts for the items for which the accounting is incomplete. The provisional amounts are adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date, including additional assets or liabilities identified in the measurement period. The measurement period for completion of the initial accounting ends as soon as the Group receives the information it was seeking about facts and circumstances or learns that more information is not obtainable, subject to the measurement period not exceeding one year from the acquisition date.

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(a) Basis of Consolidation *continued*

(i) Subsidiaries and Business Combination continued

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The difference between the Group's share of net assets before and after the change, and the fair value of the consideration received or paid, is recognised directly in equity.

(ii) Non-controlling Interests

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company and are presented separately in the consolidated statement of financial position within equity.

Losses attributable to the non-controlling interests are allocated to the non-controlling interests even if the losses exceed the non-controlling interests.

(iii) Loss of Control

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

(iv) Associates

Associates are entities over which the Group has significant influence, but not control, to the financial and operating policies.

Investment in associates are accounted for in the consolidated financial statements using the equity method.

Under the equity method, the investment in associates are initially recognised at cost. The cost of investment includes transaction costs. Subsequently, the carrying amount is adjusted to recognise changes in the Group's share of net assets of the associate.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

When the Group ceases to have significant influence over an associate, any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(a) Basis of Consolidation *continued*

(iv) Associates *continued*

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not remeasured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

(v) Transactions Eliminated on Consolidation

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

Unrealised gains arising from transactions with equity-accounted associates and joint ventures are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(vi) Separate Financial Statements

In the Company's statement of financial position, investment in subsidiaries and associates are measured at cost less any accumulated impairment losses, unless the investment is classified as held for sale or distribution. The policy for the recognition and measurement of impairment losses shall be applied on the same basis as would be required for impairment of non-financial assets as disclosed in Note 3(i).

(b) Foreign Currency Transactions and Operations

(i) Translation of Foreign Currency Transactions

Foreign currency transactions are translated to the respective functional currencies of the Group entities using the exchange rates prevailing at the transaction dates.

At the end of each reporting date, monetary items denominated in foreign currencies are retranslated at the exchange rates prevailing at the reporting date.

Non-monetary items denominated in foreign currencies that are measured at fair value are retranslated at the rates prevailing at the dates the fair values were determined. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated at the historical rates as at the dates of the initial transactions.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(b) Foreign Currency Transactions and Operations *continued*

(i) Translation of Foreign Currency Transactions continued

Foreign exchange differences arising on settlement or retranslation of monetary items are recognised in profit or loss except for monetary items that are designated as hedging instruments in either a cash flow hedge or a hedge of the Group's net investment of a foreign operation. When settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, exchange differences are recognised in profit or loss in the separate financial statements of the parent company or the individual financial statements of the foreign operation. In the consolidated financial statements, the exchange differences are considered to form part of a net investment in a foreign operation and are recognised initially in other comprehensive income until its disposal, at which time, the cumulative amount is reclassified to profit or loss.

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).

(c) Revenue recognition

The Group and the Company recognise revenue that depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group and the Company expect to be entitled in exchange for those goods or services.

Revenue recognition of the Group and the Company are applied for each contract with a customer or a combination of contracts with the same customer (or related parties of the customer). For practical expedient, the Group and the Company applied revenue recognition to a portfolio of contracts (or performance obligations) with similar characteristics in the property development business if the Group and the Company reasonably expect that the effects on the financial statements would not differ materially from recognising revenue on the individual contracts (or performance obligations) within that portfolio.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(c) Revenue recognition *continued*

The Group and the Company measure revenue from sale of good or service at its transaction price, being the amount of consideration to which the Group and the Company expect to be entitled in exchange for transferring promised good or service to a customer, excluding amounts collected on behalf of third parties such as goods and service tax, adjusted for the effects of any variable consideration, constraining estimates of variable consideration, significant financing components, non-cash consideration and consideration payable to customer. If the transaction price includes variable consideration, the Group and the Company use the expected value method by estimating the sum of probability-weighted amounts in a range or possible consideration amounts, or the most likely outcome method, depending on which method the Group and the Company expect to better predict the amount of consideration to which it is entitled.

For contract with separate performance obligations, the transaction price is allocated to the separate performance obligations on the relative stand-alone selling price basis. If the stand-alone selling price is not directly observable, the Group and the Company estimate it by using the costs plus margin approach.

Revenue from contracts with customers is recognised by reference to each distinct performance obligation in the contract with customer, i.e. when or as a performance obligation in the contract with customer is satisfied. A performance obligation is satisfied when or as the customer obtains control of the good or service underlying the particular performance obligation, which the performance obligation may be satisfied at a point in time or over time.

A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. A modification exists when the change either creates new or changes existing enforceable rights and obligations of the parties to the contract. The Group and the Company have assessed the type of modification and accounted for as either creates a separate new contract, terminates the existing contract and creation of a new contract; or forms a part of the existing contracts.

<u>Financing components</u>

The Group and the Company have applied the practical expedient for not to adjust the promised amount of consideration for the effects of a significant financing components if the Group and the Company expect that the period between the transfer of the promised goods or services to the customer and payment by the customer will be one year or less.

(i) Sale of goods and services

(a) Sales of goods

The Group manufactures and trades a range of stainless steel products and all kind of industrial hardware. Revenue from sale of goods are recognised at a point in time when control of the products has been transferred, being when the customer accepts the delivery of the goods.

Sales are made with a credit term of 180 days, which is consistent with market practice, therefore, no element of financing is deemed present. A receivable is recognised when the customer accepts the delivery of the goods as the consideration is unconditional other than the passage of time before the payment is due.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(c) Revenue recognition *continued*

(i) Sale of goods and services continued

(a) Sales of goods *continued*

The goods are often sold with volume discounts based on aggregate sales over a 12-month period. Revenue is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience with the customer's purchasing pattern is used to estimate and provide for the discounts, using the expected value method. The Group uses the expected value method because it is the method that the Group expects to better predict the estimated volume discounts to which it will be provided to the customers. The estimated volume discounts recognised is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

A contract liability is recognised for expected volume discounts payable to customers and for products expected to be returned from customers in relation to sales made until the end of the reporting period.

A right to recover goods from customer on settling the refund liability is recognised as an asset and included as part of inventories for the goods expected to be returned.

Where consideration is collected from customer in advance for sale of goods, a contract liability is recognised for the customer deposits. Contract liability would be recognised as revenue upon sale of goods to the customer.

(b) Revenue from Services

Revenue from services is recognised as and when services are rendered.

(ii) Rental Income

Rental income is recognised on an accrual basis and time proportionate basis over the lease term.

(iii) Interest Income

Interest income is recognised on an accrual basis using the effective interest method.

(iv) Dividend Income

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

(v) Management Fee

Management fee is recognised as and when services are rendered.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(d) Employee Benefits

(i) Short Term Employee Benefits

Wages, salaries, social security contributions and bonuses are recognised as expenses in the year in which the associated services are rendered by employees of the Group and of 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, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined Contribution Plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund. Such contributions are recognised as an expense in profit or loss as incurred.

(e) Leases

(i) Finance Lease – the Group as Lessee

Assets acquired by way of finance leases where the Group assumes substantially all the benefits and risks of ownership are classified as property, plant and equipment.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding finance lease obligations, net of finance charges, are included in borrowings. The interest element of the finance charge is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance lease are depreciated in accordance with the depreciation policy for property, plant and equipment.

(ii) Operating Lease – the Group as Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentive provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(iii) Operating Lease – the Group as Lessor

Assets leased out under operating leases are presented on the statements of financial position according to the nature of the assets. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(f) Borrowing Costs

Borrowing costs are capitalised as part of qualifying assets if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the assets for its intended use or sales are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowings costs are recognised in profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurred in connection with the borrowing of funds.

(g) Income Tax Expense

(i) Current Tax

Tax expense in profit or loss represents the aggregate amount of current and deferred tax. Current tax is the expected amount payable in respect of taxable income for the financial year, using tax rates enacted or substantially enacted by the reporting date, and any adjustments recognised for prior financial years' tax. When an item is recognised outside profit or loss, the related tax effect is recognised either in other comprehensive income or directly in equity.

(ii) Deferred Tax

Deferred tax is recognised using the liability method, on all temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not recognised if the temporary difference arises from goodwill or from the initial recognition of an asset or liability in a transaction, which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to apply in the period in which the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantially enacted by the reporting date.

Deferred tax assets are recognised only to the extent that there are sufficient taxable temporary differences relating to the same taxable entity and the same taxation authority to offset or when it is probable that future taxable income will be available against which the assets can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will be available for the assets to be utilised.

Deferred tax assets relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transactions either in other comprehensive income or directly in equity and deferred tax arising from business combination is adjusted against goodwill on acquisition or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the acquisition cost.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(g) Income Tax Expense *continued*

(iii) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST") except:

- where the GST incurred in 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 statement of financial position.

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

(iv) Sales and services tax

Revenues, expenses and assets are recognised net of the amount of sales and services tax except:

- where the sales and services tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales and services tax 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 sales tax included.

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

(h) Property, Plant and Equipment and Depreciation

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 of, and only if, it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Subsequent to initial recognition, property, plant and equipment 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 Company recognises such part as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(h) Property, Plant and Equipment and Depreciation *continued*

Freehold land has an unlimited useful life and therefore is not depreciated. No depreciation is provided on capital work-in-progress and upon completion of construction, the cost will be transferred to the respective classes of property, plant and equipment. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	50 years
Electrical installation	10 years
Plant and machinery and factory equipment	5-10 years
Electrical equipment, furniture and fittings, and office equipment	5-10 years
Motor vehicles	5-10 years
Computers	2 years
Renovation	2 years

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.

(i) Impairment of Non-Financial Assets

The carrying amounts of non-financial assets other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value less cost to sell and the value in use, which is measured by reference to discounted future cash flows and is determined on an individual asset basis, unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs to. An impairment loss is recognised whenever the carrying amount of an item of asset exceeds its recoverable amount. An impairment loss is recognised as expense in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

Any subsequent increase in recoverable amount of an asset, other than goodwill, due to a reversal of impairment loss is restricted to the carrying amount that would have been determined (net of accumulated depreciation, where applicable) had no impairment loss been recognised in prior years. The reversal of impairment loss is recognised in profit or loss.

(j) Financial instruments

Financial instruments are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(j) Financial instruments *continued*

Accounting policies applied from 1 January 2018

Except for the trade receivables that do not contain a significant financing component or for which the Group and the Company have applied the practical expedient, the financial instruments are recognised initially at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset and financial liability. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Trade receivables that do not contain a significant financing component or for which the Group and the Company have applied the practical expedient are measured at the transaction price determined under MFRS 15.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract; it is a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured as fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with the policy applicable to the nature of the host contract.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

(a) Subsequent measurement

The Group and the Company categorise the financial instruments as follows:

(i) Financial assets

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

- Financial assets at amortised cost
- Financial assets at fair value through other comprehensive income with recycling of cumulative gains and losses upon derecognition
- Financial assets designated at fair value through other comprehensive income with no recycling of cumulative gains and losses upon derecognition
- Financial assets at fair value through profit or loss

The classification depends on the entity's business model for managing the financial assets and the contractual cash flows characteristics of the financial assets.

The Group and the Company reclassify financial assets when and only when their business models for managing those assets change.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(j) Financial instruments *continued*

Accounting policies applied from 1 January 2018 *continued*

(a) Subsequent measurement *continued*

(i) Financial assets *continued*

Debt instruments

Subsequent measurement of debt instruments depends on the Group's and the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group and the Company classify their debt instruments:

- **Amortised cost**

  Financial assets that are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. The policy for the recognition and measurement of impairment is in accordance with Note 3(k). Gains and losses are recognised in profit or loss when the financial asset is derecognised, modified or impaired.

- **Fair value through other comprehensive income (FVOCI)**

  Financial assets that are held for collection of contractual cash flows and for selling the financial assets, and the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in 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 other comprehensive income. The policy for the recognition and measurement of impairment is in accordance with Note 3(k). Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

- **Fair value through profit or loss (FVPL)**

  Financial assets at FVPL 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 FVOCI, 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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(j) Financial instruments *continued*

Accounting policies applied from 1 January 2018 *continued*

(a) Subsequent measurement *continued*

(i) Financial assets *continued*

Debt instruments *continued*

- **Fair value through profit or loss (FVPL)** *continued*

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

Equity instruments

The Group and the Company subsequently measure all equity investments at fair value. Upon initial recognition, the Group and the Company can make an irrevocable election to classify its equity investments that is not held for trading as equity instruments designated at FVOCI. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are not recycled to profit or loss. Dividends are recognised as other income in the profit or loss when the right of payment has been established, except when the Group and the Company benefit from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at FVOCI are not subject to impairment assessment.

(ii) Financial liabilities

The Group and the Company classify their financial liabilities in the following measurement categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities designated into this category upon initial recognition.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value with the gain or loss recognised in 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. The Group and the Company have not designated any financial liability as at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(j) Financial instruments *continued*

Accounting policies applied from 1 January 2018 *continued*

(a) Subsequent measurement *continued*

(ii) Financial liabilities *continued*

Financial liabilities at amortised cost

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

(b) 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 in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the liability is measured at the higher of the amount of the loss allowance determined in accordance with Section 5.5 of MFRS 9 and the amount initially recognised, when appropriate, the cumulative amount of income recognised in accordance with the principles of MFRS 15.

(c) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting (i.e. the date the Group and the Company commit themselves to purchase or sell an asset).

Trade date accounting refers to:

(i) the recognition of an asset to be received and the liability to pay for it on the trade date; and
(ii) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Generally, interest does not start to accrue on the asset and corresponding liability until the settlement date when title passes.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(j) Financial instruments *continued*

Accounting policies applied from 1 January 2018 *continued*

(d) Derecognition

A financial asset or a part of it is derecognised when, and only when:

(i) the contractual rights to receive cash flows from the financial asset expire, or
(ii) the Group and the Company have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party; and either (a) the Group and the Company have transferred substantially all the risks and rewards of the asset, or (b) the Group and the Company have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

The Group and the Company evaluate if, and to what extent, they have retained the risks and rewards of ownership. When they have neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group and the Company continue to recognise the transferred asset to the extent of their continuing involvement. In that case, the Group and the Company also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group and the Company have 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 and the Company could be required to repay.

On derecognition of a financial asset, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(e) Offsetting of financial instruments

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

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(j) Financial instruments *continued*

Accounting policies applied from 1 January 2018 *continued*

(f) Derivatives

The Group and the Company use interest swap contracts to hedge the exposure of floating interest rate. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the profit or loss.

(g) Hedge accounting

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group and the Company formally designate and document the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group and the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group and the Company actually hedge and the quantity of the hedging instrument that the Group and the Company actually use to hedge that quantity of hedged item.

Fair value hedge

The change in the fair value of a hedging instrument is recognised in the profit or loss as other expense (or other comprehensive income, if the hedging instrument hedges an equity instruments for which the Group and the Company have elected to present changes in fair value in other comprehensive income). The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the profit or loss as other expense. If the hedged item is an equity instrument for which the Group and the Company have elected to present changes in fair value in other comprehensive income, those amount remain in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(j) Financial instruments *continued*

Accounting policies applied from 1 January 2018 *continued*

(g) Hedge accounting *continued*

Fair value hedge *continued*

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate method. The effective interest rate amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. The amortisation is based on a recalculated effective interest rate at the date of amortisation begins.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

Cash flow hedge

In a cash flow hedge, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

In a cash flow hedge, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(j) Financial instruments *continued*

Accounting policies applied from 1 January 2018 *continued*

(g) Hedge accounting *continued*

Cash flow hedge *continued*

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income must be accounted for depending on the nature of the underlying transaction as described above.

Hedge of a net investment

In a net investment hedge, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

The cumulative gain or loss recognised in other comprehensive income is reclassified from equity to profit or loss on disposal of the foreign operation.

Accounting policies applied until 31 December 2017

Financial instruments are recognised initially at fair value, except for financial instruments not measured at fair value through profit or loss, they are measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instruments.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with the policy applicable to the nature of the host contract.

(a) Subsequent measurement

The Group and the Company categorise the financial instruments as follows:

(i) Financial assets

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss when the financial assets are either held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or are designated into this category upon initial recognition.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(j) Financial instruments *continued*

Accounting policies applied until 31 December 2017 *continued*

(a) Subsequent measurement *continued*

(i) Financial assets *continued*

Financial assets at fair value through profit or loss *continued*

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value with the gain or loss recognised in profit or loss.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at costs.

Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method less accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3(k). Gains and losses are recognised in profit or loss through the amortisation process.

Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3(k). Gains and losses are recognised in profit or loss through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets comprise investment in equity and debt securities that are designated as available for sale or are not classified in any of the three preceding categories.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair values hedges which are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Group's and the Company's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(j) Financial instruments *continued*

Accounting policies applied until 31 December 2017 *continued*

(a) Subsequent measurement *continued*

(i) Financial assets *continued*

Unquoted equity instruments carried at cost

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3(k).

(ii) Financial liabilities

Same accounting policies applied until 31 December 2017 and from 1 January 2018.

(b) 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 in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, 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.

(c) Regular way purchase or sale of financial assets

Same accounting policies applied until 31 December 2017 and from 1 January 2018.

(d) Derecognition

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

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(j) Financial instruments *continued*

Accounting policies applied until 31 December 2017 *continued*

(e) Offsetting of financial instruments

Same accounting policies applied until 31 December 2017 and from 1 January 2018.

(f) Derivatives

Same accounting policies applied until 31 December 2017 and from 1 January 2018.

(g) Hedge accounting

Fair value hedge

In a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value or the foreign currency component of its carrying amount translated at the exchange rate prevailing at the reporting date is recognised in profit or loss. For a hedged item that is otherwise measured at cost, the gain or loss attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. For a hedged item categorised as available-for-sale, the fair value gain or loss attributable to the hedged risk is recognised in profit or loss.

Fair value hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective or the hedge designation is revoked.

Cash flow hedge

In a cash flow hedge, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income are transferred from equity and included in the initial amount of the asset or liability.

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

Hedge of a net investment

Same accounting policies applied until 31 December 2017 and from 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(k) Impairment of assets

Impairment of financial assets and contract assets

Accounting policies applied from 1 January 2018

Financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income (FVOCI), lease receivables, contract assets or a loan commitment and financial guarantee contracts will be subject to the impairment requirement in MFRS 9 which is related to the accounting for expected credit losses on the financial assets. Expected credit loss is the weighted average of credit losses with the respective risks of a default occurring as the weights.

The Group and the Company measure loss allowance at an amount equal to lifetime expected credit loss, except for the following, which are measured as 12-month expected credit loss:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

For trade receivables, contract assets and lease receivables, the Group and the Company apply the simplified approach permitted by MFRS 9 to measure the loss allowance at an amount equal to lifetime expected credit losses.

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

The Group and the Company assume that the credit risk on a financial asset has increased significantly if it is more than 120 days past due.

The Group and the Company consider a financial asset to be in default when:

- the borrower is unable to pay its credit obligations to the Group and the Company in full, without taking into account any credit enhancements held by the Group and the Company; or
- the contractual payment of the financial asset is more than 120 days past due unless the Group and the Company have reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

12-month expected credit losses are the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company are exposed to credit risk.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(k) Impairment of assets *continued*

Impairment of financial assets and contract assets *continued*

Accounting policies applied from 1 January 2018 *continued*

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

Expected credit losses are discounted at the effective interest rate of the financial assets.

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default of past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The amount of expected credit losses (or reversal) shall be recognised in profit or loss, as an impairment gain or loss. For financial assets measured at FVOCI, the loss allowance shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position.

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

Accounting policies applied until 31 December 2017

At each reporting date, all financial assets (except for financial assets categorised as fair value through profit or loss and investment in subsidiaries, associates and joint ventures) are assessed whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(k) Impairment of assets *continued*

Impairment of financial assets and contract assets *continued*

Accounting policies applied until 31 December 2017 *continued*

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

Loans and receivables and held-to-maturity investments

The Group and the Company first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If no objective evidence for impairment exists for an individually assessed financial asset, whether significant or not, the Group and the Company may include the financial asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Financial assets that are individually assessed for impairment for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

The amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account and the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases due to an event occurring after the impairment that was recognised, the previously recognised impairment loss is then reversed by adjusting an allowance account to the extent that the carrying amount of the financial asset does not exceed what the amortised cost would have been had the impairment not been recognised.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group and the Company. If a write-off is later recovered, the recovery is credited to the profit or loss.

Available-for-sale financial assets

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value below its cost is considered to be objective evidence of impairment. The Group and the Company use their judgement to determine what is considered as significant or prolonged decline, evaluating past volatility experiences and current market conditions.

Where there is objective evidence that the asset is impaired, the decline in the fair value of an available-for-sale financial asset together with the cumulative loss recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. The amount of cumulative loss that is reclassified from equity to profit or loss shall be the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(k) Impairment of assets *continued*

Impairment of financial assets and contract assets *continued*

Accounting policies applied until 31 December 2017 *continued*

Available-for-sale financial assets *continued*

Impairment losses on available-for-sale equity investments are not reversed through profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss, is recognised in other comprehensive income.

For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to a loss event occurring after the recognition of the impairment loss in profit or loss.

Unquoted equity instruments carried at cost

In the case of unquoted equity instruments carried at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value as follows:

- Raw materials, consumables, packing materials and trading goods: purchase costs including costs incurred in bringing the inventories to their present location and condition on a weighted average cost basis.

- Finished goods and work-in-progress: includes cost of direct materials, direct labour and appropriate production overhead are assigned on a weighted average cost basis.

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.

(m) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and cash on hand, demand deposits, and short-term highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

(n) Share Capital

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

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(n) Share Capital *continued*

Prior to Companies Act 2016 which came into effect on 31 January 2017, incremental external costs directly attributable to the issuance of new shares are deducted against the share premium account. Effective on 31 January 2017 and subsequent period, incremental external costs directly attributable to the issuance of new shares are deducted against equity.

(o) 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.

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

(p) Segment Reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment manager report directly to the Board of Directors of the Company who periodically review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 29, including the factors used to identify the reportable segments and the measurement basis of segment information.

(q) Fair Value Measurement

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

4. REVENUE

	Group		Company	
	2018	2017	2018	2017
	RM	RM	RM	RM
Dividend income from subsidiaries	**-**	-	**660,000**	50,000
Management fee	**-**	-	**3,001,900**	3,142,000
Rental income on building	**18,000**	18,000	**949,200**	949,200
Sale of goods and services	**106,746,004**	123,200,758	**-**	-
	106,764,004	123,218,758	**4,611,100**	4,141,200

NOTES TO THE FINANCIAL STATEMENTS
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5. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Auditors' remuneration				
- Statutory audit				
- current financial year	**167,000**	144,000	**63,000**	57,000
- prior financial year	**(1,000)**	-	**-**	-
- Other services	**5,000**	4,000	**5,000**	4,000
Bad debts written off	**14,625**	-	**-**	-
Depreciation of property, plant and equipment	**1,829,807**	1,905,385	**146,895**	145,364
Employee benefits expense (including key management personnel)				
- Contribution to defined contribution plan	**1,146,563**	1,025,833	**311,832**	279,935
- Salaries, allowance and bonus	**11,910,436**	10,981,998	**2,791,705**	2,493,368
- Other employee benefits	**460,343**	372,265	**44,090**	23,924
Impairment loss of financial assets				
- Impairment loss on trade receivables	**1,261,709**	162,642	**-**	-
- Reversal of impairment loss on trade receivables	**(39,492)**	-	**-**	-
Interest expense				
- Bankers' acceptances interest	**1,433,816**	1,278,389	**-**	-
- Bank overdraft interest	**21,737**	20,138	**-**	-
- Finance lease interest	**191,626**	134,945	**-**	-
Rental expense on buildings	**771,020**	676,710	**-**	-
Rental expense on motor vehicles	**14,569**	8,496	**30,000**	22,500
Loss/(Gain) on foreign exchange				
- realised	**6,169**	61,138	**-**	-
- unrealised	**(66,061)**	70,825	**-**	-
Gain on disposal of property, plant and equipment	**(78,197)**	(139,620)	**-**	-
Interest income				
- deposits with licensed banks	**(311,341)**	(205,360)	**(119,494)**	(107,960)
- subsidiaries	**-**	-	**(629,987)**	(1,548,595)

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

6. DIRECTORS' REMUNERATION

	Group		Company	
	2018	2017	2018	2017
	RM	RM	RM	RM
Executive:				
- Other emoluments	**1,985,791**	1,802,778	**1,985,791**	1,802,778
- Defined contribution plan	**236,742**	209,040	**236,742**	209,040
Total executive directors' remuneration	**2,222,533**	2,011,818	**2,222,533**	2,011,818
Non-executive:				
- Fees	**163,200**	147,600	**163,200**	147,600
- Other emoluments	**10,500**	7,500	**10,500**	7,500
Total non-executive directors' remuneration	**173,700**	155,100	**173,700**	155,100
Total directors' remuneration	**2,396,233**	2,166,918	**2,396,233**	2,166,918

The estimated monetary value of benefits-in-kind received and receivable by directors of the Company from the Group and the Company amounted to RM51,150 (2017: RM46,250).

7. INCOME TAX EXPENSE

	Group		Company	
	2018	2017	2018	2017
	RM	RM	RM	RM
Current tax:				
Malaysian income tax:				
Current financial year	**914,344**	2,093,776	**137,128**	444,895
(Over)/Under provision in prior financial year	**(380,489)**	208,218	**(29,792)**	(1,704)
	533,855	2,301,994	**107,336**	443,191
Deferred tax (Note 12):				
Origination and reversal of temporary differences	**(578,439)**	(203,499)	**5,915**	6,403
Under/(Over) provision in prior financial year	**192,987**	(165,501)	**(1,775)**	536
	(385,452)	(369,000)	**4,140**	6,939
Income tax expense recognised in profit or loss	**148,403**	1,932,994	**111,476**	450,130

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

7. INCOME TAX EXPENSE *continued*

The reconciliations of the tax amount at statutory income tax rate to the Group's and the Company's tax expense are as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Profit before tax	**1,184,141**	7,629,238	**1,073,210**	1,676,429
Tax at the Malaysian statutory income tax rate of 24% (2017: 24%)	**284,194**	1,831,017	**257,570**	402,343
Tax effect on non-deductible expenses	**116,714**	146,166	**43,873**	48,955
Tax effect on non-taxable income	**-**	(2,017)	**(158,400)**	-
Tax effect on share of results of an associate	**(65,003)**	(84,889)	**-**	-
(Over)/Under provision in prior financial year				
- current tax	**(380,489)**	208,218	**(29,792)**	(1,704)
- deferred tax	**192,987**	(165,501)	**(1,775)**	536
Income tax expense recognised in profit or loss	**148,403**	1,932,994	**111,476**	450,130

The Group has estimated tax losses carry-forward of RM2,741,088 (2017: RM738,396), capital allowances carry-forward of RM1,409,850 (2017: RM614,504) and reinvestment allowances carry-forward of RM1,021,913 (2017: RM1,930,054) which are available for set-off against future taxable profits, subject to requirements under the Income Tax Act, 1967 and guidelines issued by the tax authority.

8. EARNINGS PER SHARE

The basic earnings per share of the Group is calculated by dividing the Group's profit for the financial year attributable to ordinary equity holders of the Company of RM1,017,814 (2017: RM5,475,406) by the weighted average number of ordinary shares in issue during the financial year of 96,000,000 (2017: 96,000,000) ordinary shares.

The diluted earnings per share is equivalent to the basic earnings per share as the Company does not have any dilutive potential ordinary shares.

9. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings	Electrical installation	Plant and machinery and factory equipment	Machine under construction	Electrical equipment, furniture and fittings and office equipment	Motor vehicles	Computers	Renovation	Total
	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
Group										
Cost										
At 1 January 2017	1,981,721	6,333,121	113,153	13,147,555	-	723,499	4,229,508	561,003	430,763	27,520,323
Additions	-	-	-	1,104,760	-	54,705	433,938	32,318	12,672	1,638,393
Disposals	-	-	-	-	-	-	(406,020)	-	-	(406,020)
At 31 December 2017/ 1 January 2018	1,981,721	6,333,121	113,153	14,252,315	-	778,204	4,257,426	593,321	443,435	28,752,696
Additions	-	-	95,643	2,045,636	583,855	55,911	165,068	55,157	6,900	3,008,170
Disposals	-	-	-	(143,000)	-	-	(199,676)	-	-	(342,676)
At 31 December 2018	1,981,721	6,333,121	208,796	16,154,951	583,855	834,115	4,222,818	648,478	450,335	31,418,190

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

9. PROPERTY, PLANT AND EQUIPMENT *continued*

	Freehold land	Buildings	Electrical installation	Plant and machinery and factory equipment	Machine under construction	Electrical equipment, furniture and fittings and office equipment	Motor vehicles	Computers	Renovation	Total
	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
Group										
Accumulated depreciation										
At 1 January 2017	-	1,743,819	113,122	9,643,421	-	610,871	2,865,515	548,421	430,743	15,955,912
Charge for the financial year	-	126,663	-	1,047,528	-	70,229	626,285	28,342	6,338	1,905,385
Disposals	-	-	-	-	-	-	(406,017)	-	-	(406,017)
At 31 December 2017/1 January 2018	-	1,870,482	113,122	10,690,949	-	681,100	3,085,783	576,763	437,081	17,455,280
Charge for the financial year	-	126,662	13,031	1,067,582	-	43,549	527,548	43,719	7,716	1,829,807
Disposals	-	-	-	(142,999)	-	-	(199,674)	-	-	(342,673)
At 31 December 2018	-	1,997,144	126,153	11,615,532	-	724,649	3,413,657	620,482	444,797	18,942,414
Net carrying amount										
At 31 December 2017	1,981,721	4,462,639	31	3,561,366	-	97,104	1,171,643	16,558	6,354	11,297,416
At 31 December 2018	1,981,721	4,335,977	82,643	4,539,419	583,855	109,466	809,161	27,996	5,538	12,475,776

9. PROPERTY, PLANT AND EQUIPMENT *continued*

	Freehold land RM	Buildings RM	Electrical installation RM	Plant and machinery and factory equipment RM	Electrical equipment, furniture and fittings and office equipment RM	Motor vehicles RM	Computers RM	Renovation RM	Total RM
Company									
Cost									
At 1 January 2017	1,981,721	6,333,121	29,810	255,400	114,212	4,680	14,380	393,217	9,126,541
Additions	-	-	-	-	15,180	-	8,867	12,672	36,719
At 31 December 2017/1 January 2018	1,981,721	6,333,121	29,810	255,400	129,392	4,680	23,247	405,889	9,163,260
Additions	-	-	-	-	13,852	-	4,012	-	17,864
At 31 December 2018	1,981,721	6,333,121	29,810	255,400	143,244	4,680	27,259	405,889	9,181,124
Accumulated depreciation									
At 1 January 2017	-	1,743,819	29,806	255,398	110,553	936	11,587	393,200	2,545,299
Charge for the financial year	-	126,663	-	-	4,205	935	7,223	6,338	145,364
At 31 December 2017/1 January 2018	-	1,870,482	29,806	255,398	114,758	1,871	18,810	399,538	2,690,663
Charge for the financial year	-	126,662	-	-	6,526	936	6,435	6,336	146,895
At 31 December 2018	-	1,997,144	29,806	255,398	121,284	2,807	25,245	405,874	2,837,558
Net carrying amount									
At 31 December 2017	1,981,721	4,462,639	4	2	14,634	2,809	4,437	6,351	6,472,597
At 31 December 2018	1,981,721	4,335,977	4	2	21,960	1,873	2,014	15	6,343,566

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

9. PROPERTY, PLANT AND EQUIPMENT *continued*

During the financial year, the Group and the Company acquired property, plant and equipment with aggregate cost of RM3,008,170 (2017: RM1,638,393) and RM17,864 (2017: RM36,719) which are satisfied as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Cash payments	**1,315,918**	876,398	**17,864**	36,719
Finance lease arrangement	**1,692,252**	761,995	**-**	-
	3,008,170	1,638,393	**17,864**	36,719

Assets held under finance leases

Included in the property, plant and equipment of the Group are assets acquired under finance lease arrangement at the reporting date as follows:

	Group	
	2018	**2017**
	RM	**RM**
Net carrying amount		
Plant and machinery	**1,836,382**	807,576
Machine under construction	**449,000**	-
Motor vehicles	**649,499**	1,048,083
	2,934,881	1,855,659

Assets pledged as security

In addition to assets held under finance leases, the Group's and the Company's property, plant and equipment which are pledged as security for borrowings of the Group as mentioned in Note 19 are as follows:

	Group/Company	
	2018	**2017**
	RM	**RM**
Freehold land	**1,981,721**	1,981,721
Buildings	**4,335,977**	4,462,639
	6,317,698	6,444,360

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

10. INVESTMENTS IN SUBSIDIARIES

	Company 2018 RM	Company 2017 RM
Unquoted shares, at cost:		
At 1 January	**33,510,002**	32,975,004
Addition	**-**	534,998
Disposal	**(500,000)**	-
At 31 December	**33,010,002**	33,510,002

The details of the subsidiaries are as follows:

Name of Company	Principal Activities	Principal Place of Business/ Country of Incorporation	Proportion of Ownership Interest/Voting Rights 2018	Proportion of Ownership Interest/Voting Rights 2017
K. Seng Seng Industries Sdn. Bhd.	Sales of stainless steel industrial fasteners, rigging accessories and components, and trading of industrial hardware	Malaysia	**100%**	100%
Three & Three Hardware Sdn. Bhd.	Processing of secondary stainless steel long products and trading of industrial hardware	Malaysia	**100%**	100%
PTM Stainless Steel Sdn. Bhd. *(formerly known as PTM Industry Sdn. Bhd.)*	Manufacturing of stainless steel tubes and pipes, and processing of secondary stainless steel flat products	Malaysia	**100%**	100%
K. Seng Seng Parts Sdn. Bhd.	Hiring of motor vehicles	Malaysia	**100%**	100%
KSG Engineering Sdn. Bhd.	Engineering works, fabrication and installation of rubber glove dipping line and trading of all kinds of bearings, motor, speed reducer, sprocket gear, belting pulley, coupling and others	Malaysia	**100%**	75%

NOTES TO THE FINANCIAL STATEMENTS
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10. INVESTMENTS IN SUBSIDIARIES *continued*

The details of the subsidiaries are as follows: *continued*

Name of Company	Principal Activities	Principal Place of Business/ Country of Incorporation	Proportion of Ownership Interest/Voting Rights 2018	2017
Koseng Sdn. Bhd. ^	Trading of all kinds of industrial and marine hardware and consumables; sale and marketing of stainless steel products namely industrial fasteners, rigging accessories and components, flat and long products, tubes and pipes and supply of construction materials, machineries and machinery related parts.	Malaysia	**75%**	75%
Subsidiary of KSG Engineering Sdn. Bhd.				
K. Seng Seng Manufacturing Sdn. Bhd.	Manufacturing of stainless steel industrial fasteners, conveyor chain, rigging accessories and components	Malaysia	**100%**	100%

^ Audited by a firm of chartered accountants other than Baker Tilly Monteiro Heng PLT.

(a) On 29 October 2018, the Company dispose its entire 100% equity interest comprising 500,000 ordinary shares in K. Seng Seng Manufacturing Sdn. Bhd. to the Company's wholly-owned subsidiary, KSG Engineering Sdn. Bhd., for a total cash consideration of RM500,000.

(b) Acquisition of additional interest in KSG Engineering Sdn. Bhd.

In previous financial year, the Company purchased an additional 25% equity interest (representing 125,000 ordinary shares at RM1 per share) in KSG Engineering Sdn. Bhd., a subsidiary of the Company for total cash consideration of RM485,000. The Company's effective ownership in KSG Engineering Sdn. Bhd. increased from 75% to 100% as a result of the additional shares purchased.

Effect of the increase in the Company's ownership interest is as follows:

	2017 RM
Fair value of consideration transferred	485,000
Non-controlling interest at fair value	(756,585)
Excess charged directly to equity	(271,585)

NOTES TO THE FINANCIAL STATEMENTS
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continued

10. INVESTMENTS IN SUBSIDIARIES *continued*

(c) The subsidiaries of the Group that have material non-controlling interests ("NCI") are as follows:

	Koseng Sdn. Bhd. RM
2018	
NCI proportion of ownership interest and voting interest	**25%**
Carrying amount of NCI ("RM")	**1,214,324**
Profit allocated to NCI ("RM")	**17,924**
2017	
NCI proportion of ownership interest and voting interest	25%
Carrying amount of NCI ("RM")	1,196,400
Profit allocated to NCI ("RM")	320,444

(d) The summarised financial information before intra-group elimination of the subsidiaries that have material NCI as at the end of each reporting period are as follows:

	Koseng Sdn. Bhd. RM
2018	
Assets and liabilities	
Non-current assets	**510,494**
Current assets	**20,474,255**
Non-current liabilties	**(153,929)**
Current liabilities	**(15,973,523)**
Net assets	**4,857,297**
Results	
Revenue	**23,130,534**
Profit for the financial year	**71,694**
Total comprehensive income	**71,694**
Cash flows generated from operating activities	**695,248**
Cash flows used in investing activities	**(58,327)**
Cash flows generated from financing activities	**591,378**
Net increase in cash and cash equivalents	**1,228,299**

NOTES TO THE FINANCIAL STATEMENTS
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10. INVESTMENTS IN SUBSIDIARIES *continued*

(d) The summarised financial information before intra-group elimination of the subsidiaries that have material NCI as at the end of each reporting period are as follows: *continued*

	Koseng Sdn. Bhd. RM
2017	
Assets and liabilities	
Non-current assets	658,250
Current assets	21,048,340
Non-current liabilties	(245,789)
Current liabilities	(16,675,198)
Net assets	4,785,603
Results	
Revenue	24,124,928
Profit for the financial year	1,281,777
Total comprehensive income	1,281,777
Cash flows generated from operating activities	2,228,948
Cash flows used in investing activities	(504,534)
Cash flows used in financing activities	(1,475,023)
Net increase in cash and cash equivalents	249,391

11. INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Unquoted shares, at cost	**820,000**	820,000	**820,000**	820,000
Share of post-acquisition reserves	**3,759,299**	3,488,454	**-**	-
	4,579,299	4,308,454	**820,000**	820,000

NOTES TO THE FINANCIAL STATEMENTS
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continued

11. INVESTMENT IN AN ASSOCIATE *continued*

The details of the associate are as follows:

Name of Company	Nature of the Relationship	Principal Place of Business/ Country of Incorporation	Proportion of Ownership Interest/Voting Rights 2018	2017
EIE Asian Holding Sdn. Bhd. ^	Investment holding	Malaysia	**50%**	50%
Held by EIE Asian Holdings Sdn Bhd:				
EIE Industrial Products Sdn. Bhd. ^	Retailers of and dealers in hardware used in industries, quarries and mines	Malaysia	**100%**	100%
EIE Pulp & Speciality Sdn. Bhd. ^	General trading and dealing in pulps and paper	Malaysia	**71%**	71%

^ *Audited by a firm of chartered accountants other than Baker Tilly Monteiro Heng PLT.*

(a) The summarised financial information of the associate and its subsidiaries is as follows:

	2018 RM	2017 RM
Assets and liabilities		
Non-current assets	**440,224**	576,748
Current assets	**18,116,265**	18,230,897
Non-current liabilities	**(651,759)**	(1,072,755)
Current liabilities	**(8,552,794)**	(8,929,640)
Net assets	**9,351,936**	8,805,250
Non-controlling interests	**193,339**	188,343
Results		
Revenue	**19,742,558**	18,733,351
Profit for the financial year/Total comprehensive income	**546,686**	706,569
Profit for the financial year/Total comprehensive income attributable to owners of an associate	**541,690**	707,410

NOTES TO THE FINANCIAL STATEMENTS
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continued

11. INVESTMENT IN AN ASSOCIATE *continued*

(b) The reconciliation of net assets of the associate and its subsidiaries to the carrying amount of the investment in associate is as follows:

	2018 RM	2017 RM
Group's share of net assets	**4,579,299**	4,308,454
Share of results of the Group for the financial year ended 31 December		
Share of results of the Group	**270,845**	353,705

12. DEFERRED TAX ASSETS/(LIABILITIES)

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Group				
Deferred tax assets				
At 1 January	**760,594**	402,600	**-**	-
Recognised in profit or loss	**383,515**	357,994	**-**	-
At 31 December	**1,144,109**	760,594	**-**	-
Deferred tax liabilities				
At 1 January	**(134,859)**	(145,865)	**(128,779)**	(121,840)
Recognised in profit or loss	**1,940**	11,006	**(4,140)**	(6,939)
At 31 December	**(132,919)**	(134,859)	**(132,919)**	(128,779)

NOTES TO THE FINANCIAL STATEMENTS
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continued

12. DEFERRED TAX ASSETS/(LIABILITIES) *continued*

This is in respect of estimated deferred tax assets and liabilities arising from temporary differences as follows:

	Group		Company	
	2018	2017	2018	2017
	RM	RM	RM	RM
Deferred tax assets				
Unabsorbed capital allowances	**338,364**	147,481	-	-
Unutilised tax losses	**657,861**	177,215	-	-
Unutilised reinvestment allowances	**245,259**	463,213	-	-
Difference between the carrying amounts of property, plant and equipment and their tax base	**(97,375)**	(27,315)	-	-
	1,144,109	760,594	-	-
Deferred tax liabilities				
Difference between the carrying amounts of property, plant and equipment and their tax base	**(132,919)**	(134,859)	**(132,919)**	(128,779)

13. INVENTORIES

	Group	
	2018	2017
	RM	RM
At cost		
Raw materials	**3,476,629**	980,550
Work-in-progress	**1,035,038**	753,996
Finished goods	**5,514,822**	5,416,266
Consumables	**811,533**	633,775
Packing materials	**97,577**	75,799
Trading goods	**41,465,664**	36,380,573
	52,401,263	44,240,959

During the financial year, the cost of inventories recognised as an expense in cost of sales of the Group is RM87,611,957 (2017: RM99,607,080).

NOTES TO THE FINANCIAL STATEMENTS
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14. TRADE RECEIVABLES

	Group	
	2018	**2017**
	RM	**RM**
External parties	**40,539,299**	46,269,139
Related party	**572,257**	935,662
	41,111,556	47,204,801
Less: Allowance for impairment	**(2,252,677)**	(1,030,460)
Trade receivables, net	**38,858,879**	46,174,341

Included in the trade receivables of the Group is an amount of RM572,257 (2017: RM935,662) due from a related party who is a subsidiary of an associate.

(a) Credit terms of trade receivables

The Group's normal credit term ranges from 30 to 180 days (2017: 30 to 180 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.

(b) Ageing analysis of trade receivables

The ageing analysis of the Group and the Company trade receivables are as follows:

	2018	**2017**
	RM	**RM**
Group		
Neither past due nor impaired	**33,943,850**	40,295,299
1 to 30 days past due not impaired	**384,581**	590,685
31 to 60 days past due not impaired	**273,444**	961,067
61 to 90 days past due not impaired	**166,306**	252,134
91 to 120 days past due not impaired	**768,310**	200,234
More than 120 days past due not impaired	**3,322,388**	3,874,922
	4,915,029	5,879,042
Impaired	**2,252,677**	1,030,460
	41,111,556	47,204,801

<u>Receivables that are neither past due nor impaired</u>
Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group and the Company.

<u>Receivables that are past due but not impaired</u>
The Group has trade receivables amounting to RM4,915,029 (2017: RM5,879,042) which are past due but not impaired because there have been no significant changes in credit quality of the debtors and the amounts are still considered receivable.

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continued

14. TRADE RECEIVABLES *continued*

(b) Ageing analysis of trade receivables *continued*

Receivables that are impaired
The Group has trade receivables that are impaired at the reporting date amounting to RM2,252,677 (2017: RM1,030,460) of which are individually impaired and the nominal amounts and the allowance for impairment are the same.

Allowance for impairment losses
The movement in the allowance for impairment losses of trade receivables is as follows:

	Group	
	2018	**2017**
	RM	**RM**
At 1 January	**1,030,460**	867,818
Charge for impairment losses (Note 5)		
- individually assessed	**1,261,709**	162,642
Reversal of impairment losses (Note 5)	**(39,492)**	-
At 31 December	**2,252,677**	1,030,460

Loss allowance disclosed in comparative period is based on incurred loss model in accordance with MFRS 139 *Financial Instruments: Recognition and Measurement*.

Trade receivables that are individually determined to be credit impaired at the reporting date relate to receivables that are in significant financial difficulties and have defaulted on payments.

The information about the credit exposures are disclosed in Note 26(a).

15. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Other receivables	**490,302**	128,972	**85,900**	86,303
GST refundable	**949,995**	550,818	**5,513**	-
Refundable deposits	**288,659**	229,268	**19,770**	19,770
Downpayment to supplier	**600**	86,000	**-**	-
Prepayments	**944,068**	872,134	**119,126**	75,823
	2,673,624	1,867,192	**230,309**	181,896

(a) Included in the other receivables of the Company is an amount of RM Nil (2017: RM403) respectively due from a related party who is a subsidiary of an associate. This amount is non-trade in nature, unsecured and repayable on demand in cash.

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31 DECEMBER 2018
continued

15. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *continued*

(b) Included in the prepayments of the Group are downpayments paid for the acquisition of equipment amounting to RM Nil (2017: RM264,086). The balances of these purchase considerations are disclosed as capital commitment in Note 27.

16. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

		Company	
		2018	**2017**
		RM	**RM**
Amounts due from subsidiaries			
Trade	(a)	**5,033,816**	2,897,266
Non-trade	(b)	**12,078,582**	21,676,620
		17,112,398	24,573,886
Amounts due to subsidiaries			
Non-trade	(c)	**(10,580,139)**	(18,930,943)

(a) The credit terms range from 30 days to 90 days.

These amounts which are neither past due nor impaired, are creditworthy debtors with good payment records with the Company.

(b) These amounts are unsecured, interest free and are repayable on demand in cash except for an amount of RM11,018,582 (2017: RM20,210,699) which bear interest at rates ranging from 8.85% to 9.85% (2017: 8.85% to 9.85%) per annum.

(c) These amounts are non-trade in nature, unsecured, interest free and repayable on demand in cash.

17. DEPOSITS, CASH AND BANK BALANCES

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Deposits with licensed banks (Islamic)	**4,494,172**	7,947,345	**2,966,141**	4,403,867
Cash and bank balances (Islamic)	**475,352**	475,352	**-**	-
Cash and bank balances	**5,196,876**	5,071,831	**369,716**	324,342
	10,166,400	13,494,528	**3,335,857**	4,728,209

The average maturity of deposits with licensed banks for the Group and the Company as at the financial year end is 30 days (2017: 30 days) respectively. The effective interest rates for the Group and the Company are ranging from 2.95% to 3.60% (2017: 2.70% to 4.00%) and 2.95% to 3.60% (2017: 2.95% to 4.00%) per annum.

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18. SHARE CAPITAL

	Group/Company			
	Number of shares		Amount	
	2018	2017	2018	2017
	Unit	Unit	RM	RM
Issued and fully paid:				
At 1 January	**96,000,000**	96,000,000	**48,514,639**	48,000,000
Transition to no-par value regime	**-**	-	**-**	514,639
At 31 December	**96,000,000**	96,000,000	**48,514,639**	48,514,639

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

The Companies Act 2016 (the "Act"), which came into effect on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. In previous financial year, the amount standing to the credit of the share premium account of RM514,639 becomes part of the Company's share capital pursuant to the transitional provisions set out in Section 618(2) of the Act. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use the amount standing to the credit of its share premium account of RM514,639 for purposes as set out in Section 618(3) of the Act. There is no impact on the number of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

19. BANK BORROWINGS (SECURED)

	2018	2017
	RM	RM
Group		
Current		
Bankers' acceptances (Islamic)	**16,536,716**	15,049,256
Bankers' acceptances	**13,562,923**	13,032,182
Finance lease payables (Note 20)	**975,980**	777,707
	31,075,619	28,859,145
Non-current		
Finance lease payables (Note 20)	**2,115,673**	1,481,544
Total borrowings:		
Bankers' acceptances (Islamic)	**16,536,716**	15,049,256
Bankers' acceptances	**13,562,923**	13,032,182
Finance lease payables (Note 20)	**3,091,653**	2,259,251
	33,191,292	30,340,689

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31 DECEMBER 2018
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19. BANK BORROWINGS (SECURED) *continued*

The bankers' acceptances of the Group are secured and supported as follows:

(a) legal charge over the freehold land and buildings of the Company; and
(b) corporate guarantee by the Company:

The bankers' acceptances bear interest at rates as follows:

	2018	2017
	per annum %	
Group		
Bankers' acceptances (Islamic)	**3.78 - 4.07**	3.42 - 3.51
Bankers' acceptances	**3.60 - 4.72**	3.31 - 4.18

20. FINANCE LEASE PAYABLES

	Group	
	2018	2017
	RM	RM
Future minimum lease payments	**3,471,294**	2,506,117
Less: Future finance charges	**(379,641)**	(246,866)
Total present value of minimum lease payments	**3,091,653**	2,259,251
Payable within 1 year		
Future minimum lease payments	**1,145,198**	887,873
Less: Future finance charges	**(169,218)**	(110,166)
Present value of minimum lease payments	**975,980**	777,707
Payable more than 1 year but not more than 5 years		
Future minimum lease payments	**2,303,785**	1,548,469
Less: Future finance charges	**(209,527)**	(135,252)
Present value of minimum lease payments	**2,094,258**	1,413,217
Payable more than 5 years		
Future minimum lease payments	**22,311**	69,775
Less: Future finance charges	**(896)**	(1,448)
Present value of minimum lease payments	**21,415**	68,327
Total present value minimum lease payments	**3,091,653**	2,259,251

The finance lease payables of the Group bear interest at rates ranging from 3.57% - 7.27% (2017: 3.57% - 7.27%) per annum.

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31 DECEMBER 2018
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21. TRADE PAYABLES

The normal trade credit term granted to the Group ranges from 30 to 120 days (2017: 30 to 120 days).

22. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Deposits	**5,306**	5,306	**50,600**	50,600
Other payables	**1,499,107**	1,398,096	**457,870**	452,154
GST payable	**-**	237,267	**-**	198,179
Accruals	**3,729,421**	2,585,774	**1,063,303**	854,134
	5,233,834	4,226,443	**1,571,773**	1,555,067

Included in other payables of the Group and of the Company is an amount of RM4,762 (2017: RM4,762) and RM13 (2017: RM13) respectively due to certain directors of the Group. These amounts are non-trade in nature, unsecured, interest free and repayable on demand in cash.

23. DIVIDENDS

	Group/Company	
	2018	**2017**
	RM	**RM**
Final single-tier dividend of 1.5 sen per share in respect of financial year ended 31 December 2016, paid on 15 June 2017	**-**	1,440,000
First and final single-tier dividend of 2 sen per share in respect of financial year ended 31 December 2017, paid on 28 May 2018	**1,920,000**	-
	1,920,000	1,440,000

24. RELATED PARTY DISCLOSURES

(a) Identity of related parties

For the purpose of these financial statements, parties are considered to be related to the Group and the Company if the Group and the Company have the ability to directly control the party or exercise significant influence over the party in making financial and operating decision, or vice versa, or where the Group and the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities. The Company has a related party relationship with its subsidiaries, associate, and key management personnel.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
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24. RELATED PARTY DISCLOSURES *continued*

(b) Related party transactions and balances are as follows:

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place during the financial year:

	Group	
	2018	**2017**
	RM	**RM**
Subsidiary of associate		
Purchase of goods	**5,408**	5,463
Sales of goods	**(4,487,836)**	(3,507,535)

	Company	
	2018	**2017**
	RM	**RM**
Subsidiaries		
Dividend received	**(660,000)**	(50,000)
Interest receivable	**(629,987)**	(1,533,205)
Management fee	**(3,001,900)**	(3,142,000)
Rental of premises	**(931,200)**	(931,200)
Interest charges	**366,251**	556,740
Rental of motor vehicles	**30,000**	22,500

Information regarding outstanding balances arising from related party transactions as at the reporting date is disclosed in Notes 14, 15, 16 and 22.

(c) Compensation of key management personnel

Key management personnel include personnel having authority and responsibility for planning, directing and controlling the activities of the entities, directly or indirectly, including any director of the Group.

The remuneration of the key management personnel is as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Short term employee benefits	**2,210,641**	2,004,128	**2,210,641**	2,004,128
Post-employment benefits	**236,742**	209,040	**236,742**	209,040
	2,447,383	2,213,168	**2,447,383**	2,213,168

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
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25. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The following table analyses the financial instruments in the statements of financial positions by the classes of financial instruments to which they are assigned:

From 1 January 2018:
(i) Amortised cost

On or before 31 December 2017:
(i) Loans and receivables
(ii) Other financial liabilities

	Amortised cost RM	Total RM
Group		
2018		
Financial assets		
Trade receivables	**38,858,879**	**38,858,879**
Other receivables and refundable deposits	**778,961**	**778,961**
Deposits, cash and bank balances	**10,166,400**	**10,166,400**
	49,804,240	**49,804,240**

	Amortised cost RM	Total RM
Financial liabilities		
Trade payables	**4,311,363**	**4,311,363**
Other payables and accruals ^	**5,233,834**	**5,233,834**
Bank borrowings	**33,191,292**	**33,191,292**
	42,736,489	**42,736,489**

	Loans and receivables RM	Total RM
Group		
2017		
Financial assets		
Trade receivables	46,174,341	46,174,341
Other receivables and refundable deposits	358,240	358,240
Deposits, cash and bank balances	13,494,528	13,494,528
	60,027,109	60,027,109

NOTES TO THE FINANCIAL STATEMENTS
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25. FINANCIAL INSTRUMENTS *continued*

(a) Categories of financial instruments *continued*

	Other financial liabilities RM	Total RM
Group		
2017		
Financial liabilities		
Trade payables	6,555,278	6,555,278
Other payables and accruals ^	3,989,176	3,989,176
Bank borrowings	30,340,689	30,340,689
	40,885,143	40,885,143

	Amortised cost RM	Total RM
Company		
2018		
Financial assets		
Other receivables and refundable deposits	**105,670**	**105,670**
Amounts due from subsidiaries	**17,112,398**	**17,112,398**
Deposits, cash and bank balances	**3,335,857**	**3,335,857**
	20,553,925	**20,553,925**

	Amortised cost RM	Total RM
Financial liabilities		
Other payables and accruals ^	**1,571,773**	**1,571,773**
Amounts due to subsidiaries	**10,580,139**	**10,580,139**
	12,151,912	**12,151,912**

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
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25. FINANCIAL INSTRUMENTS *continued*

(a) Categories of financial instruments *continued*

	Loans and receivables RM	Total RM
Company		
2017		
Financial assets		
Other receivables and refundable deposits	106,073	106,073
Amounts due from subsidiaries	24,573,886	24,573,886
Deposits, cash and bank balances	4,728,209	4,728,209
	29,408,168	29,408,168

	Other financial liabilities RM	Total RM
Financial liabilities		
Other payables and accruals ^	1,356,888	1,356,888
Amounts due from subsidiaries	18,930,943	18,930,943
	20,287,831	20,287,831

^ *Exclude GST payable*

(b) Fair value of financial instruments

The methods and assumptions used to estimate the fair values of the following classes of financial assets and liabilities are as follows:

(i) Cash and bank balances, trade and other receivables, trade and other payables

The carrying amounts are reasonable approximation of fair values due to short term nature of these financial instruments.

(ii) Borrowings

The carrying amounts of the current portion of borrowings are reasonable approximation of fair values due to short-term nature of these borrowings.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
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25. FINANCIAL INSTRUMENTS *continued*

(b) Fair value of financial instruments *continued*

The fair values of fixed rate finance lease payables, which are estimated using discounted cash flow analysis, based on current lending rate for similar types of borrowing arrangements are as follows:

	Carrying Amount RM	Fair Value RM
Group		
2018		
Financial liabilities		
Finance lease payables	**3,091,653**	**3,122,643**
2017		
Financial liabilities		
Finance lease payables	2,259,251	2,297,421

(c) Fair value measurements

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

(a) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

(c) Level 3 fair value measurements are those derived from inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at financial years ended 31 December 2018 and 2017, the Group and the Company held the following financial instruments for which fair value is disclosed in the financial statements:

	2018 RM	Level 1 RM	Level 2 RM	Level 3 RM
Finance lease payables	**3,122,643**	**-**	**3,122,643**	**-**

	2017 RM	Level 1 RM	Level 2 RM	Level 3 RM
Finance lease payables	2,297,421	-	2,297,421	-

During the financial years ended 31 December 2018 and 2017, there was no transfer between Level 1 and 2 of the fair value measurement hierarchy.

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26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's and the Company's activities are exposed to a variety of financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, foreign currency risk, interest rate risk and market price risk. The Group's and the Company's overall financial risk management objective is to optimise value for their shareholders. The Group and the Company use derivative financial instruments, such as, foreign exchange contracts to hedge certain exposures. The Group and the Company do not trade in financial instruments.

The Board of Directors reviews and agrees to policies and procedures for the management of these risks, which are executed by the Group's senior management. The audit committee provides independent oversight to the effectiveness of the risk management process.

(a) Credit risk

Credit risk is the risk of financial loss to the Group and the Company that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group and the Company are exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group and the Company have a credit policy in place and the exposure to credit risk is managed through the application of credit approvals, credit limits and monitoring procedures. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

Trade receivables

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

The carrying amount of trade receivables are not secured by any collateral or supported by any other credit enhancements. In determining the recoverability of these receivables, the Group and the Company consider any change in the credit quality of the receivables from the date the credit was initially granted up to the reporting date. The Group and the Company have adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country of its trade receivables on an ongoing basis. The credit risk concentration profile of the Group's trade receivables at the reporting date are as follows:

	Group			
	2018		**2017**	
	RM	**%**	**RM**	**%**
By country:				
Malaysia	**39,905,542**	**97**	44,104,224	93
Republic of Indonesia	**299,661**	**1**	1,688,523	4
United Kingdom	**557,024**	**1**	928,199	2
Republic of Singapore	**312,976**	**1**	37,359	0
Other countries	**36,353**	**0**	446,496	1
	41,111,556	**100**	47,204,801	100

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
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26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

(a) Credit risk *continued*

The Group does not have any significant exposure to any individual customer at the reporting date.

The Group and the Company apply the simplified approach to providing for expected credit losses prescribed by MFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the impairment losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The impairment losses also incorporate forward looking information.

The information about the credit risk exposure on the Group's trade receivables using provision matrix are as follows:

	Trade receivables				
Group	**Current**	**> 30 days past due**	**> 60 days past due**	**> 90 days past due**	**Total**
At 31 December 2018					
Expected credit loss rate	0%	0%	0%	0% - 13%	0% - 13%
Gross carrying amount at default	33,968,428	391,205	288,803	6,463,120	41,111,556
Impairment losses	-	-	-	175,027	175,027

As at 31 December 2017, the ageing analysis of the Group's trade receivables were as follows:

	Group 2017 RM
Neither past due nor impaired	40,295,299
Past due but not impaired	
1 to 30 days past due not impaired	590,685
31 to 60 days past due not impaired	961,067
61 to 90 days past due not impaired	252,134
91 to 120 days past due not impaired	200,234
More than 120 days past due not impaired	3,874,922
	5,879,042
Impaired	
Individually	1,030,460
	47,204,801

NOTES TO THE FINANCIAL STATEMENTS

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26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

(a) Credit risk *continued*

Other receivables and other financial assets

For other receivables and other financial assets (including investment securities, cash and cash equivalents and derivatives), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties. At the reporting date, the Group's and the Company's maximum exposure to credit risk arising from other receivables and other financial assets is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

The Group and the Company consider the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group and the Company compare the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information.

A significant increase in credit risk is presumed if a debtor is more than 120 days past due in making a contractual payment.

Some intercompany loans between entities within the Group are repayable on demand. For loans that are repayable on demand, expected credit losses are assessed based on the assumption that repayment of the loan is demanded at the reporting date. If the borrower does not have sufficient highly liquid resources when the loan is demanded, the Group and the Company will consider the expected manner of recovery and recovery period of the intercompany loan.

As at the end of the reporting period, the Group and the Company did not recognised any allowance for impairment losses for other receivables and other financial assets.

Refer to Note 3(k) for the Group's and the Company's other accounting policies for impairment of financial assets.

Financial guarantees

The Company is exposed to credit risk in relation to financial guarantees given to banks in respect of certain banking facilities granted to certain subsidiaries as mentioned in the Note 19. The Company monitors on an ongoing basis the repayments made by the subsidiaries and their financial performance. The maximum exposure to credit risk amounts to RM30,414,595 (2017: RM28,444,409) representing the outstanding banking facilities at the reporting date. At the reporting date, there was no indication that the subsidiaries would default on their repayment.

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

(b) 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 interest rate risk arises primarily from its bank borrowings.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
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26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

(b) Interest rate risk *continued*

Bank borrowings at floating rate amounting to RM30,099,639 (2017: RM28,081,438) expose the Group to cash flow interest rate risk whilst finance lease at fixed rate amounting to RM3,091,653 (2017: RM2,259,251), expose the Group to fair value interest rate risk. The Group manages its interest rate risk exposure by maintaining a mix of fixed and floating rate loans and borrowings.

Sensitivity analysis for interest rate risk
If the interest rate had been 50 (2017: 50) basis points higher/lower and all other variables were held constant, the Group's profits net of tax ended 31 December 2018 would decrease/increase by RM114,379 (2017: RM106,709) as a result of exposure to floating rate borrowings.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's and the Company's liquidity risk management policy is to manage its debt maturity profile, operating cash flows and the availability of funding so as to ensure that refinancing, repayment and funding needs are met. In addition, the Group and the Company maintains sufficient levels of cash and available banking facilities at a reasonable level to their overall debt position to meet their working capital requirement.

The Group manages its cash flow requirements of purchases in its operating activities mainly through bankers' acceptances which are drawndown to finance the import of goods.

NOTES TO THE FINANCIAL STATEMENTS
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26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

(c) Liquidity risk *continued*

Analysis of financial instruments by remaining contractual maturity

The table below summarises the maturity profile of the Group's and of the Company's financial liabilities at the reporting date based on contractual undiscounted repayment obligations:

	Carrying amount RM	Contractual cash flows RM	On demand and within 1 year RM	1 to 2 years RM	2 to 5 years RM	Over 5 years RM
2018						
Group						
Financial Liabilities						
Trade payables	**4,311,363**	**4,311,363**	**4,311,363**	**-**	**-**	**-**
Other payables and accruals (1)	**5,233,834**	**5,233,834**	**5,233,834**	**-**	**-**	**-**
Bankers' acceptances (Islamic)	**16,536,716**	**16,536,716**	**16,536,716**	**-**	**-**	**-**
Bankers' acceptances	**13,562,923**	**13,562,923**	**13,562,923**	**-**	**-**	**-**
Finance lease payables	**3,091,653**	**3,471,294**	**1,145,198**	**897,069**	**1,406,716**	**22,311**
	42,736,489	**43,116,130**	**40,790,034**	**897,069**	**1,406,716**	**22,311**
Company						
Financial Liabilities						
Other payables and accruals (1)	**1,571,773**	**1,571,773**	**1,571,773**	**-**	**-**	**-**
Amount due to subsidiaries	**10,580,139**	**10,580,139**	**10,580,139**	**-**	**-**	**-**
Financial guarantee (2)	**-**	**30,414,595**	**30,414,595**	**-**	**-**	**-**
	12,151,912	**42,566,507**	**42,566,507**	**-**	**-**	**-**

(1) Exclude GST payable.

(2) The Company has given corporate guarantee to banks on behalf of certain subsidiaries for banking facilities. The potential exposure of the financial guarantee is equivalent to the amount of the banking facilities being utilised by the said subsidiaries. As at 31 December 2018, approximately RM30,414,595 of the banking facilities were utilised by the said subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

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26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

(c) Liquidity risk *continued*

Analysis of financial instruments by remaining contractual maturity *continued*

The table below summarises the maturity profile of the Group's and of the Company's financial liabilities at the reporting date based on contractual undiscounted repayment obligations: *continued*

	Carrying amount	Contractual cash flows	On demand and within 1 year	1 to 2 years	2 to 5 years	Over 5 years
	RM	RM	RM	RM	RM	RM
2017						
Group						
Financial Liabilities						
Trade payables	6,555,278	6,555,278	6,555,278	-	-	-
Other payables and accruals [(1)]	3,989,176	3,989,176	3,989,176	-	-	-
Bankers' acceptances (Islamic)	15,049,256	15,187,131	15,187,131	-	-	-
Bankers' acceptances	13,032,182	13,150,363	13,150,363	-	-	-
Finance lease payables	2,259,251	2,506,117	887,873	689,893	858,576	69,775
	40,885,143	41,388,065	39,769,821	689,893	858,576	69,775
Company						
Financial Liabilities						
Other payables and accruals [(1)]	1,356,888	1,356,888	1,356,888	-	-	-
Amount due to subsidiaries	18,930,943	18,930,943	18,930,943	-	-	-
Financial guarantee [(2)]	-	28,444,409	28,444,409	-	-	-
	20,287,831	48,732,240	48,732,240	-	-	-

(1) Exclude GST payable.

(2) The Company has given corporate guarantee to banks on behalf of certain subsidiaries for banking facilities. The potential exposure of the financial guarantee is equivalent to the amount of the banking facilities being utilised by the said subsidiaries. As at 31 December 2017, approximately RM28,444,409 of the banking facilities were utilised by the said subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018
continued

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

(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 functional currency of Group entities, primarily RM. The foreign currencies in which these transactions are denominated are mainly United States Dollar ("USD"), Singapore Dollar ("SGD") and Chinese Renminbi ("RMB").

The Group also hold cash and cash equivalents denominated in foreign currencies for working capital purposes. At the reporting date, such foreign currency balances (mainly in USD and SGD) amount to RM5,983 and RM438,496 (2017: RM32,219 and RM179,616) respectively for the Group.

Financial assets/(liabilities) denominated in USD, SGD and RMB are as follows:

	Group	
	2018	**2017**
	RM	**RM**
USD		
Trade receivables	**1,007,348**	1,172,011
Cash and bank balances	**5,983**	32,219
Trade payables	**(382,853)**	(68,614)
	630,478	1,135,616
SGD		
Trade receivables	**312,975**	37,359
Cash and bank balances	**438,496**	179,616
	751,471	216,975
RMB		
Trade receivables	**-**	439,220
Trade payables	**(1,086,125)**	(1,225,810)
	(1,086,125)	(786,590)

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

(d) Foreign currency risk *continued*

Sensitivity analysis for foreign currency risk
The following table demonstrates the sensitivity of the Group's profit net of tax to a reasonably possible change in the USD, SGD and RMB exchange rate against the functional currency of the Group, with all other variables held constant.

	Group	
	2018	**2017**
	RM	**RM**
USD/RM - strengthened 5% (2017: 5%)	**24,030**	43,540
USD/RM - weakened 5% (2017: 5%)	**(24,030)**	(43,540)
SGD/RM - strengthened 5% (2017: 5%)	**33,818**	10,400
RMB/RM - weakened 5% (2017: 5%)	**(33,818)**	(10,400)
RMB/RM - strengthened 5% (2017: 5%)	**(41,273)**	(29,890)
RMB/RM - weakened 5% (2017: 5%)	**41,273**	29,890

27. CAPITAL COMMITMENT

	Group	
	2018	**2017**
	RM	**RM**
Approved and contracted for:		
Equipment	**-**	959,549

28. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic and business conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, or issue new shares. There is no change in the objectives, policies or procedures during the financial years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a gearing ratio, which is calculated as total debts (excluding bankers' acceptance and trust receipts) divided by total capital plus total debt. The Group monitors and maintains a prudent level of gearing ratio to optimise shareholders' value and to ensure compliance with covenants under debt agreements, if any. Total debts include finance lease. Total capital comprises total equity of the Group.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

28. CAPITAL MANAGEMENT *continued*

	Group	
	2018	**2017**
Total debts (RM)	**3,091,653**	2,259,251
Total equity (RM)	**80,884,838**	81,769,100
Total equity and debts (RM)	**83,976,491**	84,028,351
Gearing ratio %	**4%**	3%

The Group and certain subsidiaries are required to comply with certain loan-to-value ratio, consolidated net worth, consolidated borrowings to consolidated net worth ratio and interest coverage ratio in respect of the banking facilities. The subsidiaries have complied with the capital requirements at the end of the financial year.

The Group is not subject to any externally imposed capital requirements.

29. SEGMENT INFORMATION

For management purposes, the Group is organised into operating units reportable operating segments as follows:

(i) Stainless steel products
(ii) Marine hardware and consumable
(iii) Other industrial hardware
(iv) Investment holding
(v) Engineering works

Management monitors the operating revenue of its operating units separately for the purpose of making decisions about resource allocation and performance assessment. Inter-segment transactions are entered in the ordinary course of business based on terms mutually agreed upon by the parties concerned.

Segment results, assets and liabilities information are neither included in the internal management reports nor provided regularly to the management. Hence, no disclosures are made on segment results, assets and liabilities. All results, assets and liabilities are managed on a group basis.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

29. SEGMENT INFORMATION *continued*

	Stainless steel products	Marine hardware and consumable	Other industrial hardware	Investment holding	Engineering works	Elimination	Total
	RM	RM	RM	RM	RM	RM	RM
2018							
Revenue							
External revenue	**35,655,457**	**30,144,789**	**32,408,686**	**18,000**	**8,537,072**	**-**	**106,764,004**
Inter-segment revenue	**391,760**	**1,303,564**	**33,050,765**	**-**	**125,415**	**(34,871,504)**	**-**
Total segment revenue	**36,047,217**	**31,448,353**	**65,459,451**	**18,000**	**8,662,487**	**(34,871,504)**	**106,764,004**
Gross profit	**2,832,471**	**8,293,963**	**6,800,484**	**18,000**	**1,200,529**	**-**	**19,145,447**
2017							
Revenue							
External revenue	39,734,258	33,341,458	28,084,893	18,000	22,040,149	-	123,218,758
Inter-segment revenue	3,710,777	2,533,285	25,481,790	-	1,205,681	(32,931,533)	-
Total segment revenue	43,445,035	35,874,743	53,566,683	18,000	23,245,830	(32,931,533)	123,218,758
Gross profit	5,252,403	9,017,711	6,618,520	18,000	2,705,044	-	23,611,678

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018
continued

29. SEGMENT INFORMATION *continued*

Information about geographical areas

Revenue information based on the geographical location of customers is as follows:

	2018 RM	2017 RM
Malaysia	**102,076,952**	112,470,697
Thailand	**35,245**	3,571,199
Republic of Indonesia	**797,475**	3,479,310
United Kingdom	**1,342,857**	2,422,536
Republic of Singapore	**2,046,216**	743,374
Republic of China	**388,455**	398,885
Brunei	**76,804**	132,757
	106,764,004	123,218,758

All non-current assets (other than financial instruments and deferred tax assets) of the Group are located in Malaysia.

Information about major customer

There is no single customer with revenue equal or more than 10% of the Group revenue.

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

We, **KOH SENG LEE** and **TSEN KET SHUNG @ KON SHUNG**, being two of the directors of K. SENG SENG CORPORATION BERHAD, do hereby state that in the opinion of the directors, the accompanying financial statements set out on pages 58 to 137 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 performance and cash flows for the financial year then ended.

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

....

KOH SENG LEE
Director

....

TSEN KET SHUNG @ KON SHUNG
Director

Date: 1 April 2019

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

I, **TSEN KET SHUNG @ KON SHUNG**, being the director primarily responsible for the financial management of K. SENG SENG CORPORATION BERHAD, do solemnly and sincerely declare that to the best of my knowledge and belief, the accompanying financial statements set out on pages 58 to 137 are 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.

....

TSEN KET SHUNG @ KON SHUNG
MIA No: 13962

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur in the Federal Territory on 1 April 2019

Before me,

....

Hadinur Mohd Syarif (W761)
Commissioner for Oaths

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF K. SENG SENG CORPORATION BERHAD
(Incorporated In Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of K. Seng Seng Corporation Berhad, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 58 to 137.

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 financial year then ended in accordance with the 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Group

Inventories (Note 13 to the financial statements)

As at 31 December 2018, the Group's inventories amounted to RM52.4 million. We focused on this area because certain inventories, in particular finished goods of the Group are kept more than 1 year. The review of saleability and valuation of these inventories at lower of cost and net realisable value by the directors involves judgement and estimation.

Our response:

Our audit procedures included, among others:
- understanding the design and implementation of controls associated with monitoring and identification of slow-moving inventories as at 31 December 2018;
- observing year end physical inventory count to examine physical existence and condition of the finished goods and evaluating the design and implementation of controls during the count;
- checking subsequent sales, supplier's quotations or approved price lists and evaluating the management's assessment on estimated net realisable value on selected inventory items; and
- evaluating whether the inventories have been written down to their net realisable value for inventory items with net realisable value lower than their cost.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF K. SENG SENG CORPORATION BERHAD
(Incorporated In Malaysia)
continued

Trade receivables (Note 14 to the financial statements)

As at 31 December 2018, the Group's trade receivables amounted to RM38.9 million. We focused on this area because the directors made judgements over assumption about risk of default and expected loss rate. In making the assumptions, the directors selected input to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of the reporting period.

Our response:

Our audit procedures included, among others:

- understanding the design and implementation of controls associated with monitoring of outstanding receivables and impairment calculation;
- developing understanding of significant credit exposures which were significantly overdue or deemed to be in default through analysis of ageing reports and other collection or legal reports prepared by management;
- obtaining confirmation of balances from selected receivables;
- checking subsequent receipts, customer correspondence, and considering level of activity with the customer and management explanation on recoverability with significantly past due balances; and
- review the calculation of expected credit loss as at the end of the reporting period.

Company

We have determined that there are no key audit matters in the audit of the separate financial statements of the Company to be communicated in our auditors' report.

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with the 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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF K. SENG SENG CORPORATION BERHAD
(Incorporated In Malaysia)
continued

Responsibilities of the Directors for the Financial Statements *continued*

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.

The directors of the Company are responsible for overseeing the Group's financial reporting process.

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.
- 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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF K. SENG SENG CORPORATION BERHAD
(Incorporated In Malaysia)
continued

Auditors' Responsibilities for the Audit of the Financial Statements *continued*

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 financial 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 10 to the financial statements.

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 contents of this report.

Baker Tilly Monteiro Heng PLT
LLP0019411-LCA & AF 0117
Chartered Accountants

Andrew Choong Tuck Kuan
No.03264/04/2019 J
Chartered Accountant

Kuala Lumpur

Date: 1 April 2019

LIST OF PROPERTIES
HELD BY THE GROUP AS AT 31 DECEMBER 2018

Registered Owner(s)	Location*	Description/ Existing Use	Tenure of Land	Land Area/ Built-up Area	Issuance date of Certificate of Fitness	Net book value as at 31 December 2018 (RM'000)
KSSC	Lot 3707, Jalan 7/5, Taman Industri Selesa Jaya, 43300 Balakong, Selangor Darul Ehsan	Double storey office cum factory/ Administration and Trading Office and Manufacturing and Processing Plant	Freehold	14,796 square metres/7,580 square metres	10 September 2003	5,980
KSSC	102 and 102A, Jalan Keris Taman Sri Tebrau, 80050 Johor Bahru, Johor Darul Takzim	Double storey shophouses/For rental income purposes	Freehold	163.509 square metre/237.832 square metres	9 January 1977	60

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Thirty-Fourth Annual General Meeting of the members of the Company will be held at Majestic III, Lower Ground Level, Palace of the Golden Horses, Jalan Kuda Emas, Mines Resort City, 43300 Seri Kembangan, Selangor on Tuesday, 21 May 2019 at 11.00 a.m. for the following purposes :-

AGENDA

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements of the Company for the financial year ended 31 December 2018 together with the Directors' and Auditors' Reports thereon. **Please refer to Note A.**

2. To approve the payment of a first and final single tier dividend of 0.5 sen per ordinary share for the financial year ended 31 December 2018. **Ordinary Resolution 1**

3. To approve the payment of Directors' fees and benefits totalling RM173,700 for the financial year ended 31 December 2018. **Ordinary Resolution 2**

4. To re-elect Tsen Ket Shung @ Kon Shung who retires in accordance with Article 83 of the Constitution of the Company and being eligible, has offered himself for re-election. **Ordinary Resolution 3**

5. To re-elect Lim Ho Kin who retires in accordance with Article 83 of the Constitution of the Company and being eligible, has offered himself for re-election. **Ordinary Resolution 4**

6. To appoint Messrs Baker Tilly Monteiro Heng PLT as Auditors of the Company and to authorise the Directors to fix their remuneration. **Ordinary Resolution 5**

AS SPECIAL BUSINESS

To consider, and if thought fit, to pass the following Resolutions :-

7. **RETENTION OF INDEPENDENT DIRECTORS**

   To retain the following Directors who have served the Board for more than nine (9) years as Independent Non-Executive Directors of the Company subject to the passing of Ordinary Resolution 2:

   7.1 Lim Ho Kin **Ordinary Resolution 6**
   7.2 Yap Siok Teng **Ordinary Resolution 7**
   7.3 Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff **Ordinary Resolution 8**

NOTICE OF ANNUAL GENERAL MEETING
continued

8. **AUTHORITY TO ISSUE SHARES BY THE COMPANY PURSUANT TO SECTIONS 75 AND 76 OF THE COMPANIES ACT, 2016** **Ordinary Resolution 9**

"THAT subject always to the Companies Act, 2016 ("the Act"), the Constitution of the Company and approvals from Bursa Malaysia Securities Berhad ("Bursa Securities") and any other governmental/regulatory authorities, the Directors of the Company be and are hereby empowered, pursuant to Sections 75 and 76 of the Act, to issue shares in the Company at any time and upon such terms and conditions and for such purposes as the Directors of the Company may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued pursuant to this resolution does not exceed 10% of the total number of issued shares of the Company at the time of submission to the authority AND THAT the Directors of the Company be and are hereby empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Securities AND FURTHER THAT such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company."

9. **PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE** **Ordinary Resolution 10**

"THAT the Company and/or its subsidiaries ('the Group') be and is/are hereby authorised to enter into all arrangements and/or transactions involving the interests of Directors, major shareholders or persons connected with Directors and/or major shareholders of the Group ('Related Parties') as specified in Section 2.2.1 of the Circular to Shareholders dated 30 April 2019 ('Circular'), provided that such arrangements and/or transactions are:

(i) recurrent transactions of a revenue or trading nature;
(ii) necessary for the Group's day-to-day operations;
(iii) carried out in the ordinary course of business on normal commercial terms not more favourable to the Related Parties than those generally available to the public; and
(iv) not detrimental to the minority shareholders.

('Recurrent Related Party Transactions ("RRPT") Mandate');

AND THAT the RRPT Mandate, unless revoked or varied by the Company in general meeting, shall continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier;

AND THAT the Directors be and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary or in the interest of the Company to give effect to the RRPT Mandate."

NOTICE OF ANNUAL GENERAL MEETING
continued

NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

Subject to the approval of the shareholders, a first and final single tier dividend of 0.5 sen per ordinary share for the financial year ended 31 December 2018 will be paid on 12 June 2019 to Depositors registered in the Record of Depositors at the close of business at 5.00 p.m. on 28 May 2019.

A depositor shall qualify for entitlement only in respect of:-

(a) Shares transferred into the Depositor's Securities Account before 4.00 p.m. on 28 May 2019 in respect of ordinary transfers; and
(b) Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of the Bursa Malaysia Securities Berhad.

By order of the Board

LIM SECK WAH (MAICSA 0799845)
M. CHANDRASEGARAN A/L S. MURUGASU (MAICSA 0781031)
Company Secretaries

Dated this: 30 April 2019
Kuala Lumpur

Notes :

A This Agenda is meant for discussion only as under the provisions of Section 340(1)(a) of the Companies Act 2016, the Audited Financial Statements do not require formal approval of the shareholders. As such this item on the Agenda is not put forward for voting.

1. *For the purpose of determining a member who shall be entitled to attend and vote at the Annual General Meeting, the Company shall be requesting the Record of Depositors as at 15 May 2019. Only a depositor whose name appears on the Record of Depositors as at 15 May 2019 shall be entitled to attend the said meeting or appoint proxies to attend and vote on his/her stead.*

2. *A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote in his/her stead. A member may appoint up to two proxies to attend the same meeting provided that he specifies the proportion of his shareholding to be represented by each proxy. A proxy may but need not be a member of the Company.*

3. *Where a member is an authorised nominee as defined under the Security Industry (Central Depositories) Act, 1991, it may appoint at least one (1) proxy in respect of each Securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.*

4. *A member who is an exempt authorized nominee is entitled to appoint multiple proxies for each omnibus account it holds.*

5. *The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorized in writing or, if the appointer is a corporation, either under the Corporation's Common Seal or under the hand of an officer or attorney so authorized.*

6. *The Form of Proxy must be deposited at the Registered Office of the Company at Level 15-2, Bangunan Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur not less than 48 hours before the time set for holding the meeting or any adjournment thereof.*

NOTICE OF ANNUAL GENERAL MEETING
continued

7. Explanatory Notes :

Ordinary Resolution 2 on Directors' Fees and Benefits

Section 230(1) of the Companies Act 2016 provides that the fees of the Directors and any benefits payable to the Directors of a listed company and its subsidiaries shall be approved at a general meeting. In this respect, shareholders' approval shall be sought at the 34th Annual General Meeting on the Directors' fees 2018 and benefits under Resolution 2.

The proposed Directors' benefits payable comprises of travelling and meeting allowance and other benefits such as directors' and officers' liability insurance.

Ordinary Resolutions 6, 7 and 8 on Retention of Independent Directors

The Board of Directors has vide the Nomination Committee conducted an assessment of independence of the following directors who have served as Independent Non-Executive Director for a cumulative term of more than nine (9) years and recommended them to continue to act as Independent Non-Executive Director based on the following justifications:

(i) Lim Ho Kin
(ii) Yap Siok Teng
(iii) Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff

Justifications :-

(a) They have met the independence guidelines as set out in Chapter 1 of the Main Market Listing Requirements of Bursa Securities and are therefore able to give independent opinion to the Board;

(b) Being directors for more than nine years have enabled them to contribute positively during deliberations/ discussions at meetings as they are familiar with the operations of the Company and possess tremendous insight and knowledge of the Company's operations;

(c) They have contributed sufficient time and exercised due diligent during their tenure as Independent Directors;

(d) They have discharged their professional duties in good faith and also in the best interest of the Company and shareholders;

(e) They have vigilantly safeguarded the interests of the minority shareholders of the Company;

(f) They have the caliber, qualifications, experiences and personal qualities to challenge management in an effective and constructive manner;

(g) They have never compromised on their independent judgement;

(h) They have provided objective views on the performance of the Executive Director and Management in meeting the agreed goals and objectives; and

(i) They have ensured that there were effective checks and balances in Board proceedings.

NOTICE OF ANNUAL GENERAL MEETING
continued

Ordinary Resolution 9 pursuant to Sections 75 and 76 of Companies Act 2016

The proposed adoption of Ordinary Resolution is for the purpose of seeking a renewal for the general mandate to empower the Directors of the Company pursuant to Sections 75 and 76 of the Companies Act, 2016, from the date of the above Meeting, to allot ordinary shares of not more than ten percent (10%) from the unissued share capital of the Company for such purposes as the Directors of the Company consider would be in the interest of the Company. This authority will, unless revoked or varied at a General Meeting, expire at the conclusion of the next Annual General Meeting of the Company.

This authority will provide flexibility and enable the Directors to take swift action for allotment of shares for any possible fund raising activities, including but not limited to further placement of shares for purpose of funding future investment project(s), working capital and/or acquisition(s) and to avoid delay and cost in convening general meetings to approve such issue of shares.

As at the date of this Notice, no new shares in the Company were issued under the provision of the general mandate granted to the Directors at the Thirty-Third Annual General Meeting held on 21 May 2018, which will lapse at the conclusion of the Thirty-Fourth Annual General Meeting. Hence, no proceeds were raised therefrom.

Ordinary Resolution 10 on Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature

This resolution is primarily to give flexibility to the Board of Directors to enter into recurrent related party transactions of revenue or trading nature with the Directors/Major Shareholders or persons connected with the Directors/Major Shareholders ("Renewal RRPT Mandate").

Further information of Renewal RRPT Mandate is contained in the Circular to Shareholders dated 30 April 2019.

STATEMENT ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

Details of the Directors who are standing for re-election at this Annual General Meeting can be found on pages 16 to 19 – Profile of the Board of Directors in the Company's Annual Report 2018.

ANALYSIS OF SHAREHOLDINGS
AS AT 2 APRIL 2019

Number of Shares Issued	:	96,000,000
Class of Shares	:	Ordinary Shares
Voting Rights	:	One Vote Per Ordinary Share
No. of shareholders	:	1,332

DISTRIBUTION OF SHAREHOLDINGS AS AT 2 APRIL 2019

Category	No. of Shareholders	No. of Shares	Percentage (%)
Less than 100	5	100	0.00%
100 - 1,000	196	104,000	0.11%
1,001 - 10,000	574	3,814,200	3.97%
10,001 - 100,000	488	16,792,600	17.49%
100,001 - less than 5% of issued shares	67	22,489,100	23.43%
5% and above of issued shares	2	52,800,000	55.00%
Total	**1,332**	**96,000,000**	**100.00%**

LIST OF SUBSTANTIAL SHAREHOLDINGS AS AT 2 APRIL 2019

		Direct		Indirect	
No.	Names	No. of Shares	%	No. of Shares	%
1.	Koh Seng Kar @ Koh Hai Sew	36,960,000	38.50	-	-
2.	Koh Seng Lee	15,840,000	16.50	-	-

DIRECTORS' INTERESTS IN SHARES AS AT 2 APRIL 2019

		Direct		Indirect	
No.	Names	No. of Shares	%	No. of Shares	%
1.	Koh Seng Kar @ Koh Hai Sew	36,960,000	38.50	-	-
2.	Koh Seng Lee	15,840,000	16.50	-	-
3.	Tsen Ket Shung @ Kon Shung	714,400	0.74	-	-
4.	Tuan Haji Zainal Rashid bin Haji Mohd Eusoff	100,000	0.10	-	-
5.	Lim Ho Kin	60,000	0.06	-	-
6.	Yap Siok Teng	50,000	0.05	-	-

ANALYSIS OF SHAREHOLDINGS
AS AT 2 APRIL 2019
continued

LIST OF TOP 30 SHAREHOLDERS/DEPOSITORS AS AT 2 APRIL 2019

No.	Name	No. of Shares held	Percentage (%)
1.	KOH SENG KAR @ KOH HAI SEW	36,960,000	38.50
2.	KOH SENG LEE	15,840,000	16.50
3.	M & A NOMINEE (TEMPATAN) SDN BHD *- PLEDGED SECURITIES ACCOUNT FOR TAN CHOON HWA*	1,876,000	1.95
4.	YAP POH LEAN	1,173,700	1.22
5.	BALAKRISNEN A/L SUBBAN	1,000,000	1.04
6.	GUO YONGJIN	828,000	0.86
7.	MAYBANK NOMINEES (TEMPATAN) SDN BHD *- PLEDGED SECURITIES ACCOUNT FOR CHING HONG TAT*	803,400	0.84
8.	CHAN KEE SENG	800,000	0.83
9.	LIM BOON TICK	721,000	0.75
10.	TSEN KET SHUNG @ KON SHUNG	714,400	0.74
11.	CITIGROUP NOMINEES (ASING) SDN BHD *- EXEMPT AN FOR OCBC SECURITIES PRIVATE LIMITED*	645,000	0.67
12.	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD *- PLEDGED SECURITIES ACCOUNT FOR TEO KER-WEI*	610,000	0.63
13.	WONG SOOK LAI	550,000	0.57
14.	TAN KAR PIN	545,000	0.57
15.	TAN CHOON HWA	545,000	0.57
16.	WANG TSUN SIANG	503,000	0.52
17.	MAYBANK SECURITIES NOMINEES (ASING) SDN BHD *- MAYBANK KIM ENG SECURITIES PTE LTD FOR LOW KOK TIONG*	500,000	0.52
18.	LAU MENG HONG	475,600	0.50
19.	TEOH HOOI BIN	442,000	0.46
20.	LIFE ENTERPRISE SDN BHD	408,300	0.43
21.	PUBLIC NOMINEES (TEMPATAN) SDN BHD *- PLEDGED SECURITIES ACCOUNT FOR TAN CHOON TEE*	400,000	0.42
22.	LEE CHEN FERN	400,000	0.42
23.	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD *- PLEDGED SECURITIES ACCOUNT FOR TAY CHUN YONG*	330,000	0.34
24.	TONG FONG REALTY SDN BERHAD	328,900	0.34
25.	INNOSIN SDN BHD	328,000	0.34
26.	BONG HON LIONG	300,000	0.31
27.	SOPHIE LEE	300,000	0.31
28.	TAILAMI A/P PALANIANDY	300,000	0.31
29.	TAN LIAN CHOON	276,700	0.29
30.	AZAM DEVELOPER & CONSTRUCTION SDN BHD	260,000	0.27
	TOTAL	69,164,000	72.02

誠成集團

K. SENG SENG CORPORATION BERHAD
(Company No.: 133427-W)

FORM OF PROXY

(Before completing this form please refer to the notes below)

No. of Ordinary Shares Held

I/We ______________________________ I.C No./Co.No./CDS No.: ______________
(Full name in block letters)

of ____
(Full address)

being a member/members of **K. SENG SENG CORPORATION BERHAD** hereby appoint the following person(s):-

Name of proxy, NRIC No. & Address	No. of shares to be represented by proxy
1.	
2.	

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Thirty-Fourth Annual General Meeting of the Company to be held at Majestic III, Lower Ground Level, Palace of the Golden Horses, Jalan Kuda Emas, Mines Resort City, 43300 Seri Kembangan, Selangor on Tuesday, 21 May 2019 at 11.00 a.m. My/our proxy/proxies is/are to vote as indicated below:-

RESOLUTIONS RELATING TO:-	FIRST PROXY		SECOND PROXY	
	For	Against	For	Against
ORDINARY RESOLUTION				
1. Declaration of first and final single tier dividend of 0.5 sen per ordinary share for the financial year ended 31 December 2018.				
2. Approval of payment of Directors' Fees and benefits totalling RM173,700 for the financial year ended 31 December 2018.				
3. Re-election of Tsen Ket Shung @ Kon Shung as a Director retiring under the Constitution of the Company.				
4. Re-election of Lim Ho Kin as a Director retiring under the Constitution of the Company.				
5. Re-appointment of Messrs Baker Tilly Monteiro Heng PLT as Auditors of the Company and to authorise the Directors to fix their remuneration.				
SPECIAL BUSINESS				
6. Retention of Lim Ho Kin as an Independent Non-Executive Director.				
7. Retention of Yap Siok Teng as an Independent Non-Executive Director.				
8. Retention of Tuan Haji Zainal Rashid Bin Haji Mohd Eusoff as an Independent Non-Executive Director.				
9. Authority to issue shares pursuant to Sections 75 and 76 of the Companies Act, 2016.				
10. Proposed renewal of shareholders' mandate for Recurrent Related Party Transactions of a revenue or trading nature.				

(Please indicate with a "✓" or "X" in the space provided how you wish your vote to be cast. If no instruction as to voting is given, the proxy/proxies may vote or abstain from voting at his/her/their discretion). The first named proxy shall be entitled to vote on a show of hands on my/our behalf.

Dated this ______________ day of ____________ 2019

____
Signature of Shareholder(s)/Common Seal

Fold This Flap For Sealing

Then Fold Here

Affix
Stamp

THE COMPANY SECRETARY
K. SENG SENG CORPORATION BERHAD (133427-W)
Level 15-2, Bangunan Faber Imperial Court,
Jalan Sultan Ismail,
50250 Kuala Lumpur.

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Notes :-

1. *For the purpose of determining a member who shall be entitled to attend and vote at the Annual General Meeting, the Company shall be requesting the Record of Depositors as at 15 May 2019. Only a depositor whose name appears on the Record of Depositors as at 15 May 2019 shall be entitled to attend the said meeting or appoint proxies to attend and vote on his/her stead.*
2. *A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote in his/her stead. A member may appoint up to two proxies to attend the same meeting provided that he specifies the proportion of his shareholding to be represented by each proxy. A proxy may but need not be a member of the Company.*
3. *Where a member is an authorised nominee as defined under the Security Industry (Central Depositories) Act, 1991, it may appoint at least one (1) proxy in respect of each Securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.*
4. *A member who is an exempt authorized nominee is entitled to appoint multiple proxies for each omnibus account it holds.*
5. *The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorized in writing or, if the appointer is a corporation, either under the Corporation's Common Seal or under the hand of an officer or attorney so authorized.*
6. *The Form of Proxy must be deposited at the Registered Office of the Company at Level 15-2, Bangunan Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur not less than 48 hours before the time set for holding the meeting or any adjournment thereof.*

Lot 3707, Jalan 7/5,
Taman Industri Selesa Jaya,
43300 Balakong, Selangor, Malaysia.

Tel : 603-8961 5555 (Hunting Line)
Fax : 603-8962 6666 (Marketing)
603-8962 1111 (Accounts)
E-mail : sales@kssc.com.my